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EUROWEB INTERNATIONAL CORP  
Form 10QSB  
May 20, 2004

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

Form 10-QSB

(Mark One)

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

For the quarterly period ended March 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 1-1200

EUROWEB INTERNATIONAL CORP.

(Exact name of small business issuer as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3696015  
(I.R.S. Employer  
Identification No.)

1122 Budapest, Varosmajor utca 13. Hungary  
(Address of principal executive offices)

+36-1-8897000  
Issuer's telephone number

+36-1-8897100  
Issuer's facsimile number

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 requirement for the past 90 days. Yes X No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, \$.001 par value  
(Class)

4,665,332  
(Outstanding at March 31, 2004)

Transitional Small Business Disclosures Format (Check one): Yes \_\_\_ No X

EUROWEB INTERNATIONAL CORP.

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and December 31, 2003 (audited)

Restated consolidated statements of operations and comprehensive loss  
(unaudited) for the three months ended March 31, 2004 and 2003

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Restated consolidated statements of stockholders' equity for the three months ended  
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Signature

### EUROWEB INTERNATIONAL CORP. RESTATED CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31, 2004	December
	-----	-----
	(Unaudited)	(audited, see N
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 12,050,485	\$ 3,
Investment in securities	-	11,
Trade accounts receivable, net	1,235,842	1,
Related party receivables	748,285	1,
Current portion of note receivable	124,143	
Prepaid and other current assets	1,584,887	1,
	-----	-----
Total current assets	15,743,642	18,
Property and equipment, net	2,727,193	2,
Assets under construction	78,355	
Goodwill	566,000	
	-----	-----
Total assets	\$ 19,115,190	\$ 22,
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Trade accounts payable	\$ 1,638,049	\$ 1,
Related party payables	913,211	1,
Related party loan payable - short term portion	240,608	
Other current liabilities	998,387	
Accrued expenses	431,247	
Deferred IRU revenue	46,000	
Deferred other revenue	951,472	1,
	-----	-----
Total current liabilities	5,218,974	6,
Non-current portion of deferred IRU revenue	831,834	
Non-current portion of related party loan payable	962,435	
Non-current portion of lease obligations	219,239	

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Total liabilities	7,232,482	8,
Stockholders' Equity		
Preferred stock, \$.001 par value - Authorized 5,000,000 shares; no shares issued or outstanding	-	
Common stock, \$.001 par value - Authorized 60,000,000 shares; Issued and outstanding 4,665,332 shares	24,129	
Additional paid-in capital	48,227,764	48,
Accumulated deficit	(35,206,856)	(33,
Accumulated other comprehensive losses:	(46,917)	
Treasury stock - 175,490 common shares, at cost	(1,115,412)	(1,
Total stockholders' equity	11,882,708	14,
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 19,115,190	\$ 22,

See accompanying notes to consolidated financial statements.

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EUROWEB INTERNATIONAL CORP.  
RESTATED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(Unaudited)

	Three months en March 31, 2004	2003
Revenues		Re (Se
Third party revenues	\$ 4,922,587	\$ 4,5
Related party revenues	1,490,767	1,2
Total Revenues	6,413,354	5,7
Cost of revenues		
Third party cost of revenues	2,803,707	2,4
Related party cost of revenues	1,251,354	1,2
Total Cost of revenues	4,055,061	3,6
Gross profit	2,358,293	2,0
Operating expenses		
Compensation and related costs	876,237	8
Consulting and professional fees	411,179	3
Other selling, general and administrative expenses	716,194	7
Depreciation and amortization	290,081	4
Total operating expenses	2,293,691	2,3
Gain (Loss) from operations	64,602	(2
Net interest income	7,841	

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Gain (Loss) from operations before income taxes	72,443	(1
Provision for income taxes	31,583	
Net profit (loss)	40,860	(1
Other comprehensive loss	21,415	
Comprehensive gain (loss)	\$ 19,445	\$ (2
Net gain/(loss) per share, basic and diluted	.01	
Weighted average number of shares outstanding, basic and diluted	4,665,332	4,6

See accompanying notes to consolidated financial statements

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EUROWEB INTERNATIONAL CORP.  
 RESTATED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 (Unaudited)

	Common Shares	Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumula Other Comprehens Gains (Los
Balances, December 31, 2002	4,665,332	\$24,129	\$48,227,764	\$ (31,314,687)	\$ 236,1
Foreign currency translation loss	-	-	-	-	(45,2
Unrealized loss on securities available for sale	-	-	-	-	(216,4
Net loss for the period				(1,791,029)	
Balances, December 31, 2003	4,665,332	\$24,129	\$48,227,764	\$ (33,105,716)	\$ (25,5
Foreign currency translation loss	-	-	-	-	7,3
Adjustment for previously unrealized gain on securities, currently included in net income	-	-	-	-	(28,8
Deemed distribution (Note 9)	-	-	-	(2,142,000)	
Net profit for the period				40,860	
Balances, March 31, 2004	4,665,332	\$24,129	\$48,227,764	\$ (35,206,856)	\$ (46,9

See accompanying notes to consolidated financial statements

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EUROWEB INTERNATIONAL CORP.  
 RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

