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MAGIC COMMUNICATIONS INC
Form 10KSB/A
October 10, 2003

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

FORM 10-KSB/Amendment No. 2

[] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 For The Fiscal Year Ended December 31, 2002 Or [] TRANSITION REPORT
UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 0-50090

MAGIC COMMUNICATIONS, INC.

(Name of Small Business Issuer in its Charter)

Delaware 13-3926203
(State or other jurisdiction of (I.R.S. Employer Identification No.)
Incorporation or Organization)

5 West Main Street
Elmsford, New York 10523
(Address of Principal Executive Offices) (Zip Code)

914-345-0800
(Issuer's telephone number (including area code))

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.0001 per share

(Title of Class)

Check whether the issuer (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. [X] Yes [] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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. [] Disclosure contained herein.

State Registrant's revenues for its most recent fiscal year. \$73,617 as of December 31, 2002.

The number of shares outstanding of each of the Registrant's classes of common stock, as of June 19, 2003 is 2,500,000 shares, all of one class, \$.0001 par

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value per share. Of this number, 2,254,900 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 2,254,900 shares held by non-affiliates, based upon the book value as of December 31, 2002 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

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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 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

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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 are annexed hereto as Exhibits 99.01 and 99.02.

As of September 30, 2002, the Company had approximately 150 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 hopes to raise funds through a private equity offering to be able to increase its marketing effort so that it will have a sufficient number of phones in operation to be able to earn a profit. No assurance is given that the Company can accomplish this objective. 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 be raised.

The Company currently purchases its phones from North Atlantic Marketing and during the nine (9) month period calendar year ended September 30, 2002 December 31, 2002 purchased 20 telephones without having purchased any additional telephones through June 30, 2003. The price for phones in the twelve month period ending December 31, 2002 averaged \$ 1,200 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 effects of its President and through "word of mouth" in order to obtain customer leads.

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Competition

The Company expects 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 intends 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. The Company does not believe that this perception is accurate as to the services that it provides.

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.

Recent Reorganization

During November, 2002, the Company effected a reincorporation merger to change its state of incorporation from New York to Delaware. In connection with the reincorporation, each outstanding share of the New York predecessor corporation

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which was merged with and into the Company, was changed by operation of law and as provided in Section 2.4.1 in the Agreement and Plan of Merger (the "Plan") into 2,500,000 shares of the Company. The Plan is filed as Exhibit 3(d) to this Registration Statement. The Company effected the reincorporation merger because management believes that Delaware corporations are more attractive to potential investors. Under New York law, officers, directors and the ten largest shareholders of a corporation are personally liable for employee wages.

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 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.

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Item 3. Legal Proceedings

None

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

On November 24, 2002, stockholders approved and adopted the Company's 2002 Non-Statutory Stock Option Plan (the "Plan"). The Plan reserves for issuance up to 1,500,000 shares of Company Common Stock. The Company thereafter, on January 23, 2003, filed a Registration Statement on Form S-8 (333-102688) so as to register the above-referenced shares.

PART II

Item 5. Market for Common Equity and Related 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 19, 2003 there were 110 stockholders of record of the Registrant's Common Stock and 2,500,000 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.

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

Year ended December 31, 2002 vs. Year ended December 31, 2001

Sales decreased in volume with prices staying the same from \$122,787 in the year ended December 31, 2001 to \$73,617 in the year ended December 31, 2002 due, in the opinion of management to increased use of cellular phones as widely reported in the media. Operating expenses decreased from \$166,194 or 135% of sales to \$109,044 or 148% of sales. The decrease of operating expenses was due to the following items: (i) a decrease in depreciation of \$16,316 from \$33,596 in 2001 to \$17,280 in 2002; (ii) a decrease in salaries of \$27,914 from \$58,450 in 2001 to \$30,536 in 2002, do to reduced staffing; (iii) a decrease in lease payments for phone equipment (leases expired in March 2002) of \$21,434 from 2001 to 2002; (iv) a decrease in general and administrative expenses of \$869; offset by from (v) an increase in professional fees of \$9,383 from \$4,667 in the year ended December 31, 2001 to \$14,050 in the year ended December 31, 2002 associated with additional registration costs. Since sales decreased and operating expenses decreased, the Company's net loss decreased from (\$43,407) in the year ended December 31, 2001 to (\$35,427) in the year ended December 31, 2002. The number of pay telephones in service during the years ended December 31, 2001 and December 31, 2002 were approximately 150 telephones throughout these periods.

