EUROWEB INTERNATIONAL CORP
Form 8-K
May 18, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of the Securities and Exchange Act of 1934

Date of Report (Date of earliest reported): February 12, 2004

EUROWEB INTERNATIONAL CORP.
(Exact name of registrant as specified in charter)

Delaware	1-1200	13-3696015
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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

Registrant's telephone number, including area code: +36-1-8897101

INFORMATION INCLUDED IN REPORT

Euroweb International Corp. filed a Form 8-K dated February 27, 2004 with regard to the acquisition of the 51% of the issued and outstanding shares of Euroweb Hungary Rt. without the required financial information. Accordingly, Euroweb International Corp. is filing this Form 8-K/A to include that financial information.

ITEM 2. Acquisition or Disposition of Assets

On February 12, 2004, Euroweb International Corp., 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. Euroweb International Corp. currently owns 49% of Euroweb Hungary and, as a result of this acquisition, Euroweb Hungary will become a wholly-owned subsidiary. The purchase price of EURO 1,650,000 (approximately USD 2,105,000) was funded from cash that Euroweb International Corp. had previously raised.

As part of the acquisition, Euroweb International Corp. has guaranteed the purchase of HUF 600 million (approximately USD 3 million) of services (annually from 2004-2006) by Euroweb Hungary and its subsidiaries from Pantel. In 2003, Euroweb Hungary Rt. and subsidiaries (Freestart Kft. and Neophone Rt.) purchased in excess of HUF 700 million (approximately USD 3.5 million) in services from Pantel. In the event that Euroweb Hungary and its subsidiaries do not satisfy the Annual Commitment, then Euroweb Hungery is required to pay to Pantel a penalty equal to 25% of the Annual Commitment less any services purchased.

Euroweb International Corp. has also guaranteed a loan of HUF 245,000,000 plus interest payable provided by Pantel to a Euroweb Hungary Rt. subsidiary (Freestart Kft.) as well as a guarantee of HUF 93,000,000 related to trade payables.

ITEM 7. Financial Statements and Exhibits

(a) Financial Statements of businesses acquired.

Audited Financial Statements of Euroweb Hungary Rt. for the year ended December 31, 2003 (attached hereto beginning on page F-1 following the signature page)

(b) Proforma Financial Information

Not Applicable

(c) Exhibits.

Exhibit No.	Description
10.1	Shares Purchase Agreement between PanTel Tavkozlesi es Kommunikacios rt., a Hungarian company, and Euroweb International Corp., a Delaware corporation (filed as an exhibit to Form 8-K Current Report dated February 27, 2004)
10.2	Guaranty by Euroweb International Corp., a Delaware corporation, in favor of PanTel Tavkozlesi es Kommunikacios rt., a Hungarian company (filed as an exhibit to Form 8-K Current Report dated February 27, 2004)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EUROWEB INTERNATIONAL CORPORATION
(Registrant)

By: /s/ CSABA TORO

Name: Csaba Toro
Title: Chief Executive Officer

Date: May 17, 2004
Budapest, Hungary

EUROWEB HUNGARY RT.

Consolidated Financial Statements

December 31, 2003

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Independent Auditors' Report

The Board of Directors and Stockholders
Euroweb Hungary Rt.

We have audited the accompanying consolidated balance sheet of Euroweb Hungary Rt. and subsidiaries as of December 31, 2003, and the related consolidated statements of operations and comprehensive loss and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Euroweb Hungary Rt. and subsidiaries as of December 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of

America.

KPMG Hungaria Kft.
Budapest, Hungary
May 7, 2004

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Euroweb Hungary Rt. and its subsidiaries
Consolidated Balance Sheet
December 31, 2003
In HUF'000