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### Cash flows from operating activities:

Net profit (loss)	\$ 40,860
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	290,081
Amortization of discount on acquisition indebtedness	-
Foreign currency gain/loss	7,862
Realized gain on sale of securities	(28,805)
Unrealized interest income on securities	-
Changes in operating assets and liabilities net of effects of acquisitions:	
Accounts receivable	466,210
Prepaid and other assets	19,537
Accounts payable, other current liabilities and accrued expenses	(828,101)
Deferred revenue	(67,492)
Net cash used in operating activities	(99,848)

### Cash flows from investing activities:

Maturity of securities	11,464,000
Repayments of notes receivable	49,768
Acquisition of 51% of Euroweb Rt.	(2,142,000)
Acquisition of property and equipment, intangibles	(265,537)
Net cash provided by (used in) investing activities	9,106,231

### Cash flows from financing activities:

Receipt (repayment) of loans	24,649
Principal payments under capital lease obligations	(9,447)
Net cash used in financing activities	15,202

Effect of foreign exchange rate changes on cash	(14,803)
Net increase (decrease) in cash and cash equivalents	9,006,782
Cash and cash equivalents, beginning of period	3,043,703
Cash and cash equivalents, end of period	\$ 12,050,485

See accompanying notes to consolidated financial statements.

### Euroweb International Corp.

#### Notes to Interim Unaudited Restated Consolidated Financial Statements

#### 1. Organization and Business

EuroWeb International Corp. (the "Company") is a Delaware corporation which was organized on November 9, 1992. The controlling owner of Euroweb International Corp. as at March 31, 2004 was KPN Telecom B.V., a Netherlands corporation, who remains the largest shareholder.

The Company owns and operates Internet service providers in the Czech Republic, Hungary, Slovakia and Romania. The Company operates in one business segment.

The Hungarian operations (conducted through Euroweb Hungary Rt.) were accounted for under the equity method in prior years as the Company owned a 49% interest,

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however, in February 2004, the remaining 51% of Euroweb Hungary Rt. was purchased from Pantel Rt. and is fully consolidated in the current period financial statements. The consideration paid by the Company for the 51% interest consisted of EUR 1,650,000 (USD 2,105,000) in cash, guarantees for amounts owed to Pantel Rt. by a subsidiary of Euroweb Hungary Rt., and a guarantee that Euroweb Hungary Rt. will purchase at least HUF 600 million (approximately \$3 million) worth of services from Pantel Rt. in each of 2004-2006.

As the acquisition was made from an entity under common control (both Pantel Rt. and the Company were majority owned by KPN Telecom B.V. at the time of acquisition in February 2004), the transaction was accounted in a manner similar to a pooling-of-interest in accordance with generally accepted accounting principles in the United States of America, with all prior periods being restated as if the entities were combined for all periods presented (see note 2 (a) below).

### 2. Summary of Significant Accounting Policies

#### (a) Principles of consolidation and basis of presentation

The consolidated financial statements comprise the accounts of the Company and its controlled subsidiaries. All material inter-company balances and transactions have been eliminated upon consolidation. The purchase of the remaining 51% of Euroweb Hungary Rt. has been accounted in a manner similar to a pooling-of-interest with prior periods being restated (See Note 9).

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America.

#### (b) 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the Company include the period of benefit and recoverability of goodwill and other intangible assets.

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Euroweb International Corp.

Notes to Interim Unaudited Restated Consolidated Financial Statements

#### (c) Fair value of financial instruments

The carrying values of cash equivalents, investment in debt securities, notes and loans receivable, accounts payable, loans payable and accrued expenses approximate fair values.

#### (d) Revenue recognition

Revenues from Internet services are recognized in the month in which the services are provided, either based on monthly traffic or on fixed monthly fees (leased lines). Revenue for other services, are recognized as the service is performed.

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In 2002, the Company entered into an agreement to provide transmission capacity to a customer pursuant to an indefeasible rights-of-use agreement ("IRU") that management believes qualifies as an operating lease under Financial Accounting Standards Board Interpretation No. 13, "Accounting for Leases" ("FAS 13"), since the IRU agreement provides rights to use a specific subject asset for a defined period. Revenue attributable to the lease is recognized on a straight-line basis over the term of the 20-year lease agreement.

Under Financial Accounting Standards Board Interpretation No. 43, "Real Estate Sales, an interpretation of FASB Statement No. 66" ("FIN 43"), leases of fiber and capacity that are deemed integral equipment are required to be accounted for in the same manner as leases of real estate. If fiber and equipment are considered integral to the related real estate, a lease must include a provision transferring title of such integral equipment to the lessee in order for that lease to be accounted for as a sales-type lease. Failure to satisfy the title transfer requirements results in operating lease treatment, and recognition of the related lease income over the lease term. The Company's IRU does not involve a transfer of title.

IRUs generally require the customer to make a down payment upon execution of the agreement, with the balance due upon delivery and acceptance of the fiber. This has resulted in a substantial amount of deferred revenue being recorded on the balance sheet. The Company is obligated under the fiber IRU to maintain its network in efficient working order and in accordance with industry standards. Customers are obligated for the term of the agreement to pay for their allocable share of the costs for operating and maintaining the network. The Company recognizes this revenue monthly as services are provided.

