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MAGIC COMMUNICATIONS INC  
Form 10KSB/A  
December 13, 2005

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

Form 10-KSB/A

(Mark One)

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

For the fiscal year ended December 31, 2004

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 333-117495

MAGIC COMMUNICATIONS, INC.

-----  
(Name of Small Business Issuer in its Charter)

Delaware

13-3926203

-----  
(State or other jurisdiction of incorporation  
or organization)

-----  
(I.R.S. Employer  
Identification No.)

5 West Main Street  
Elmsford, New York

10523

-----  
(Address of principal Executive Offices)

-----  
(Zip Code)

Issuer's Telephone Number: 914-345-0800

Securities registered under Section 12(b) of the Act: Common Stock par value  
\$.0001 per share

Securities registered under Section 12(g) of the Act: None

Check whether the issuer (1) has 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 X

Check if there is no disclosure of delinquent filers in response to Item 405 of  
Regulation S-B contained in this form and will not be contained, to the best of  
Registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-KSB or any amendment to  
this Form 10-KSB.

State Issuer's revenues for its most recent year: \$72,215 as of December 31,  
2004.

The number of shares outstanding of each of the Registrant's classes of common  
stock, as of June 18, 2005 is 3,080,000 shares, all of one class, \$.0001 par

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value per share. Of this number, 1,641,000 shares were held by non-affiliates of the Registrant.

The Company's common stock has not traded on the OTCBB or elsewhere and, accordingly, there is no aggregate "market value" to be indicated for such shares. The "value" of the 1,641,000 shares held by non-affiliates, based upon the book value as of June 18, 2005 is \$-0-.

\*Affiliates for the purpose of this item refers to the Registrant's officers and directors and/or any persons or firms (excluding those brokerage firms and/or clearing houses and/or depository companies holding Registrant's securities as record holders only for their respective clienteles' beneficial interest) owing 5% or more of the Registrant's common stock, both of record and beneficially.

ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS  
DURING THE PAST FIVE YEARS

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes\_\_\_\_\_No\_\_\_\_\_ NOT APPLICABLE

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are herewith incorporated by reference: NONE

Transitional Small Business Disclosure Format

[ ] Yes [ ] No

PART I

Item 1. Description of Business

The Company was originally formed as a New York corporation on January 16, 1997 (and reincorporated as a Delaware corporation in November 2002) for the purpose of offering Internet kiosks where the public could access the Internet for a fee. The internet Kiosks business proposals remain in their embryonic and developmental stages, have not been activated and the Company has no current plans to further pursue such activities. Since June 1997 the Company has engaged in the business of contracting with various locations such as malls, gas stations, stores and office buildings to install pay phones that are an alternative to those provided by the primary local service provider (Verizon). The Company places its phones by offering larger payments to the store owner or property owner than Verizon pays to retail location operators. 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. The Company's net revenues are principally comprised of: (i) the difference between what the Company charges for local calls (\$.25 in New York and \$.35 in New Jersey and Pennsylvania for a three minute call) and the \$.042 that the Company pays to Verizon for each three (3) minute call; (ii) the difference between the fixed rate per call that the Company pays to Qwest for each long distance call and the rates which the Company charges for long

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distance calls (as established by the Company); (iii) a commission of 50% paid by Qwest (long distance carrier) on operator assisted services, such as collect, reverse charges or credit card long distance calls made on the Company's phones; and (iv) a payment of \$.249 on each toll-free (800) call from Company phones by major long distance carriers, such as: AT&T, MCI, Qwest, Sprint, etc., through a contract with a call aggregator, Private Payphone Owners' Network ("PPON") which computes all toll free calls made from Company phones and pays the Company directly. The Company's expenses include the marketing expense to place telephones, the cost of the phones and phone maintenance. The Company does not have a written agreement with Verizon, but has a written agreement with Qwest as well as the aggregator (PPON). Copies of such written Agreements were annexed as Exhibits 99.01 and 99.02 to the Company's Form 10-KSB for year ended December 31, 2002.