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Liquidity and Capital Resources

On December 31, 2002 the Company had no cash on hand. It was the opinion of Management that the lack of funds would not enable the Company to affect this registration under the Exchange Act and file periodic reports until such time as it is able to generate revenues cash flow from its operations. 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 for a period of one (1) year, with up to \$50,000 in order to fund operations for such 12 month period. Management has also verbally committed to further fund up to an additional \$50,000 if its' original estimate for funds needed during such 12 month period proves to be understated. The funding referred to is not subject to any limitations other than the dollar amounts indicated.. Management has not, as yet, found it necessary to disburse any additional funds to sustain operations, but will do so, if, and when, deemed necessary and in the manner indicated in this paragraph. 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. If and when the Company acquires additional intellectual properties, its cash needs may increase significantly and such cash might not be available to the Company. The Company can not predict the cash requirements associated with as yet unidentified intellectual property acquisitions.

Forward-Looking Statements

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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, 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.

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Item 7. Financial Statements

MAGIC COMMUNICATIONS GROUP, INC.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Stockholders'
Magic Communications Group, Inc.

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We have audited the accompanying balance sheet of Magic Communications Group, Inc. as of December 31, 2002 and the related statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 2002 and 2001. 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 auditing standards generally accepted in the United States of America. 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 Group, Inc. as of December 31, 2002 and the results of its operations and its cash flows for the years ended December 31, 2002 and 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred losses and has a working capital deficiency 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Sherb & Co., LLP

Certified Public Accountants

New York, New York
April 9, 2003

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MAGIC COMMUNICATIONS GROUP, INC.

BALANCE SHEET

DECEMBER 31, 2002

ASSETS

| | | |
|------------------------|----|--------|
| EQUIPMENT, net | \$ | 56,426 |
| SECURITY DEPOSITS | | 15,400 |
| DUE FROM RELATED PARTY | | 3,000 |
| | | ----- |
| | \$ | 74,826 |
| | | ===== |

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LIABILITIES AND STOCKHOLDERS' DEFICIT

| | |
|--|-----------|
| CURRENT LIABILITIES: | |
| Accounts payable and accrued expenses | \$ 39,526 |
| Due to related parties | 67,306 |
| | ----- |
| TOTAL CURRENT LIABILITIES | 106,832 |
| STOCKHOLDERS' DEFICIT: | |
| Common stock, \$.0001 par value; authorized 50,000,000 shares; issued and outstanding 2,500,000 shares | 250 |
| Preferred stock, \$.0001 par value; authorized 1,000,000 shares; issued and outstanding -0- shares | - |
| Additional paid-in capital | 5,903 |
| Accumulated deficit | (38,159) |
| | ----- |
| TOTAL STOCKHOLDERS' DEFICIT | (32,006) |
| | ----- |
| | \$ 74,826 |
| | ===== |

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

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MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF OPERATIONS

| | For the Years Ended December 31, | |
|---|----------------------------------|-------------|
| | 2002 | 2001 |
| | ----- | ----- |
| REVENUES | \$ 73,617 | \$ 122,787 |
| | ----- | ----- |
| OPERATING EXPENSES: | | |
| Depreciation | 17,280 | 33,596 |
| Salaries | 30,536 | 58,450 |
| Equipment lease | 12,539 | 33,973 |
| Professional fees | 14,050 | 4,667 |
| General and administrative | 34,639 | 35,508 |
| | ----- | ----- |
| TOTAL OPERATING EXPENSES | 109,044 | 166,194 |
| | ----- | ----- |
| NET LOSS | \$ (35,427) | \$ (43,407) |
| | ===== | ===== |
| BASIC AND DILUTED NET LOSS PER SHARE | \$ (0.01) | \$ (0.02) |

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| | | |
|---|-----------|-----------|
| | ===== | ===== |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | |
| Basic and Diluted | 2,500,000 | 2,500,000 |
| | ===== | ===== |