Accounting practice and guidance with respect to the treatment of fiber sales and IRU agreements continues to evolve. Any changes in the accounting treatment could affect the way the Company accounts for revenue and expenses associated with these transactions in the future.

### (e) Cost of revenues

Cost of revenues comprise principally of telecommunication network expenses, costs of content services and cost of leased lines.

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Euroweb International Corp.

Notes to Interim Unaudited Restated Consolidated Financial Statements

### (f) Foreign currency translation

The Company considers the United States Dollar ("US\$") to be the functional currency of the Company and unless otherwise stated, the respective local currency to be the functional currency of its subsidiaries. The reporting currency of the Company is the US\$ and accordingly, all amounts included in the consolidated financial statements have been translated into US\$.

The balance sheets of subsidiaries are translated into US\$ using the year end exchange rates. Revenues and expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is reflected as a separate component of shareholders' equity on the consolidated balance sheet.

The Company conducts business and maintains its accounts for Euroweb

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Romania in the Romanian Lei ("ROL"). The U.S. dollar is used as the functional currency in Romania. The Company's financial statements presented in ROL are remeasured into U.S. dollars using the following policies:

- o Monetary assets and liabilities are remeasured into the functional currency using the exchange rate at the balance sheet date.
- o Non-monetary assets and liabilities are remeasured into the functional currency using historical exchange rates.
- o Revenues, expenses, gains and losses are remeasured into the functional currency using the average exchange rate for the period except for revenues and expenses related to non-monetary items that are remeasured using historical exchange rates.

The net effect of re-measurement from the local currency into the functional currency (US\$) is included in the determination of net profit and loss, under 'Other selling, general and administration expenses'.

Foreign currency transaction gains and losses are included in the consolidated results of operations for the periods presented.

### (g) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Equipment purchased under capital lease is stated at the present value of minimum lease payments at the inception of the lease, less accumulated depreciation. The Company provides for depreciation of equipment using the straight-line method over the shorter of estimated useful lives of up to four years or the lease term.

Recurring maintenance on property and equipment is expensed as incurred.

Any gain or loss on retirements and disposals are included in the results of operations.

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Euroweb International Corp.

Notes to Interim Unaudited Restated Consolidated Financial Statements

### (h) Goodwill and Intangibles

On January 1, 2002 the Company adopted Statement of Financial Accounting Standard No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which establishes new accounting and reporting standards for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17. Goodwill and intangible assets that have indefinite useful lives are no longer amortized but rather are tested at least annually for impairment. Intangible assets that have finite useful lives (whether or not acquired in a business combination) will continue to be amortized over their estimated useful lives, which are no longer limited to a maximum of 40 years. The adoption of SFAS 142 has eliminated the goodwill charge in 2002. During 2002 and 2003, the Company performed the required SFAS No. 142 impairment test, with respect to goodwill. The first step of this test requires the Company to compare the carrying value of any reporting unit that has goodwill to the estimated fair value of the reporting unit. When the current fair value is less than the carrying value, the Company performs the second step of the impairment test. This second



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step requires the Company to measure the excess of the recorded goodwill over the current value of the goodwill by performing an exercise similar to a purchase price allocation, and to record any excess as an impairment.

### (i) Stock-Based compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation an interpretation of APB Opinion No. 25" issued in March 2000, to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123") established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

Under the accounting provisions of SFAS No. 123, the Company's net loss and net loss per share would have been reduced to the pro forma amounts indicated below:

	March 31,	
	2004	2003
	-----	-----
Net loss:		
Net profit (loss) as reported	\$ 40,860	\$(194,780)
Additional FAS 123 compensation expense	(26,293)	-
Pro forma net profit (loss)	14,567	(194,780)
Basic and diluted income (loss) per share:		
As reported	\$ 0.01	\$(0.04)
Pro forma	0.00	(0.04)

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Euroweb International Corp.

Notes to Interim Unaudited Restated Consolidated Financial Statements

### 3. Investment in Securities

The Company held investments in United States Treasury Notes with a face value of \$11,464,000, which matured on February 15, 2004.

### 4. Related party loan

Freestart Kereskedelmi és Szolgáltató Kft. (Freestart), a wholly-owned subsidiary of Euroweb Hungary Rt., has a loan from PanTel of HUF 245,000,000 (approximately \$1.225 million) plus 13% annual interest.

Pursuant to the Loan Agreement, Freestart is obligated to repay in full the Loan with interest, paying principal in five equal semi-annual instalments on December 1, 2004, June 30, 2005, December 31, 2005, June 30, 2006 and December 31, 2006 and paying interest semi-annually on June 30, 2004, December 1, 2004, June 30, 2005, December 31, 2005, June 30, 2006 and December 31, 2006

### 5. Stockholders' Equity

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During the three months ended March 31, 2004, the Company did not grant any options or warrants, nor were any exercised. Upon the exercise of an outstanding warrant or option granted prior to August 30, 2001, each warrant/option holder will receive 1/5 of a share, due to the reverse stock split effected on August 30, 2001.