As of December 31, 2004, the Company had approximately 75 pay phones placed in locations in New York, New Jersey and Pennsylvania. These phones are marketed through the Company's own employees, principally the Company's President, through word-of-mouth. The Company filed a Registration Statement on Form 10-SB because Management believes that as a reporting Company with the potential of trading on the NASD Electronic Bulletin Board ("OTCBB") the Company will be better able to attract investment capital. No assurance is given that investment capital can ever be raised.

The Company currently purchases its phones from North Atlantic Marketing and during the calendar year ended December 31, 2004 purchased no additional telephones. The price for phones in the twelve month period ending December 31, 2004 averaged \$1,000 for each individual telephone, which comprises: (i) the purchase price from independent suppliers for all hardware; and (ii) wall installation, but does not include wiring which is done by Verizon. In addition, the Company arranges for the installation of the phones at the customers' place of business and pays Verizon to connect the wires to the phones. The Company's marketing is conducted primarily through the personal efforts of its President and through "word of mouth" in order to obtain customer leads.

### Competition

The Company continues to encounter substantial competition in its efforts to locate pay telephones from both the local telephone company (Verizon) and from other pay phone operators such as the Company. Many of these entities have greater experience, resources and managerial capabilities than the Company. The Company tries to compete primarily on the terms that it offers to location owners. The Company's ability to place phones and the revenues derived from each phone may be impaired by a general perception on the part of many consumers that independent coin phone companies, such as the Company, charge higher rates to consumers.

### Employees

The Company currently has 1 full time employee and 2 part time employees. Its full time employee is engaged in sales and marketing and a service technician as well as the Company's Secretary are employed part time. The Company's employees do not have any collective bargaining agreement and management believes that the Company's relations with its employees are satisfactory.

### Item 2. Description of Property

The Company currently leases 350 square feet of office space pursuant to a month to month lease from a related party at a nominal cost. The Company believes that

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its offices are sufficient for its current and short term anticipated needs and that similar space is available in the general vicinity of its offices for similar prices should the need arise.

Item 3. Legal Proceedings.

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

### PART II

Item 5. Market for Common Equity and Stockholder Matters.

The Company became subject to '34 Exchange Act reporting requirements as of January 13, 2003. To date there has been no established trading market for the Company's common stock. No symbol has been assigned for its securities and its securities have not been listed on any Exchange to date.

A. Holders.

As of the close of business on June 18, 2004 there were 95 stockholders of record of the Registrant's Common Stock and 3,080,000 shares were issued and outstanding.

B. Dividends.

The payment by the Registrant of dividends, if any, in the future rests within the discretion of its Board of Directors and will depend, among other things, upon the Company's earnings, its capital requirements and its financial condition, as well as other relevant factors. The Registrant has not paid or declared any dividends upon its Common Stock since its inception and, by reason of its present financial status and its contemplated financial requirements, does not contemplate or anticipate paying any dividends upon its Common Stock in the foreseeable future.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Year ended December 31, 2004 vs. Year ended December 31, 2003

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Sales decreased from \$81,937 at year ended December 31, 2003 to \$72,215 for year ended December 31, 2004. Operating expenses decreased from \$180,174 to \$157,897. The decrease of operating expenses was primarily due to a \$15,235 decrease in professional fees. Sales decreased by \$9,722 due to the continued increase in cellular phone use and operating costs decreased by \$22,277. Accordingly, the Company's net loss decreased by \$12,555 so that as of December 31, 2004, the Company had an accumulated deficit of (\$222,078) and a total stockholders deficit of (\$157,925). The number of pay telephones in service during the years ended December 31, 2003 and December 31, 2004 were approximately 100 and 80 respectively.

Liquidity and Capital Resources

On December 31, 2004 the Company had \$851 in cash on hand. With these limited funds 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

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available, and if available, under terms deemed reasonable to management. The Company's auditors have included a "going concern" opinion in their report on the Company's financial statements.

### Need for Additional Financing

The Company believes that its existing capital will be insufficient to meet the Company's cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934, as amended, for the current fiscal year which should not exceed \$50,000. The Company may rely upon issuance of its securities to pay for the services necessary to meet reporting requirements.

### Forward-Looking Statements

When used in this form 10-KSB, 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 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.