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

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MAGIC COMMUNICATIONS GROUP, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

| | Common Stock | | Additional | Retained |
|------------------------------|--------------|--------|--------------------|----------|
| | Shares | Amount | Paid-In Capital | Earnings |
| | ----- | ----- | ----- | ----- |
| Balance, January 1, 2001 | 2,500,000 | \$ 250 | \$ 750 | \$ |
| Net loss | - | - | - | - |
| | ----- | ----- | ----- | ----- |
| Balance, December 31, 2001 | 2,500,000 | 250 | 750 | |
| Contribution of common stock | (5,100) | (5) | 5 | |
| Shares issued for services | 5,100 | 5 | 148 | |
| Stock based compensation | - | - | 5,000 | |
| Net loss | - | - | - | - |
| | ----- | ----- | ----- | ----- |
| Balance, December 31, 2002 | 2,500,000 | \$ 250 | \$ 5,903 | \$ |
| | ===== | ===== | ===== | ===== |

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

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MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF CASH FLOWS

| | For the Years Ended December 31, | |
|---|----------------------------------|-------------|
| | 2002 | 2001 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (35,427) | \$ (43,407) |
| | ----- | ----- |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation | 17,280 | 33,596 |
| Stock based compensation | 5,153 | - |
| Changes in assets and liabilities: | | |
| Accounts payable | 18,111 | (11,301) |
| | ----- | ----- |
| TOTAL ADJUSTMENTS | 40,544 | 22,295 |
| | ----- | ----- |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | 5,117 | (21,112) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Return of security deposits | - | 15,563 |
| Capital expenditures | - | (9,615) |
| | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | - | 5,948 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| (Payments to) proceeds from related parties | (5,117) | 14,600 |
| | ----- | ----- |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (5,117) | 14,600 |
| | ----- | ----- |
| NET DECREASE IN CASH | - | (564) |
| CASH, BEGINNING OF YEAR | - | 564 |
| | ----- | ----- |
| CASH, END OF YEAR | \$ - | \$ - |
| | ===== | ===== |

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

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MAGIC COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

1. DESCRIPTION OF BUSINESS:

Magic Communications Group, Inc. ("Magic" or the "Company") elected to file as an S Corporation in New York on January 16, 1997. The Company was originally formed for the 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 on February of 1997.

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

2. GOING CONCERN

The accompanying financial statements 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 \$21,923 at December 31, 2002 and, as of that date, a working capital deficiency of \$106,832. 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.

On December 31, 2002 the Company had no cash on hand. It was the opinion of Management that the lack of funds would not enable the Company to affect this registration under the Exchange Act and file periodic reports until such time as it is able to generate revenues cash flow from its operations. 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 for a period of one (1) year, with up to \$50,000 in order to fund operations for such 12 month period. Management has also verbally committed to further fund up to an additional \$50,000 if its' original estimate for funds needed during such 12 month period proves to be understated. The funding referred to is not subject to any limitations other than the dollar amounts indicated. Management has not, as yet, found it necessary to disburse any additional funds to sustain operations, but will do so, if, and when, deemed necessary and in the manner indicated in this paragraph.

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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.

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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 - 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 plant and equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.
- E. Security deposit - The Company makes a deposit in the amount of \$300 to Verizon for each pay telephone installed. The purpose of these deposits is to secure amounts owed to Verizon by the Company for monthly phone charges as describe in Note 5. This amount is returned to the Company after three years if it is current with all it payments.
- F. Fair value of financial instruments - The carrying amounts reported in the balance sheet for, accounts payable, and due to related parties approximate fair value based on the short-term maturity of these instruments.
- G. Income taxes - The Company follows Statement of Financial Accounting Standards No. 109 - Accounting for Income Taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the

differences are expected to reverse. Since the termination of the Company's S Corporation status in November 2002 there are no material differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the two months ended December 31, 2002.

- H. Stock based compensation - Financial Accounting Statement No. 123, Accounting for Stock Based Compensation, encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The Company has adopted the "disclosure only" alternative described in SFAS 123 and SFAS 148, which require pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied.

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- I. New Accounting Pronouncements - In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that statement, SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement amends SFAS No. 13, "Accounting for Leases," to eliminate inconsistencies between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Also, this statement amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Provisions of SFAS No. 145 related to the rescission of SFAS No. 4 were effective for the Company on November 1, 2002 and provisions affecting SFAS No. 13 were effective for transactions occurring after May 15, 2002. The adoption of SFAS No. 145 did not have a material impact on our financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement covers restructuring type activities beginning with plans initiated after December 31, 2002. Activities covered by this standard that are entered into after that date will be recorded in accordance with the provisions of SFAS No. 146. Management does not believe there will be a significant impact on our consolidated financial position or results of operations.