	2003
ASSETS	
Current assets:	
Cash and cash equivalents	229,124
Trade accounts receivable, (net of allowance for doubtful receivables of 67,269)	176,582
Related party receivables	14,597
Prepaid advertising	43,871
Accrued revenues	59,552
Other current assets	50,685
Total current assets	574,411
Property and equipment	182,833
Total assets	757,244
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Trade accounts payable	74,069
Related party payables	213,501
Related party loan payable	49,000
Other current liabilities and provisions	124,978
Accrued expenses	31,875
Deferred revenues	93,626
Total current liabilities	587,049
Non-current portion of related party loan	196,000
Non-current portion of lease obligations	38,728
Total liabilities	821,777
Stockholders' equity	
Common stock, HUF 100,000 par value - (760 authorized, issued and paid ordinary shares, HUF 100,000 par value each)	76,000
Additional paid-in capital	93,547
Accumulated deficit	(234,080)
Total stockholders' equity	(64,533)

Commitments and contingencies	
Total liabilities and stockholders' equity	757,244

See accompanying notes to consolidated financial statements.

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Euroweb Hungary Rt. and its subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2003
In HUF'000

	2003
Revenues	
Third party revenues	1,881,540
Related party revenues	23,897
Total Revenues	1,905,437
Cost of revenues	
Third party cost of revenues	302,711
Related party cost of revenues	698,001
Total Cost of revenues	1,000,712
Gross profit	904,725
Operating expenses	
Compensation and related costs	287,471
Consulting, professional and directors fees	189,163
Other selling, general and administrative expenses	310,082
Depreciation and amortization	188,120
Total operating expenses	974,836
Loss from operations	(70,111)
Net interest expense and foreign exchange differences	(2,487)
Gains from sale of subsidiaries	24,518
Loss before income taxes	(48,080)
Income taxes	-
Net loss	(48,080)

See accompanying notes to consolidated financial statements.

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Euroweb Hungary Rt. and its subsidiaries
Consolidated Statements of stockholders' equity
Years Ended December 31, 2003
In HUF'000

	Common Stock Shares*	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Stockho Equit
Balances, December 31, 2002	760	76,000	93,547	(186,000)	(16,
Net loss for the period	-	-	-	(48,080)	(48,
Balances, December 31, 2003	760	76,000	93,547	(234,080)	(64,

* number of shares

Euroweb Hungary Rt. and its subsidiaries
Consolidated Statements of Cash Flows
Year Ended December 31, 2003
In HUF'000

	2003
Cash flows from operating activities	
Net loss	(48,080)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation and amortization	188,120
Allowance of doubtful receivables	20,815
Changes in assets and liabilities	
Accounts receivable	(9,896)
Prepaid and other assets	66,039
Accounts payable, other current liabilities and accrued expenses	27,031
Deferred revenue	2,034
Net cash provided by operating activities	246,063
Cash flows from investing activities:	
Acquisition of property and equipment	(85,078)
Net cash used in investing activities	(85,078)
Cash flows from financing activities:	
Principal payment under capital lease obligations	(59,649)
Net cash used in financing activities	(59,649)
Net increase in cash and cash equivalents	

	101,336
Cash and cash equivalents, beginning of year	127,788
Cash and cash equivalents, end of year	229,124
Supplementary disclosure:	
Interest paid	24,281
Income taxes paid	0
New capital leases	62,611

See accompanying notes to consolidated financial statements.

Euroweb Hungary Rt. and its subsidiaries
Notes to Consolidated Financial Statements
Year Ended December 31, 2003

1. Organization and Business

On January 2, 1997, Euroweb International Corporation acquired all of the outstanding stock of three Hungarian Internet Service Providers and merged these companies into a new Hungarian entity, Euroweb Hungary Rt. ("the Company"). On November 22, 1998, Euroweb International Corp. sold 51% of the outstanding shares of Euroweb Hungary Rt. to Pantel Rt.

On March 2002, Euroweb Hungary Rt. acquired 100% of Freestart Kft., a dial-up focused Internet Service Provider for USD 9,000.

Euroweb Hungary Rt. has a 100% interest in Neophone Rt, which did not perform business activity in 2003.

The Company operates in one industry and geographic segment, providing Internet access and additional value added services to mainly business customers. Euroweb Hungary Rt. used its infrastructure to introduce voice over internet protocol services at the end of 2001 under the brand name of Neophone. The majority of revenues from this service derive from phone cards sold to individuals, while these services are also available over leased telephone lines to businesses. Euroweb Hungary Rt. also provides free-of charge dial-up services through its subsidiary Freestart Kft. Freestart Kft. is entitled to receive a certain proportion of the telecom revenues on the internet related telephone calls from the Hungarian telecommunication companies.