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### Item 7. Financial Statements

The financial statements filed as part of this Annual Report on Form 10-KSB are set forth starting on page 11.

### Item 8. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure.

None

### Item 8A. Controls And Procedures

Our President currently serves as both our Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officer") and is responsible for establishing and maintaining disclosure controls and procedures for us. He has concluded (based upon his evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in this report is accumulated and communicated to management, including our principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

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The Certifying Officer also has indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of his evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Item 8B. Other Information

None.

### PART III

Item 9. Directors And Executive Officers Of The Registrant

Set forth below is certain information concerning each current director and executive officer of the Registrant, including age, position(s) with the Registrant, present principal occupation and business experience during the past five years.

| Name              | Age | Position Held  |
|-------------------|-----|--|
| Stephen D. Rogers | 56  | President, Chief Executive Officer, Chief Financial Officer and Director |
| Maureen Rogers    | 50  | Vice President and Director  |
| Edwin Osias       | 57  | Director   |
| Suzanne Keating   | 35  | Secretary  |

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The directors named above will serve until the next annual meeting of the Company's stockholders. Thereafter, directors will be elected for one-year terms at the annual stockholders' meeting. Officers will hold their positions at the pleasure of the board of directors, absent any employment agreement, of which none currently exists or is contemplated. There is no arrangement or understanding between the directors and officers of the Company and any other person pursuant to which any director or officer was or is to be selected as a director or officer.

#### Biographical Information

**STEPHEN D. ROGERS:** President, has been in the communications business since 1997 along with his wife Maureen. He has installed and maintained hundreds of Public Pay Phones and public access equipment including Internet kiosks in hotels, hospitals, truck stops and multiple other locations. Prior to working in the communication field, Mr. Rogers was a principal and founder in Magic Restaurants, and its subsidiaries from September 1985 until December 1994, which owned and operated over 30 restaurants throughout the Northeast. He graduated from Queens College in 1971 with a Bachelors degree in Psychology and Education and is currently living in Westchester with his wife and 3 children.

**MAUREEN ROGERS:** Vice President and Secretary (the latter until late November 2002) has been in the communications business since January 1997 along with her husband Stephen. In addition to the communications field, Mrs. Rogers is the principal and founder of Just Desserts, a small baking business which she continues to own and operate since 1992. She was born and raised in England and is currently living in Westchester, New York with her husband and 3 children.

**EDWIN OSIAS:** Director, is a former U.S. Naval Officer who worked from 1981 through 1985 with Chemical Bank as an officer, then from 1985 through 1998 as the National Sales Manager for Tungsram and then from 1989 through 1994 as the Executive Vice President for Sternberger Warehousing Trucking in Long Island City, New York. He is currently the President and owner of Osias Sales Inc.

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since 1994, a company which designs and produces custom ties and scarves for the museum industry. He currently is married and resides in Long Island, New York.

SUZANNE KEATING: She became Secretary of the Company in late November 2002, having previously been employed by the Company since 1999 in administrative and clerical capacities. Prior thereto and from 1994 until 1999, she was employed by Magic Restaurant, Inc., holding positions from Accounts Payable Manager to Office Manager until the firm filed for bankruptcy. From 1992 until 1994 Ms. Keating was employed by Universal Hotels, a hotel management company. Ms. Keating graduated in 1992 from the Westchester Business Institute in White Plains, New York with an Associates Degree in Accounting and Business Administration.

### Item 10. Executive Compensation

There are no written agreements or oral understandings as relates to executive compensation. To date, there has not been any executive compensation paid or accrued other than \$23,161 paid to the Registrant's Vice President.