### 6. Commitments and Contingencies

#### (a) Employment Agreements

The Company entered into a six-year agreement with its Chief Executive Officer and Chairman of the Board, Csaba Toro which commenced January 1, 2000, and provided for an annual compensation of \$96,000. The agreement was amended in 2004. The amended agreement provides for an annual salary of \$150,000 and a bonus of up to \$100,000 (guaranteed minimum of \$50,000) in 2004, and an annual salary of \$200,000 and a bonus of up to \$150,000 in 2005.

#### (b) Lease agreements

The Company's subsidiaries have entered into various capital leases for vehicles and internet equipment, as well as non-cancelable agreements for office premises.

#### (c) 20 years' usage rights

Euroweb Romania has provided an Indefeasible Right of Use for transmission capacity on 12 pairs of fiber over a period of 20 years. The construction was finished in April 2003. For the duration of the agreement, Euroweb Romania is obliged to use all reasonable endeavours to ensure the Cable System is maintained in efficient working order and in accordance with industry standards.

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Euroweb International Corp.

Notes to Interim Unaudited Restated Consolidated Financial Statements

#### (d) Elender Rt. acquisition

On February 23, 2004, the Company signed a Share Purchase Agreement ("SPA") in connection with its acquisition of all of the outstanding shares of Elender Business Communications Ltd. ("Elender"), an ISP in Hungary. The purchase price consists of USD 6,500,000 in cash and 677,201 of the Company's common shares. The number of common shares may be reduced if certain liabilities of Elender (at Closing) exceed amounts specified in the SPA. If there needs to be a reduction in the number of common shares, for calculation purposes, one share is assigned a value of \$4.43 in the SPA. The excess by which certain liabilities of Elender (at Closing) exceed amounts specified in the SPA, divided by \$4.43 will result in the number of common shares that will be deducted from the 677,201. The Closing of this acquisition is subject to various conditions being fulfilled, including the approval of the Hungarian Anti-Monopoly Office. To date, the Approval of the Hungarian Anti-Monopoly Office has been received, but certain other conditions are still being finalized.

#### (e) Euroweb Hungary Rt. acquisition

In February 2004, the remaining 51% of Euroweb Hungary Rt. was purchased from Pantel Rt. The consideration paid by the Company for the 51% interest consisted of EUR 1,650,000 (USD 2,105,000) in cash, guarantees for amounts owed to Pantel Rt. by a subsidiary of Euroweb Hungary Rt., and a guarantee that Euroweb Hungary Rt. will purchase at least HUF 600 million (approximately \$3 million) worth of services from Pantel Rt. in each of 2004-2006.

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### (f) Legal Proceedings

The Company is a member of ICANN (Internet Corporation for Assigned Names and Numbers), which is the association of domain registrations worldwide. The Company, as a representative of ICANN in Slovakia, started to provide registration and administration of second level domains for organizations located in the Slovak Republic in January 2003 (total revenues in 2003 approximately \$250,000). Due to the fact that the Company is the only provider of such services in Slovakia, the Association of Internet Providers in Slovakia ("API") and the Association of Webhosting Providers claim that the Company has a monopoly and is abusing this dominant position and started legal proceedings against the Company with the Slovak Antimonopoly Office. The Antimonopoly office agreed that certain parts of the "General terms of domain registrations" can be considered as abusing the dominant position and requested the Company to change certain items in the registration system, and imposed two minor penalties. The initial decision of the Anti-Monopoly Office was upheld upon appeal.

However, API started a new legal procedure relating to the deadline for registering in order to migrate to the new domain registration system. Initially Euroweb Slovakia set a deadline of early 2003 for registration, but extended this deadline to November 2003 due to the lack of registrants. API claims that this was unfair to early registrants as they had to pay six or seven months of additional fees than the registrants who registered in November 2003. Management believes that it acted in accordance with the requirements of the API and the whole internet community and does not believe that any penalties will arise in respect of this claim.

There are no other known significant legal procedures that have been filed and are outstanding against the Company.

### 7. Related Party Transactions

The provision of international/domestic leased line and VOIP services are being provided in conjunction with Pantel Telecommunication Rt., an entity which is majority owned and controlled by KPN Telecom B.V. (which also owned a majority interest in the Company as at March 31, 2004). In the first quarter of 2004 and fiscal 2003, Pantel Telecommunication Rt. Hungary was the most significant trading partner of the Company with approximately 66% of the 2003 annual revenues of Euroweb Romania (translating into 36% of the consolidated revenues of the Company) were derived from providing services to Pantel.

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Euroweb International Corp.

Notes to Interim Unaudited Restated Consolidated Financial Statements

### 8. Subsequent events

On April 28, 2004, the Company granted 125,000 options to the Chief Executive Officer and an additional 240,000 options to seven employees and consultants of the Company. The exercise price of the options (\$4.78) is equal to the market price on the date the grants were made. The options vest over a period of between 3-4 years. As the Company has opted to follow APB 25 with respect to accounting for grants made to employees, the company will recognize total compensation charges of approximately \$162,000, which will be expensed over the vesting period.

