

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

EUROWEB INTERNATIONAL CORP
Form 10QSB
May 09, 2002

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, 2002

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

13-3696015

(State or other jurisdiction of
incorporation or organization)

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

445 Park Avenue, 15th Floor, New York, NY 10022

(Address of principal executive offices)

(212) 758-9870

Issuer's telephone 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 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

4,665,326

(Class)

(Outstanding at March 31, 2002)

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

EUROWEB INTERNATIONAL CORP.

INDEX

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

PART I. Financial Information

Item 1. Financial Statements

Consolidated balance sheets as of March 31, 2002 (unaudited) and December 31, 2001 (audited)	2
Consolidated statements of operations and comprehensive loss (unaudited) for the three months ended March 31, 2002 and 2001	3
Consolidated statements of stockholders' equity for the three months ended March 31, 2002 (unaudited) and twelve months ended December 31, 2001	4
Consolidated statements of cash flows (unaudited) for the three months ended March 31, 2002 and 2001	5
Notes to interim (unaudited) Consolidated Financial Statements	6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
--	----

PART II. Other Information 17

Signature 21

EUROWEB INTERNATIONAL CORP.
CONSOLIDATED BALANCE SHEETS

March 31, 2002

(Unaudited)

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,425,823
Investment in securities	13,449,254
Trade accounts receivable, net	844,329
Current portion of note receivable	180,027
Prepaid and other current assets	732,464

Total current assets	17,631,897
----------------------	------------

Note receivable, less current portion	317,739
Investment in affiliate	305,492
Property and equipment, net	1,427,863
Intangibles, net	4,310,038
Other non-current assets	15,536

Total assets	\$24,008,565
	=====

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Trade accounts payable	\$869,516
Current portion of acquisition indebtedness	180,000
Other current liabilities	629,705
Accrued expenses	413,996
Deferred revenue	167,356

Total current liabilities	2,260,573
Loan payable	96,476
Acquisition indebtedness, less current portion	180,000
Non-current portion of lease obligations	149,218

Total liabilities	2,686,267
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 4,665,326 shares	24,129
Additional paid-in capital	48,227,764
Accumulated deficit	(25,509,663)
Accumulated other comprehensive losses:	(304,520)
Treasury stock - 175,490 common shares, at cost	(1,115,412)

Total stockholders' equity	21,322,298
Commitments and contingencies	

Total liabilities and stockholders' equity	\$24,008,565 =====

See accompanying notes to consolidated financial statements.

2

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

	Three months ended March	
	2002	2001
	----	----
Revenues	\$ 3,150,580	\$ 1,2
Cost of revenues	1,956,838	6
	-----	---
Gross profit	1,193,742	6
Operating expenses		
Compensation and related costs	522,400	4
Consulting and professional fees	246,396	1
Other selling, general and administrative expenses	332,876	4
Depreciation and amortization	214,454	6
	-----	---

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Total operating expenses	1,316,126	1,7
Loss from operations	(122,384)	(1,08)
Net interest income	125,804	31
Equity in net income of affiliate	(188,050)	2
Loss from operations before income taxes and minority interest	(184,630)	(74)
Provision for income taxes	-	-
Net Loss	(184,630)	(74)
Other comprehensive (gain) loss	161,197	15
Comprehensive loss	\$ (345,827)	\$ (89)
Net Loss per share, basic and diluted	(.04)	
Weighted average number of shares outstanding, basic and diluted	4,771,804	23,6

See accompanying notes to consolidated financial statements

3

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

	Common Stock		Additional Paid-in	Accumulated	Accumulat Other Comprehen
	Shares*	Amount	Capital	Deficit	Gains(L
	-----	-----	-----	-----	-----
Balances, December 31, 2000	4,801,696	\$24,129	\$48,227,764	\$(19,742,020)	\$(14,01
	=====	=====	=====	=====	=====
Foreign currency translation gain	-	-	-	-	16,64
Unrealized gain on securities available for sale	-	-	-	-	26,43
Reclassification adjustment for gain included currently in net income	-	-	-	-	(172,38
Net loss for the period	-	-	-	(5,583,013)	
Treasury stock	(136,370)	-	-	-	
	-----	-----	-----	-----	-----
Balances, December 31, 2001	4,665,326	\$24,129	\$48,227,764	\$(25,325,033)	\$(143,32
	=====	=====	=====	=====	=====
Foreign currency translation loss	-	-	-	-	(3,32
Unrealized loss on securities available for sale	-	-	-	-	(131,43

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Reclassification adjustment for gain included currently in net income	-	-	-	-	(26,43)
Net loss for the period	-	-	-	(184,630)	
Treasury stock	-	-	-	-	
Balances, March 31, 2002	4,665,326	\$24,129	\$48,227,764	\$(25,509,663)	\$(304,52)