### Item 11. Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters

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The following table sets forth certain information regarding beneficial ownership of the Common Stock as of June 18, 2005 (except where otherwise noted) with respect to (a) each person known by the Registrant to be the beneficial owner of more than five percent of the outstanding shares of Common Stock, (b) each director of the Registrant, (c) the Registrant's executive officers and (d) all officers and directors of the Registrant as a group. Except as may be indicated in the footnotes to the table, all such shares of Common Stock are owned with sole voting and investment power. The title of class of all securities indicated below is Common Stock with \$.0001 par value per share.

| (1)Name and Address of Beneficial Owner              | (2)Number<br>of Shares<br>Beneficially<br>Owned | (3)Percentage<br>of Class |
|--|---|---------------------------|
| Maureen Rogers                                       | 240,000   | 7.80%                     |
| Stephen D. Rogers                                    | 0   |                           |
| Edwin Osias  | 100   | (3)                       |
| (4)Boulder Hill, Inc.                                | 210,000   | 6.82%                     |
| Karen Glenn  | 240,000   | 7.80%                     |
| Suzanne Keating                                      | 5,000   | (3)                       |
| (5)First Southwest Company                           | 252,000   | 8.18%                     |
| (6)National Financial Services LLC                   | 217,000   | 7.05%                     |
| Michael Garnick                                      | 275,000   | 8.93%                     |
| All officers and directors as a group<br>(4 persons) | 245,100   | 7.96%                     |

Management has no plans to issue any additional securities to management, promoters or their affiliates or associates and will do so only if such issuance is in the best interests of shareholders of the Company and complies with all applicable federal and state securities rules and regulations.

-----  
 (1) The address for each person is c/o Magic Communications, Inc., 5 West Main Street, Elmsford, New York 10523

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(2) Unless otherwise indicated, the Company believes that all persons named in the table have sole voting and investment power with respect to all shares of the Common Stock beneficially owned by them. A person is deemed to be the beneficial owner of securities which may be acquired by such person within 60 days from the date indicated above upon the exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants or convertible securities that are held by such person (but not those held by any other person) and which are exercisable within 60 days of the date indicated above, have been exercised.

(3) Represents less than 1% of the 3,080,000 outstanding shares of common stock.

(4) Boulder Hill, Inc. is a New York Corporation formed in March 1998 and its sole shareholder is Georgia Rogers.

(5) First Southwest Company is located at 325 N. St. Paul, Suite 800, Dallas, Texas 75201.

(6) National Financial Services LLC mailing address is P.O. Box 3731, Church Street Station, New York, New York 10281.

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### Item 12. Certain Relationships and Related Transactions

The Company has a 2 year consulting agreement with Magic Consulting Group, Inc., a company owned by Barbara Bennett, the adult niece of the Company's President which provides consulting services. This is an oral agreement and no payments have been made to date, however, the Company has accrued a payable of \$52,306 (as of December 31, 2004) for services performed. Magic Consulting was hired to assist and consult in finding locations for communications equipment including public payphones and public Internet terminals (kiosks). It assisted in designing a marketing package as well as setting up appointments with various hotels in the New York metropolitan area. The Company's President disclaims any beneficial interest in this Agreement.

The Company also has payables to its President's brother in the amount of \$31,594 and a payable to its President in the amount of \$3,100. During the year ended December 31, 2004, Boulder Hill, a related party, advanced the Company money to pay for various expenses. At December 31, 2004, the Company owes Boulder Hill \$11,391. These transactions are unsecured and non-interest bearing and have no specified payment terms.

### Item 13. Exhibits, Lists And Reports On Form 8-K

#### a. Exhibits

- 31.1 Certification Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002
- 32.2 Certification Pursuant Section 906 Of The Sarbanes-Oxley Act Of 2002

### Item 14. Principal Accountant Fees And Services

During 2004 the Company incurred professional service fees of \$23,000 for audit and audit related services provided by the principal accountant. During 2003 these fees totaled \$24,075. These fees included the cost of the annual audit and reviews of the quarterly and annual filings with the Securities and Exchange Commission.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAGIC COMMUNICATIONS, INC.

By: /s/ Stephen D. Rogers

-----  
Stephen D. Rogers, President, Chief Executive Officer, Chief Financial Officer and Director

| Name  | Title  | Date              |
|---|--|-------------------|
| -----   | -----  | -----             |
| /s/ Stephen D. Rogers<br>-----<br>Stephen D. Rogers | President, Chief Executive Officer, Chief Financial Officer and Director | December 13, 2005 |
| /s/<br>-----<br>Maureen Rogers                      | Vice President and Director  | December , 2005   |
| /s/ Edwin Osias<br>-----<br>Edwin Osias             | Director   | December 13, 2005 |
| /s/ Suzanne Keating<br>-----<br>Suzanne Keating     | Secretary  | December 13, 2005 |

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MAGIC COMMUNICATIONS, INC.