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In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation as prescribed in SFAS 123, "Accounting for Stock- Based Compensation." Additionally, SFAS 148 required more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The provisions of this Statement are effective for fiscal years ending after December 15, 2002, with early application permitted in certain circumstances. The Company has adopted the disclosure provisions in these consolidated financial statements as disclosed above under Stock Based Compensation.

In November 2002, the FASB Issued FASB interpretation (FIN) No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Other." FIN No. 45 requires guarantor to recognize, at the inception of a qualified guarantee, a liability for the fair value of the obligation undertaken in issuing or modified after December 31, 2002. Management does not expect adoption of this Interpretation to have a material impact on the Company's financial condition or results of operations.

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4 EQUIPMENT:

Equipment consists of the following at December 31, 2002:

| | | |
|--------------------------------|----|-----------|
| Payphones | \$ | 172,790 |
| Less: accumulated depreciation | | (116,364) |
| | | ----- |
| | \$ | 56,426 |
| | | ===== |

5. 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.

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6. DUE TO RELATED PARTIES:

At December 31, 2002, 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 \$5,000, a receivable from an officer in the amount \$3,000, and a payable to the same officer in the amount of \$10,000. These transactions are unsecured and non-interest bearing and have no specified payment terms.

7. 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.

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During the year ended December 31, 2002, management issued 1,000,000 options to certain current members of its management team as well as other persons whom it considered to be important to its current and proposed business activities. On December 13, 2002 the Company voided these options as if never issued and without receipt by any of the option holders of any form of consideration. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions dividend yield of -0- percent; -0- percent volatility; risk-free interest rate of 4.00 percent and an expected holding period of 19 days. In connection with these options the Company recorded consulting expense of \$5,000 for the year ended December 31, 2002.

The Company uses the intrinsic value method in accounting for stock options issued to employees and directors. Had compensation cost for the Company's option plans been determined based on the fair value at the grant dates for awards, the Company's net loss and loss per share would have resulted in the pro forma amounts indicated below at December 31, 2002:

| | | |
|--------------------------------|----|--------|
| Net loss as reported | \$ | 35,427 |
| Pro forma net loss | \$ | 50,427 |
| Net loss per share as reported | \$ | 0.01 |

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Pro forma net loss per share \$ 0.02

A summary of stock option transactions for the year ended December 31, 2002 is presented below:

| | Number of Shares | | Weighted average exercise price |
|----------------------------------|---------------------|----|------------------------------------|
| | ----- | | ----- |
| Granted on November 24, 2002 | 1,000,000 | \$ | .01 |
| Canceled on December 13, 2002 | (1,000,000) | | (.01) |
| | ----- | | ----- |
| Outstanding at December 31, 2002 | -0- | \$ | -0- |
| | ===== | | ===== |

8. STOCKHOLDERS' EQUITY (DEFICIT):

In November 2002 the Company was merged into a Delaware corporation which was created for the purpose of reincorporating the Company accounted for as a reorganization of entities under common control. In connection with the reincorporation merger the original shares of the Company were changed into 2,500,000 shares, par value \$.0001 per share. All but 240,000 shares were gifted to 109 persons or entities. Of these shares, 5,000 shares were issued to employee and 100 shares issued to a director. The shares were valued at \$.03 per share and were recorded as stock based compensation. The authorized capital stock of the Company consists of 50,000,000 shares of common stock, par value \$.0001 per share, of which 2,500,000 were issued an outstanding as of the date of this filing, and 1,000,000 shares of preferred stock, par value \$.0001 per share, none of which were issued, outstanding or designated as of the date of this filing.

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Item 8. Changes In and Disagreements With Accountants and Financial Disclosure

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 and Tenure |
|-------------------|-----|--|
| Stephen D. Rogers | 53 | President and a Director since inception |
| Maureen Rogers | 47 | Vice President, and a Director since inception |
| Edwin Osias | 56 | Director |
| Suzanne Keating | 32 | Secretary |

The directors named above will serve until the first annual meeting of the Company's stockholders. Thereafter, directors will be elected for one-year terms

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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.