* restated to reflect 5 for 1 reverse stock split

See accompanying notes to consolidated financial statements

4

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

	Three Months ended March 31, 2002

Cash flows from operating activities:	
Net loss	\$(184,630)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	214,454
Amortization of discount on acquisition indebtedness	5,076
Equity in loss (income) of affiliate	188,050
Foreign currency loss	3,217
Realized gain on sale of securities	(47,970)
Unrealized interest income on securities	(74,023)
Changes in operating assets and liabilities net of effects of acquisitions:	
Accounts receivable	(42,893)
Prepaid and other assets	(133,980)
Accounts payable, other current liabilities and accrued expenses	101,084
Deferred revenue	(109,771)

Net cash used in operating activities	(81,386)
Cash flows from investing activities:	
Investment in securities	(13,506,666)
Maturity of securities	14,650,000
Repayments of notes receivable	60,506
Repayments of loan receivable	-
Acquisition of property and equipment, intangibles	(158,213)

Net cash provided by investing activities	1,045,627
Cash flows from financing activities:	
Payments to acquire treasury stock	-
Principal payments under capital lease obligations	(47,393)

Net cash used in financing activities	(47,393)
Effect of foreign exchange rate changes on cash	(3,328)

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Net increase (decrease) in cash and cash equivalents	913,520
Cash and cash equivalents, beginning of period	1,512,303

Cash and cash equivalents, end of period	\$2,425,823
	=====

See accompanying notes to consolidated financial statements.

5

Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

1. Organization and Business

EuroWeb International Corporation (the "Company") is a Delaware corporation which was organized on November 9, 1992, and was a development stage enterprise through December 31, 1993.

The Company owns and operates Internet service providers in the Czech Republic, Romania and Slovakia. The Company's consolidated statements of operations also include the equity in the net income of Euroweb Hungary Rt., in which the Company has a 49% ownership interest. The Company operates in one business segment.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-QSB and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. All adjustments which are, in the opinion of management, of a normal recurring nature and are necessary for a fair presentation of the interim financial statements, have been included. The results of operations for the periods ended March 31, 2002 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

(b) Principles of consolidation

The consolidated financial statements comprise the accounts of the Company and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated upon consolidation.

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

(c) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles, 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.

6

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Euroweb International Corp. Notes to Interim Unaudited Consolidated Financial Statements

(d) Revenue recognition

Revenues from services are recognized in the month in which the services are provided.

(e) Cost of revenues

Cost of revenues comprise principally of telecommunication expenses

(f) Cash and cash equivalents

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

(g) Investment in securities

Investments in marketable debt securities are classified as available-for-sale and are recorded at fair value with any unrealized holding gains or losses included as a component of other comprehensive income until realized.

(h) Investment in affiliate

The Company records as income its share of the earnings of Euroweb Hungary Rt. (a 49% held associate) net of goodwill amortization. Dividends are credited against the investment account when declared. The excess of the carrying value of the Company's investment over its equity in the fair value of the underlying net assets (goodwill) of approximately \$586,000 at the acquisition date was being amortized over three years until the end of December 2001. From 2002, no amortization of goodwill is accounted.

(i) 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 four years or the lease term.

Recurring maintenance on property and equipment is expensed as incurred.

When assets are retired or otherwise disposed of, the related costs and accumulated depreciation from the respective accounts and any gain or loss on disposals are included in the results of operations.

Euroweb International Corp. Notes to Interim Unaudited Consolidated Financial Statements

(j) Intangibles

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Intangibles consist of goodwill and customer lists. Goodwill results from business acquisitions and represents the excess of purchase price over the fair value of net assets acquired. Amortization was computed over the estimated future period of benefit (generally five years) on a straight-line basis until December 2001; no amortization of goodwill is accounted for from 2002. The Company assesses recoverability by determining whether the goodwill can be recovered through undiscounted future operating cash flows of the acquired operations. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using appropriate discount rates. Conditions which may indicate that an impairment issue exists include a negative economic downturn or a change in the assessment of future operations. However, the assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Customer lists were acquired as a result of a purchase of assets and are being amortized over the estimated future period of benefit of five years. The assessment of recoverability and possible impairment are determined in a manner similar to the assessment of goodwill described above. No recoverability or impairment issues have been identified, although the assessment of the recoverability will be impacted if estimated future operating cash flows are not achieved.

(k) Net loss per share

The Company has adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," ("SFAS No. 128"), which provides for the calculation of "basic" and "diluted" earnings per share. Basic earnings(loss) per share include no dilution and is computed by dividing income(loss) attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings(loss) per share reflects the potential effect of common shares issuable upon exercise of stock options and warrants in periods in which they have a dilutive effect. The Company had potentially dilutive common stock equivalents for the quarters ended March 31, 2002 and 2001, which were not included in the computation of diluted net loss per share because they were antidilutive.

3. Cash Concentration

At March 31, 2002, cash and cash equivalents included \$1,382,527 on deposit with a U.S. money market fund or major money center bank.