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders'  
Magic Communications, Inc.

We have audited the accompanying balance sheet of Magic Communications, Inc. as of December 31, 2004 and the related statements of operations, stockholders' deficit and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, the financial position of Magic Communications, Inc. as of December 31, 2004 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred significant losses as more fully described in Note 2. These issues raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Sherb & Co., LLP  
-----  
Sherb & Co., LLP  
Certified Public Accountants

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New York, New York  
June 14, 2005

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MAGIC COMMUNICATIONS, INC.

BALANCE SHEET

DECEMBER 31, 2004

ASSETS

|                        |    |        |
|------------------------|----|--------|
| Current assets:        |    |        |
| Cash                   | \$ | 851    |
|                        |    | -----  |
| TOTAL CURRENT ASSETS   |    | 851    |
| EQUIPMENT, net         |    | 21,867 |
| DUE FROM RELATED PARTY |    | 1,500  |
|                        |    | -----  |
|                        | \$ | 24,218 |
|                        |    | =====  |

LIABILITIES AND STOCKHOLDERS' DEFICIT

|   |    |           |
|---|----|-----------|
| CURRENT LIABILITIES:  |    |           |
| Accounts payable and accrued expenses   | \$ | 33,752    |
| Loan payable  |    | 50,000    |
| Due to related parties  |    | 98,391    |
|   |    | -----     |
| TOTAL CURRENT LIABILITIES   |    | 182,143   |
| STOCKHOLDERS' DEFICIT:  |    |           |
| Common stock, \$.0001 par value; authorized 50,000,000<br>shares; issued and outstanding 2,780,000 shares |    | 278       |
| Preferred stock, \$.0001 par value; authorized 1,000,000<br>shares; issued and outstanding -0- shares     |    | -         |
| Additional paid-in capital  |    | 63,875    |
| Accumulated deficit   |    | (222,078) |
|   |    | -----     |
| TOTAL STOCKHOLDERS' DEFICIT   |    | (157,925) |
|   |    | -----     |
|   | \$ | 24,218    |
|   |    | =====     |

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

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MAGIC COMMUNICATIONS, INC.

STATEMENTS OF OPERATIONS

|   | For the Years Ended December 31, |             |
|---|----------------------------------|-------------|
|   | 2004                             | 2003        |
| REVENUES                                      | \$ 72,215                        | \$ 81,937   |
| OPERATING EXPENSES:                           |                                  |             |
| Depreciation                                  | 17,280                           | 17,280      |
| Salaries                                      | 37,021                           | 36,970      |
| Equipment lease                               | 1,133                            | 4,522       |
| Professional fees                             | 46,140                           | 61,375      |
| General and administrative                    | 56,323                           | 60,027      |
| TOTAL OPERATING EXPENSES                      | 157,897                          | 180,174     |
| NET LOSS                                      | \$ (85,682)                      | \$ (98,237) |
| BASIC AND DILUTED NET LOSS PER SHARE          | \$ (0.03)                        | \$ (0.04)   |
| WEIGHTED AVERAGE COMMON SHARES<br>OUTSTANDING |                                  |             |
| Basic and Diluted                             | 2,567,500                        | 2,505,000   |

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

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MAGIC COMMUNICATIONS, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT

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|                            | Common Stock |        | Additional<br>Paid-In<br>Capital | Accumu<br>Defi |
|----------------------------|--------------|--------|----------------------------------|----------------|
|                            | Shares       | Amount |                                  |                |
| Balance, January 1, 2003   | 2,500,000    | \$ 250 | \$ 5,903                         | \$             |
| Shares issued for services | 30,000       | 3      | 2,997                            |                |
| Net loss                   | -            | -      | -                                |                |
| Balance, December 31, 2003 | 2,530,000    | 253    | 8,900                            |                |
| Shares issued for services | 100,000      | 10     | 9,990                            |                |
| Shares issued for cash     | 150,000      | 15     | 44,985                           |                |
| Net loss                   | -            | -      | -                                |                |
| Balance, December 31, 2004 | 2,780,000    | \$ 278 | \$ 63,875                        | \$             |

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

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MAGIC COMMUNICATIONS, INC.