### 9. Restatement of consolidated financial statements

Under accounting principles generally accepted in the United States of America ("US GAAP"), FASB Statement No. 141, Business Combinations, require's transfers

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of net assets or exchanges of shares between entities under common control to be accounted for by the receiving entity at carryover or the predecessor basis of the transferring entity. Any excess of purchase consideration over book value has to be recorded as a capital transaction or deemed distribution resulting in a deduction from retained earnings rather than the creation of goodwill, regardless of whether the transaction was valued at fair market value and carried out at arm's length.

Pantel, Euroweb International Corp., and KPN (as majority shareholder of both Pantel and Euroweb International Corp. at the time of the acquisition) took the following steps to ensure the transaction was concluded at arm's length and for a fair market price:

- o the two KPN Board members that are common to Euroweb were not involved in the transaction as they stepped back from the decision making process: the transaction was reviewed and approved by an independent committee consisting solely of the two independent Board members with the assistance of Csaba Toro, CEO and Chairman of the Board, as instructed by this committee.
- o an independent accounting firm was commissioned to prepare a valuation of the 51% shareholding which formed the basis of the transaction price.
- o legal advice was sought throughout the process on measures to ensure that KPN or its appointed Board members were not involved in the transaction from the Company's side.

However, both Pantel and Euroweb are still deemed to be entities under the common control of KPN for accounting purposes and therefore the transaction is required to be booked in the manner described above.

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### ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Operations

##### Overview

The Company owns and operates Internet Service Providers in the Czech Republic, Hungary, Romania and Slovakia through its subsidiaries Euroweb Czech Republic spol. s.r.o. ("Euroweb Czech"), Euroweb Hungary Rt. ("Euroweb Hungary"), Euroweb Slovakia a.s. ("Euroweb Slovakia") and Euroweb Romania S.A. ("Euroweb Romania"). The Company operates in one industry segment, providing Internet access and additional value added services to business customers..

The revenues come from the following four sources:

- (1) Internet Service Provider (Internet access, Content and Web services, Other services);
- (2) International/domestic leased line, Internet Protocol data services;
- (3) Voice over Internet Protocol services; and
- (4) Facilities (sale, rent and maintenance of dark fiber between the Hungarian border and the Romanian City of Timisoara).

For the services in point (2) and (3), the main customer of the Company in 2003 and the first quarter of 2004 was Pantel Telecommunication Rt, Hungary, a related party.

Related party transactions - Pantel Telecommunications Rt.

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General: The largest customer of the Company since early 2001 has been Pantel Telecommunication Rt, a Hungary-based alternative telecommunications provider. Pantel operates within the region and has become a significant trading partner for Euroweb Romania through the provision of direct fibre cable connection which enables companies to transmit data to a variety of destinations by utilizing the international connections of Pantel.

Due to the fact that the significant revenue of the Company derives from the international/domestic leased line and Voice over Internet Protocol services, a few of the Company's representatives have moved to the premises of Pantel Rt. in order to improve co-operation on international projects.

After the acquisition of Euroweb Hungary in 2004, the balance and volume of transactions with Pantel has changed significantly. First, the net receivable position in the past (related party receivable less related party liabilities) has changed to a net liability position through the large trade and loan liability position of Euroweb Hungary towards Pantel. Second, sales dependency on Pantel (i.e. percent of consolidated sales derived from Pantel) will decrease as Euroweb Hungary has insignificant sales to Pantel. Third, dependency on Pantel as the main supplier of the Company will increase as Pantel is also the main supplier of Euroweb Hungary.

Transactions: Both Euroweb Hungary and Euroweb Romania have engaged in transactions with Pantel:

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(a) Pantel receives revenue from the provision of the following services to subsidiaries of Euroweb International Corp.:

- Internet and related services
- National and international leased and telephone lines
- VOIP services
- Consulting services
- Interest on loan

The total amount of these services were USD \$1,311,848 (2003: \$1,206,289) during the three month period ended March 31, 2004 of which \$60,494 is interest expense and consulting fee, the remaining balance is telecom related.

(b) Euroweb International and its subsidiaries received revenue from the provision of the following services to Pantel:

- Cost of international leased lines and local telephone lines in Slovakia and Romania
- International/national data and voice over internet protocol services for Pantel
- Internet and related services
- Consulting services
- Commission

Total value of these services were approximately USD \$1,490,767 in the three month period ended March 31, 2004 (2003: \$1,218,653).

In the first 3 months of 2004, direct sales to Pantel were 23% of total consolidated revenue, but Euroweb Romania's dependency on Pantel is even greater than this figure suggests. Some third party sales involve Pantel as the subcontractor/service provider for the international/domestic lines (hence the revenues from Pantel are lower than the amounts paid to Pantel), and some third party customers are also clients of Pantel outside of Romania (i.e. their relationship with Pantel is stronger than their relationship with Euroweb

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Romania).

Effective dependency on Pantel - taking into account direct and Pantel-related sales - represents approximately 35% of total consolidated revenues of the Company and approximately 80-90% of total sales of Euroweb Romania. There is no such dependency in the case of Euroweb Czech, Euroweb Hungary or Euroweb Slovakia.