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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. 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, 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.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended requires the Company's directors and executive officers, and persons who beneficially own more than 10% of a registered class of the Company's equity securities, to file reports of beneficial ownership and changes in beneficial ownership of the Company's securities with the SEC on Forms 3 (Initial Statement of Beneficial Ownership), 4 (Statement of Changes of Beneficial Ownership of Securities) and 5 (Annual Statement of Beneficial Ownership of Securities). Directors, executive officers and beneficial owners of more than 10% of the Company's common stock are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms that they file. Except as otherwise set forth herein, based solely on review of the copies of such forms furnished to the Company, or written representations that no reports were required, the Company believes that

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for the fiscal year ended December 31, 2002 beneficial owners complied with Section 16(a) filing requirements applicable to them in that each officer, director and beneficial owner of 10% or more of the Company's securities has filed a Form 3 with the SEC and has had no change of ownership since such filing. Each of such necessary filings, as required to be made by Stephen Rogers, Maureen Rogers, Edwin Oasis and Suzanne Keating (officers and/or directors of the Company) were filed with the SEC during the month of January 2003 except for Suzanne Keating whose Form 3 was filed in June 2003. There has been no change in beneficial ownership by each of these persons and/or entities since ownership indicated on date of filing or ownership as of June 19, 2003.

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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 except that Suzanne Keating (Secretary) received 5,000 shares valued at \$150 and Edwin Oasis (Director) received 100 shares valued at \$3, both in November 2002.

Pursuant to the November 24, 2002 board of directors approval and subsequent stockholder approval, the Company adopted its 2002 Non-Statutory Stock Option Plan (the "Plan") whereby it reserved for issuance up to 1,500,000 shares of its common stock. The Company intends to file a Registration Statement on Form S-8 so as to register those 1,500,000 shares of common stock underlying the aforesaid options.

Management had issued 1,000,000 of the aforesaid options to certain current members of its management team as well as other persons whom it considered to be important to its current and proposed business activities. The individuals to whom options were granted (Stephen D. Rogers, 250,000; Maureen Rogers, 500,000; and Gary B. Wolff, 250,000) each thereafter agreed on December 13, 2002 with the Company to void these options as if never issued and without receipt by any of the option holders of any form of consideration.

Each of these options (originally issued on November 24, 2002) prior to being voided, were exercisable at \$.01 per share. No consideration was paid for such options and none of these options were ever exercised nor was any consideration paid to the option holders who agreed to cancellation.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding beneficial ownership of the Common Stock as of December 31, 2002 (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 of 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.

| Name and Address of Beneficial Owner ¹ ----- | Number of Shares Beneficially Owned ¹ ----- | Percentage of Class ----- |
|---|--|------------------------------|
| Maureen Rogers | 240,000 | 9.60% |
| Stephen D. Rogers | 0 | 0 |

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| | | |
|--|---------|---------|
| Edwin Osias | 100 | * |
| Boulder Hill, Inc. | 240,000 | 3 9.60% |
| Karen Glenn | 240,000 | 9.60% |
| Suzanne Keating | 5,000 | * |
| All officers and directors as a group (4persons) | 245,100 | 9.80% |

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* Represents less than 1% of the 2,500,000 outstanding shares of common stock.

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

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

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.

Item 12. Certain Relationships and Related Transactions

The New York predecessor to the Company was formed in January 1997 and sold 10 shares to its founder Maureen Rogers for \$1,000. In connection with the reincorporation merger into the Company, these shares were changed into 2,500,000 shares par value, \$.0001 per share. Maureen Rogers then gifted all but 240,000 of her 2,500,000 shares to 109 persons or entities.

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 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.

Item 13. Exhibits, Lists and Reports on Form 8-K

Reference is herewith made to the financial statements and notes thereto included in this Form 10-KSB.

- (a) 99.01 Certification by Chief Executive Officer
- 99.02 Certification by Chief Financial Officer

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(b) Reports on Form 8-K None

Item 14. Controls and Procedures

Our management, under the supervision and with the participation of 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 their evaluation, our chief executive officer and chief accounting officer have 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 Annual Report on Form 10-KSB 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.

Item 15. Principal Accountant Fees and Services

Not applicable to the Company since disclosure requirements to this Item need only be complied with in filings with respect to fiscal years ending after December 15, 2003.

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Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAGIC COMMUNICATIONS, INC.
(Registrant)

By: /s/ Stephen D. Rogers

Stephen D. Rogers
President

Date: October 9, 2003

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures

Dates

By: /s/ Stephen D. Rogers

Stephen D. Rogers
President and Director

October 9, 2003

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By: /s/ Maureen Rogers

Maureen Rogers
Vice-President and Director

October 9, 2003

By: /s/ Edwin Oasis

Edwin Oasis
Director

October 9, 2003

By: /s/ Suzanne Keating

Suzanne Keating
Secretary

October 9, 2003