STATEMENTS OF CASH FLOWS

|   | For the Years Ended December 31, |             |
|---|----------------------------------|-------------|
|   | 2004                             | 2003        |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                                  |             |
| Net loss  | \$ (85,682)                      | \$ (98,237) |
| Adjustments to reconcile net loss<br>to net cash used in operating<br>activities: |                                  |             |
| Depreciation  | 17,280                           | 17,280      |
| Stock based compensation  | 10,000                           | 3,000       |
| Changes in assets and liabilities:  |                                  |             |

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|   |          |          |
|---|----------|----------|
| Accounts payable                          | (24,592) | 18,817   |
|   | -----    | -----    |
| TOTAL ADJUSTMENTS                         | 2,688    | 39,097   |
|   | -----    | -----    |
| NET CASH USED IN OPERATING ACTIVITIES     | (82,994) | (59,140) |
|   | -----    | -----    |
| CASH FLOWS FROM INVESTING ACTIVITIES:     |          |          |
| Return of security deposits               | 11,550   | 3,850    |
|   | -----    | -----    |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 11,550   | 3,850    |
|   | -----    | -----    |
| CASH FLOWS FROM FINANCING ACTIVITIES:     |          |          |
| Proceeds from related parties             | 22,494   | 10,091   |
| Proceeds from loan payable                | -        | 50,000   |
| Stock issued for cash                     | 45,000   | -        |
|   | -----    | -----    |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 67,494   | 60,091   |
|   | -----    | -----    |
| NET (DECREASE) INCREASE IN CASH           | (3,950)  | 4,801    |
|   | -----    | -----    |
| CASH, BEGINNING OF YEAR                   | 4,801    | -        |
|   | -----    | -----    |
| CASH, END OF YEAR                         | \$ 851   | \$ 4,801 |
|   | =====    | =====    |
| Cash paid for:                            |          |          |
| Interest                                  | \$ -     | \$ -     |
|   | =====    | =====    |
| Taxes                                     | \$ -     | \$ -     |
|   | =====    | =====    |

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

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MAGIC COMMUNICATIONS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

1. DESCRIPTION OF BUSINESS:

Magic Communications, Inc. ("Magic" or the "Company") was incorporated in New York on January 16, 1997. The Company was originally formed for the

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purpose of offering Internet kiosks where the public could access the Internet for a fee. The Company did not develop that business and the financial statements do not include any amounts related to it. The Company's operations consist primarily of owning and operating pay phones in New York, New Jersey and Pennsylvania. This business commenced in February of 1997.

In November 2002 the Company was merged into a Delaware corporation which was created for the purpose of reincorporating the Company and accounted for as a reorganization of entities under common control.

### 2. GOING CONCERN:

The Company's financial statements as of December 31, 2004 have been prepared on a going-concern basis, which presumes that the Company will be able to continue to meet its obligations and realize its assets in the normal course of business.

As shown in the accompanying financial statements, the Company has a history of losses with an accumulated deficit of \$222,078 at December 31, 2004 and, as of that date, a working capital deficiency of \$181,292. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to ultimately attain profitable operations, generate sufficient cash flow to meet its obligations, and obtain additional financing as may be required.

### 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

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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.
- 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.

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4 EQUIPMENT:

Equipment consists of the following at December 31, 2004:

|                                |    |           |
|--------------------------------|----|-----------|
| Payphones                      | \$ | 172,790   |
| Less: accumulated depreciation |    | (150,923) |
|                                |    | -----     |
|                                | \$ | 21,867    |
|                                |    | =====     |

Depreciation expense for the years ended December 31, 2004 and 2003 was \$17,280 and \$17,280, respectively.

5. LOAN PAYABLE:

On August 14, 2003, the Company signed a promissory note for \$50,000. The note is due on demand and bears interest at a rate of 4% per annum. As per the terms of the note the Company was supposed to issue 25,000 shares which



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have not been issued as of the above balance sheet date. The Company has accrued interest of \$2,750 from the date of the note to December 31, 2004.