Pricing: Agreements are made at market prices or a split of the margin based on the financial investment into the specific services by each of the parties. Euroweb International Corporation always considers alternative suppliers for each individual project.

### Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). This preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. US GAAP provides the framework from which to make these estimates, assumption and disclosures. The Company chooses accounting policies within US GAAP that management believes are appropriate to accurately and fairly report the Company's operating results and financial position in a consistent manner. Management regularly assesses these

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policies in light of current and forecasted economic conditions. The Company's accounting policies are stated in Note 1 to the Consolidated Financial Statements. The Company believes the following accounting policies are critical to understanding the results of operations and the effect of the more significant judgments and estimates used in the preparation of the consolidated financial statements:

Revenue Recognition Policies -- Revenues from services are recognized in the month in which the services are provided. Invoices for traditional ISP, International leased line and IP Data services are generally issued at the beginning of the month except where local legislation prohibits such treatment. VOIP traffic is measured during the month and invoiced at the end of the month. Billed revenues for which the services are to be provided in the future, are not disclosed as revenues in the reporting period, but are accrued and shown as deferred revenue.

Accounts Receivable - Allowance for Doubtful Accounts -- The Company regularly reviews the valuation of accounts receivable. The allowance for doubtful accounts is estimated based on historical experience and future expectations of conditions that might impact the collectibility of accounts.

Property Plant & Equipment Recovery -- Changes in technology or changes in the Company's intended use of these assets may cause the estimated period of use or the value of these assets to change. These assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Estimates and assumptions used in both setting depreciable lives and reviewing recoverability require both judgement and estimation by management. Impairment is deemed to have occurred if projected undiscounted cash flows related to the asset are less than its carrying value. If impairment is deemed to have occurred, the carrying values of the assets are written down, through a charge against earnings, to their fair value.

Intangibles Recovery - Intangibles consist mostly of goodwill. Goodwill

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represented on the balance sheet reflects the unamortized difference between the purchase price and fair value of businesses acquired. As of January 1, 2002 the Company adopted SFAS 142 which specifies that goodwill no longer be amortized on a systematic basis, but should be subject to at least annual impairment tests. SFAS also prescribes some transitional provisions which have been completed by June 30, 2002.

### Acquisitions

On February 12, 2004, the Company entered into a Share Purchase Agreement with PanTel Tavkozlesi es Kommunikacios rt. ("Pantel"), a Hungarian corporation, to acquire Pantel's 51% interest in Euroweb Hungary Rt., a Hungarian corporation ("Euroweb Hungary") that provides Internet service and is based in Budapest, Hungary. The Company previously owned 49% of Euroweb Hungary and, as a result of this acquisition, Euroweb Hungary will become a wholly-owned subsidiary of the Company. The purchase price to be paid by the Company for Pantel's interest in Euroweb Hungary is EURO 1,650,000 (USD 2,105,000). The acquisition was funded from cash that the Company had previously raised.

On February 23, the Company signed a Share Purchase Agreement in connection with its acquisition of all of the outstanding shares of Elender Business Communications Ltd., a leading ISP in Hungary. The purchase price consists of USD 6,500,000 in cash and 677,201 of the Company's common shares. The number of common shares may be reduced if certain liabilities of Elender (at Closing) exceed amounts specified in the SPA. If there needs to be a reduction in the number of common shares, for calculation purposes, one share is assigned a value of \$4.43 in the SPA. The excess by which certain liabilities of Elender (at Closing) exceed amounts specified in the SPA, divided by \$4.43 will result in the number of common shares that will be deducted from the 677,201. The closing of this acquisition is subject to various conditions being fulfilled, including the approval of the Hungarian Anti-Monopoly Office. To date, the

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Approval of the Hungarian Anti-Monopoly Office has been received, but certain other conditions are still being finalized.

### Results of Operations

Three-month Period Ended March 31, 2004 Compared to Three-month Period Ended March 31, 2003

The increase in revenues was mainly due to the increased profitability in Slovakia in connection with domain name sales, successful sale of fiber and other non-recurring items in Romania as well as positive, profit generated by the Hungarian operation.

### Revenues

Three months ended March 31,	2004	2003
Total Revenues	6,413,354	5,720,994

The Company experienced a 12% revenue growth in the three months ended March 31, 2004 compared to three months ended March 31, 2003.

The following table summarize the main changes in revenue for each of the Company's business segments compared to the previous year with respect to the revenue structure:

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Revenue / services	2004	2003	% change
ISP activity	\$3,506,351	\$3,307,200	6%
Int./dom. leased line *(a)	\$1,401,186	\$1,431,424	(2%)
VOIP (b)	\$1,449,147	\$982,370	47%
Facilities (a)	\$56,670	0	N/A
<b>Total</b>	<b>\$6,413,354</b>	<b>\$5,720,994</b>	<b>12%</b>

\* - primarily Pantel or Pantel related sales,

(a) substantially all generated by the Romanian subsidiary

(b) generated by the Hungarian and Romanian subsidiary. 100% of Romania sales is Pantel direct sales (\$852,000 in 2004)

Overall, each revenue category has experienced an increase in 2004 except for the International/domestic leased line segment, when compared to the previous year, while facilities became a new revenue source in 2003 after the installation of the fibre optic cables in Romania in May 2003.