Details of subsidiaries of Euroweb Hungary Rt. as of the year-end date:

Subsidiaries	2003	
Prakticomp Kft.	sold	(a)
Inet Kft.	sold	(b)
Neophone Rt.	100%	
Freestart Kft.	100%	

(a) period 01/01-04/30 is included in the profit and loss statements in

2003
(b) period 01/01-05/31 is included in the profit and loss statements in 2003

The revenues come from the provision of Internet Services (Internet access, Content and Web services, Revenue sharing from Telecommunication Companies and Other services) and Voice over Internet Protocol services through pre-paid phone cards and leased lines. For these services, the primary and preferred supplier of the Company in 2003 was Pantel Rt.

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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 consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Use of estimates

The preparation of financial statements in conformity with US GAAP, 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.

(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 period in which the services are provided, either based on monthly traffic or on fixed monthly fees (leased lines). Revenue for other services, are recognized for the period, when the service is performed.

(e) Cost of revenues

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

(f) Foreign currency transactions

The Company considers the Hungarian Forint ("HUF") to be the functional currency of the Company and of its subsidiaries. As at December 31, 2003, 1 USD was HUF 207.91.

Foreign currency transactions are recorded at the exchange rate prevailing at the date of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Gains and losses on foreign currency transactions are included in the consolidated statement of operations.

(g) Cash and cash equivalents

Cash and cash equivalents include cash, cash at bank and short-term deposits of less than three months duration.

(h) 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.

(i) Impairment of long-lived assets

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(j) Business segment reporting

Management has determined that the Company operates in one industry segment, providing Internet access and additional value added services to business customers and individuals. Substantially all of the Company's revenues are derived from the provision of such services.

(k) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities, are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities, if any, are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Recent accounting pronouncements

On April 30, 2003, the FASB issued FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to address (1) decisions reached by the Derivatives Implementation Group, (2) developments in other Board projects that address financial instruments, and (3) implementation issues related to the definition of a derivative. The Company does not believe that FAS 149 will have any impact on its financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for contracts entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of non-public entities. The Company has adopted SFAS 150 and has concluded that there is no current impact on its consolidated financial statements.

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 its current revenue recognition policies comply with SAB 104.

3. Property and equipment

Property and equipment as at December 31, 2003 in HUF '000 were as follows:

	2003	Useful Life
Software and other intangible	134,583	3 years
Internet equipment	314,774	3 years
Vehicles	92,133	4-5 years
Other	200,531	3-5 years
Total	742,021	
Less accumulated depreciation	(559,188)	
	182,833	

Depreciation charged during 2003 was HUF 188,120,000.

	2003	Useful Life
Leased assets gross value	105,679	3-5 years
Less accumulated depreciation	(41,203)	
	64,476	

4. Income taxes

The difference between the total expected tax expense (benefit) and tax expense for the years ended December 31, 2003 is accounted for as follows:

	2003	
	Amount in HUF `000	%
Computed expected tax Benefit	(8,654)	(18.00)
Utilization of net operating loss not previously recognized	(10,718)	(22.29)
Change in valuation allowance	(21,061)	(43.80)
Change in tax rates	40,433	84.10%
Total Expense (Benefit)	-	0.00%

All pretax income/loss and related income tax expense/benefit is attributable to domestic operations.

Euroweb Hungary Rt. reported taxable income in 2003 and therefore utilized a portion of its tax loss carryforwards. Its two subsidiaries, Neophone Rt. and Freestart Kft. reported tax losses in 2003.