### 6. COMMITMENTS:

The Company rents office space from a related party on a month - to - month basis at a nominal cost.

The Company has entered into third party agreements with Verizon, Qwest and property or store owners of payphone locations. Verizon services the local telephone calls made on the payphones owned and operated by the Company. The Company pays Verizon \$0.042 per minute for each call. Qwest services the long-distance phone calls made on the payphones owned and operated by the Company. The Company pays Qwest between \$0.03 to \$0.04 per minute on each long-distance call. The Company pays Verizon and Qwest on a monthly basis. There is no expiration date on the agreement with Verizon and the Qwest agreement renews annually. The property or store owners allow the Company to place its phones on their locations for a percentage of the money in the coin box of the payphone.

### 7. DUE TO RELATED PARTIES:

At December 31, 2004, the Company has a payable to Magic Consulting of \$52,306 for consulting services performed. The Company also has payables to a related party in the amount of \$31,594 and a payable to an officer in the amount of \$3,100. During the year ended December 31, 2004, Boulder Hill, a related party, advanced the Company money to pay for various expenses. At December 31, 2004, the Company owes Boulder Hill \$11,391. These transactions are unsecured and non-interest bearing and have no specified payment terms.

During the year ended December 31, 2004, the Company paid on behalf of one of its officers some personal expenses of the officer. The Company recorded these payments as officer salaries.

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### 8. STOCK OPTION PLAN:

The board of directors, on November 24, 2002, adopted the Company's 2002 Non-Statutory Stock Option Plan ("Plan") so as to provide a critical long-term incentive for employees, non-employee directors, consultants, attorneys and advisors of the Company and its subsidiaries, if any. The board of directors believes that the Company's policy of granting stock options to such persons will continue to provide it with a critical advantage in attracting and retaining qualified candidates. In addition, the Plan is intended to provide the Company with maximum flexibility to compensate plan participants. It is expected that such flexibility will be an integral part of the Company's policy to encourage employees, non-employee directors, consultants, attorneys and advisors to focus on the long-term growth of stockholder value. The board of directors believes that important advantages to the Company are gained by an option program such as the 2002 Plan which includes incentives for motivating employees of the Company, while at the same time promoting a closer identity of interest between employees, non-employee directors, consultants, attorneys and advisors on the one hand, and the stockholders on the other. As of December 31, 2004 no options have been issued.

### 9. INCOME TAXES:

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The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes ("SFAS No.109"). SFAS No.109 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and tax credit carry-forwards. SFAS No. 109 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Prior to 2003, the Company and its stockholders elected to be taxed under subchapter S of the Internal Revenue Code. As a result, all income and losses were reported by the Company's stockholders. The following is a reconciliation of income taxes computed using the statutory Federal rate of 35% to the income tax expense in the financial statements.

|  | December 31, |      |
|--|--------------|------|
|  | 2004         | 2003 |
| Income tax (benefit) computed at statutory rate    | \$ (26,000)  | \$   |
| State income tax (benefit), net of federal benefit | (5,000)      |      |
| Permanent difference - stock based compensation    | -            |      |
| Change in valuation allowance                      | 31,000       |      |
| Provision for income taxes                         | \$ -         | \$   |

As of December 31, 2004, the Company has net operating losses for Federal income tax purposes totaling approximately \$171,000, expiring various times through at December 31, 2024.

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The following is a schedule of deferred tax assets as of December 31, 2004:

|                        |           |
|------------------------|-----------|
| Net operating loss     | \$ 68,000 |
| Valuation allowance    | (68,000)  |
| Net deferred tax asset | \$ -      |

10. STOCKHOLDERS' DEFICIT:

On October 31, 2003, the Company issued 30,000 shares of common stock for consulting services. The Company valued the shares at \$0.10 per share and recorded \$3,000 of consulting expense accordingly.

On January 7, 2004, the Company issued 100,000 shares of common stock to its counsel for professional services. The Company valued the shares at \$0.10 per share and recorded \$10,000 of professional services accordingly.

On October 20, 2004, the Company issued 150,000 shares of common stock for

cash. The Company received a total of \$45,000 for these shares.