The following table summarize the main changes in revenue compared to the previous year with respect to the geographical source of revenue:

Revenue/country	Slovakia	Czech Republic	Hungary	Romania
Revenues in 2004	\$1,019,228	\$251,099	2,489,193	\$2,653,83
Revenues in 2003	\$783,316	\$322,323	2,379,098	\$2,236,25
Change in USD	30%	(22%)	4%	19%

ISP business has decreased 30% in local currency in Czech Republic due to the smaller number of customer base comparing previous years, while it has increased in Slovakia by 8,7% exclusively due to domain name registration revenue. Overall ISP revenue improved due to the weakness of the US Dollar relative to the Czeck

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Koruna and Slovak Koruna. ISP business in Romania and Hungary slightly increased or stagnated compared to the same period in 2003.

Revenue from international leased lines and IP data services (mostly Euroweb Romania) has stagnated due to higher competition, falling margins and price pressure.

Romanian VOIP business in the three months ended March 31, 2004 was \$852,000 compared to \$572,000 in the three months ended March 31, 2003. Within the same period, the margin on this service has fallen.

### Cost of revenues

The following table summarizes the Company's cost of revenues for the three months ended March 31, 2004 and 2003:



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Three months ended March 31,	2004	2003
	-----	-----
Total cost of revenues	4,055,061	3,632,571

Cost of revenues comprise mostly telecommunication expenses.

Cost of revenues were \$4,055,061 for the three months ended March 31, 2004 in comparison to \$3,632,571 for the three months ended March 31, 2003. Gross margin has remained constant: 36.5% in 2003 and 36.7% in 2004.

### Operating expenses (excluding depreciation and amortization)

The following table summarizes the Company's operating expenses for the three months ended March 31, 2004 and 2003:

Three months ended March 31,	2004	2003
	-----	-----
Operating expenses (excluding depreciation and amortization)	2,003,610	1,921,145

Overall operating expenses (excluding depreciation, amortization) increased by 4% mostly due to the exchange rate movement of USD in Slovakia, Czech and Hungary.

### Depreciation and amortization

The following table summarizes the Company's depreciation and amortization for the three months ended March 31, 2004 and 2003:

Three months ended March 31,	2004	2003
	-----	-----
Total depreciation and amortization	290,081	429,110

Depreciation has decreased by \$139,029 in the three months ended March 31, 2004 compared to the same period in 2003 due to the strict control of capital expenditures on equipment in late 2003 and the first quarter of 2004.

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### Net interest income

The following table summarizes the Company's net interest income for the three months ended March 31, 2004 and 2003:

Three months ended March 31,	2004	2003
	-----	-----
Net interest expense	7,841	67,052

The decrease in net interest income is due to the fact that (i) less interest-generating funds were available in this period than in the same period of the previous year, (ii) the effective interest rate on these investments has decreased over the periods in question (iii) securities expired on February 15, 2004, and there was no other investment made due to cash needs of further acquisitions in 2004 (iv) Euroweb Hungary recorded interest expenses on its related party loans.

### Liquidity and Capital Resources

The Company's cash, cash equivalents and marketable securities were approximately \$12,050,485 as of March 31, 2004, a decrease of approximately \$2.4

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million from the end of fiscal year 2003. The decrease was influenced by the acquisition of Euroweb Rt. (approximately \$ 2.1 million) and partial repayments of related party trade liabilities.

The Company has entered into share purchase agreements to acquire 100% of Elender Rt in the first quarter of 2004. This agreement will significantly influence the liquidity position of the Company, which can be separated into three parts: (1) cash portion of purchase price will be \$6,500,000 (2) short and long term loan liabilities of approximately \$ 2,900,000 which cannot be covered from Elender Rt.'s working capital and (3) funding the working capital shortage (approximately \$300,000) of Elender Rt. The closing of the Elender purchase remains subject to the satisfaction of customary terms and conditions in the SPA and the approval of the Hungarian Competition Office.

After the acquisitions, the consolidated working capital (without deferred revenue) is estimated to be more than \$2,000,000 indicating that the Company will be able to meet its working capital and capital expenditure needs over the next twelve months. The Company's financial situation is stable, as current assets cover all current trade, loan and other liabilities of the company.

Management believes, although it cannot provide guarantees, that the synergy effects and potential business opportunities of the merged Hungarian entities will significantly improve cash generating ability and will reduce the loans and trade liabilities of the Company in the coming few years. Management also believes that with its existing cash, cash equivalents, marketable securities and internally generated funds, there will be sufficient funds to meet the Company's currently projected working capital requirements and other cash requirements until at least the next 12 months taking into account the new acquisitions.

In the event the Company makes future acquisitions in Central and Eastern Europe, the excess cash on hand or additional fund raising may be used to finance such future acquisitions.

### Inflation and Foreign Currency

The Company maintains its books in local currencies, including the Czech koruna for Euroweb Czech Republic, the Hungarian Forint for Euroweb Hungary, and the Slovak koruna for Euroweb Slovakia. However, the U.S. dollar is the functional currency of Euroweb Romania.