The change in the tax rates results from the fact that the corporate tax rate in Hungary was 18% for 2003 and prior years, but in 2003, the Hungarian parliament enacted a tax rate of 16% for 2004 and subsequent years. The net impact on the change in tax rates has no material impact on the financial statements as the Company has provided a full valuation allowance for deferred tax assets.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at December 31, 2003 are as follows:

	2003
	HUF `000
Deferred Tax Assets:	
Net Operating Loss Carryovers	300,205
Property and equipment, depreciation	687
Other current liabilities and provisions	15,194

Gross Deferred Tax Assets	316,086
Valuation Allowance	(316,086)
Net Deferred Tax Assets	-

The Company has unused net operating loss carryforwards at December 31, 2003 of approximately HUF 1.86 billion available to offset future taxable income. HUF 1.7 billion of this amount arose in the first three years of operations of the Company's subsidiaries (Freestart Kft. and Neophone Rt.) and under current Hungarian Tax Legislation, may be carried forward indefinitely. HUF 54 million expires in 2007 and the remaining amounts expire in 2008.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences at December 31, 2003.

5. Leases

Capital leases
The Company is committed under various capital leases, which expire over the next five years. The following is a schedule of future minimum capital lease payments (with initial or remaining lease terms in excess of one year) as of December 31, 2003 in HUF `000:

2004	86,408
2005	31,741
2006	5,031
2007	5,031
2008	1,258
Total minimum lease payments	129,469
Less interest costs	(16,336)
Present value of future mimimum lease payments	113,133
Less: current installments	(74,405)
Non-current portion of lease obligations	38,728

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The current portion of lease obligations are included in `Other current liabilities' on the Balance Sheet.

6. Related Party Loan payable

During 2002 PanTel Rt., a related party provided a loan of HUF 245,000,000 to Freestart Kft. The loan bears interest at a rate of 13%. The loan is repayable in five equal instalments from December 2004 semi-annually until the end of 2006.

7. Related party transactions

General: The largest supplier of the Company has been Pantel Rt., a Hungary-based alternative telecommunications provider, which was the majority owner of Euroweb Hungary Rt. in 2003. KPN Telecom B.V. has controlling interest over both Pantel Rt and Euroweb International Corporation.

Transactions:

(a) Pantel provides the following services and invoices to the Company in connection with:

- Internet bandwidth
- National leased and telephone lines within Hungary
- VOIP services
- Consulting services
- Interest on loan

The total amount of these costs invoiced by Pantel was HUF 763,503,000 during 2003 of which direct telecommunication cost was HUF 698,001,000.

(b) Euroweb Hungary Rt. and its subsidiaries provided the following services to Pantel:

- Internet and related services
- Consulting services

The total value of these services sold was approximately HUF 23,897,000 in 2003.

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.

In 2003, Euroweb Hungary Rt. has invoiced USD 19,303 (HUF 4,376,000) to Euroweb International. This was the re-invoicing of costs incurred in connection with Euroweb International and paid by Euroweb Hungary Rt.

There were no other significant related party transactions in 2003.

8. Commitments and Contingencies

(a) Lease agreements

The Company's subsidiaries have entered into various capital leases for vehicles and internet equipment, Refer to Note 5 (Leases).

(b) Legal Proceedings

The Directors are not aware of any other commitments or contingencies at December 31, 2003. The Company is not involved in any material litigation at December 31, 2003.

(c) Other commitments

On February 12, 2004, Euroweb International Corp. entered into a Share Purchase Agreement with a related party, PanTel Tavkozlesi es Kommunikacios Rt., Hungary ("Pantel"), to acquire Pantel's 51% interest in Euroweb Hungary Rt. Consideration consists of EUR 1,650,000 in cash and a guarantee that Euroweb Hungary Rt. will purchase at least HUF 600 million (approximately $3 million) worth of services from Pantel in each of 2004-2006, with a penalty of 25% of the amount by which purchases are less than the HUF 600 million in any year. Euroweb International Corp has also provided a guarantee for a loan obtained from Pantel by a subsidiary of Euroweb Hungary Rt. (HUF 245 million plus interest) as well as a guarantee relating to a trade payable by Euroweb Hungary Rt. to Pantel of HUF 93 million plus VAT.

9. Subsequent events

On April 13, 2004, the Company sold its 100% shareholding in Neophone Rt. (a non-operational subsidiary) for HUF 13,000,000. The terms of the sale are that the Company indemnifies the Buyer for any unaccrued costs, fines, penalties and lawsuits which relate to a period prior to the sale.