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The Slovakian Koruna has strengthened by 16%, the Czech Korona has strengthened against the U.S. dollar by approximately 10%, while the Hungarian Forint has strengthen against U.S. dollar by approximately 8% between the three months of 2004 and 2003. The impact of this is reflected in the exchange rates used in the three months of 2004 and the three months of 2003.

### Effect of Recent Accounting Pronouncements

In December 2003, the Securities and Exchanges Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition". SAB 104 revises or rescinds certain SAB guidance in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations relating to revenue recognition. This bulletin is effective immediately. The Company believes that it's current revenue recognition policies comply with SAB 104.

In April 2003, the Financial Accounting Standards Board ("FASB") announced that it would mandate the fair value method of accounting for all stock-based awards. The FASB issued an Exposure Draft of a proposed statement on March 31,

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2004, which is subject to a comment period. If enacted, the change in accounting is not expected to be effective for the Company until fiscal 2005. Until a final statement is issued, the Company cannot estimate the effect that this change in accounting would have on its consolidated statement of operations.

### Forward-Looking Statements

When used in this Form 10-QSB, in other filings by the Company with the SEC, in the Company's press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer of the Company, the words or phrases "would be," "will allow," "intends to," "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.

The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, are based on certain assumptions and expectations which may or may not be valid or actually occur, and which involve various risks and uncertainties. In addition, sales and other revenues may not commence and/or continue as anticipated due to delays or otherwise. As a result, the Company's actual results for future periods could differ materially from those anticipated or projected.

Unless otherwise required by applicable law, the Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement. The Company advises you to review any additional disclosures made in its 10-QSB, 8-K, and 10-KSB reports filed with the Commission

### Item 3. Controls and Procedures

As of March 31, 2004, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and

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the Chief Accounting Officer, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2004. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2004.

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## PART II

### Item 1. Legal Proceedings

The Company is not a party to any material legal proceedings as of the date of this report except for the following:

The Company is a member of ICANN (Internet Corporation for Assigned Names and Numbers), which is the association of domain registrations worldwide. The Company, as a representative of ICANN in Slovakia, started to provide registration and administration of second level domains for organizations located in the Slovak Republic in January 2003 (total revenues in 2003 approximately \$250,000). Due to the fact that the Company is the only provider of such services in Slovakia, the Association of Internet Providers in Slovakia

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("API") and the Association of Webhosting Providers claim that the Company has a monopoly and is abusing this dominant position and started legal proceedings against the Company with the Slovak Antimonopoly Office. The Antimonopoly office agreed that certain parts of the "General terms of domain registrations" can be considered as abusing the dominant position and requested the Company to change certain items in the registration system, and imposed two minor penalties. The initial decision of the Anti-Monopoly Office was upheld upon appeal.

However, API started a new legal procedure relating to the deadline for registering in order to migrate to the new domain registration system. Initially Euroweb Slovakia set a deadline of early 2003 for registration, but extended this deadline to November 2003 due to the lack of registrants. API claims that this was unfair to early registrants as they had to pay six or seven months of additional fees than the registrants who registered in November 2003. Management believes that it acted in accordance with the requirements of the API and the whole internet community and does not believe that any penalties will arise in respect of this claim.

### Item 2. Changes in Securities

On April 28, 2004, the Company granted 125,000 options to the Chief Executive Officer and an additional 240,000 options to seven employees and consultants of the Company. The exercise price of the options (\$4.78) is equal to the market price on the date the grants were made. The options vest over a period of between 3-4 years.

The Company issued such securities in reliance on the safe harbor and exemptions from registration provided under Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales or issuances were made to a limited number of persons, all of whom were accredited investors, business associates of the Company or executive officers of the Company, and transfer was restricted by the Company in accordance with the requirements of such act. In addition to representations by the above-referenced persons, the Company has made independent determinations that all of the investors were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, these investors were provided with access to our Securities and Exchange Commission filings.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company's security holders through the solicitation of proxies or otherwise, during the three months of 2003.

### ITEM 5. OTHER INFORMATION

None

### item 6. EXHIBITS AND REPORTS ON FORM 8-K

#### A. Exhibits (numbers below reference Regulation S-B, Item 601)

- (3) (a) Certificate of Incorporation filed November 9, 1992(1)
- (b) Amendment to Certificate of Incorporation filed July 9, 19972
- (c) Restated Certificate of Incorporation filed May 29, 2003
- (d) By-laws(2)

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1 Exhibits are incorporated by reference to Registrant's Registration Statement on Form SB-2 dated May 12, 1993 (Registration No. 33-62672-NY, as amended)  
2 Filed with Form 10-QSB for quarter ended June 30, 1998.

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- (31) (a) Certification of the Chief Executive Officer of Euroweb International Corp. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31) (b) Certification of the Chief Accounting Officer of Euroweb International Corp. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32) (a) Certification of the Chief Executive Officer of Euroweb International Corp. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (32) (b) Certification of the Chief Accounting Officer of Euroweb International Corp. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 20th day of May 2004.

EUROWEB INTERNATIONAL CORP.

By /s/Csaba Toro

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Csaba Toro  
Chairman of the Board