8

Euroweb International Corp.
Notes to Interim Unaudited Consolidated Financial Statements

4. Investment in Securities

On January 25, 2002, the Company purchased an United States Treasury Note with a face value of \$14,389,000, which was purchased for \$ 13,506,666. The note matures on February 15, 2004. Of the \$57,412 difference between the market value as of March 31, 2002 and the purchase price, \$74,023 is recorded as interest income on securities calculated with an effective interest rate of 3%, while the remaining \$131,435 has been recorded as a comprehensive loss.

5. Affiliate, carried on an equity basis

The Company's consolidated statement of operations for the three months

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

ended March 31, 2002 and 2001 include the Company's equity interest in the net income of Euroweb Rt. for each period, calculated as follows:

	2002 (three months)	2001 (three months)
Revenues	\$ 1,222,909	\$ 1,215,180
Gross profit	752,134	806,579
Net (loss) income from operations	(83,774)	140,117
Goodwill impairment	(300,003)	-
Net (loss) income	\$ (383,777)	\$ 140,117
Company's 49% equity in net income	(188,050)	68,657
Amortization of goodwill related to the Company's investment	-	(47,405)
Equity in net (loss) income of affiliate	\$ (188,050)	\$ 21,252

The goodwill impairment resulted in the write-off of the remaining goodwill balances in Euroweb Rt. relating to subsidiaries purchased in 2000 and 2001. These subsidiaries did not generate the revenues or operating profit that was initially thought possible and management assessed that goodwill was impaired. After this writeoff, no goodwill exists in the records of Euroweb Rt.

Since the functional currency of the affiliate is the Hungarian forint, the Company's net investment in the affiliate has been decreased by its share of the translation gain (\$1,645) arising upon conversion of the affiliate's financial statements into US dollars. This amount has also been recorded in other comprehensive gain (loss).

9

Euroweb International Corp.
Notes to Interim Unaudited Consolidated Financial Statements

6. Stockholders' Equity

On August 30, 2001, the shareholders approved a one-for-five reverse stock split of the Company's common stock. Prior period share and per share amounts have been restated to give effect to the reverse stock split.

During the first three months of 2002, the Company did not grant any options or warrants, nor were any exercised. Upon the exercise of an outstanding warrant or option, each warrant/option holder will receive 1/5 of a share, due to the reverse stock split effected on August 30, 2001.

7. Commitments and Contingencies

(a) Employment Agreements

Employment agreements with the three officers of the Company provide for aggregate annual compensation of \$646,000 through December 31, 2005.

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

8. Related Party Transactions

In 2001, the Company's subsidiary in Romania launched a service which includes the provision of international IP and international leased line services. This service is being provided in conjunction with Pantel Telecommunication Rt., an entity which is majority owned and controlled by the KPN Group (which also owns a majority interest in the Company). In 2001, Pantel Telecommunication Rt. Hungary, a subsidiary of KPN and therefore a related party, became the most significant trading partner of the Company. Approximately 55% of the 2001 annual revenues of Euroweb Romania (translating into 30% of the consolidated revenues of the Company) were derived from the provision of services to Pantel. In the first three months of 2002, sales to Pantel has increased to 63% of revenues of Euroweb Romania (which represents 43% in the consolidated revenues of the Company).

Pantel has also invoiced USD518,972 in the first three months of 2002 to the subsidiaries of the Company in connection with the provision of internet bandwidth and international leased lines.

10

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, Romania and Slovakia. These subsidiaries are known as Euroweb Czech Republic, Euroweb Slovakia, and Euroweb Romania and they are wholly owned. The Company's consolidated statements of operations also include the equity in the net income of Euroweb Hungary Rt., in which the Company has a 49% ownership interest. The Company operates in one business segment, acting as an Internet service provider to business customers through the provision of the following services:

- (1) Traditional ISP business (Internet access, Content and Web services, Other services)
- (2) International leased line, IP data services
- (3) Voice over IP services

For the services in point (2) and (3), the main customer of the Company in 2002 was Pantel Telecommunication Rt, Hungary, a related party. The majority owner of Euroweb International Corporation and Pantel Telecommunication Rt is KPN Telecom BV, the Netherlands.

Related party transactions - Pantel Rt.

General: The largest customer of the Company since early 2001 is Pantel Telecommunication Rt, which is the largest Alternative Telecom Provider in Hungary offering state-of-the-art national and international communication services, unlimited capacity and bandwidth through its countrywide network based on New World technology. Pantel operates within the region and has become a significant trading partner for Euroweb Romania and Euroweb Slovakia 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

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Pantel.

Due to this fact, that the increase of revenue coming from the new services, which is provided in conjunction with Pantel, some of the consultants of the Company have moved to the premises of Pantel in order to improve the effectiveness of the co-operation on international projects. Csaba Toro, Vice President of Euroweb International Corporation is also the Chief Executive Officer of Pantel.

Transactions: Both Euroweb Slovakia and Euroweb Romania have transactions with Pantel:

(a) Pantel invoices to subsidiaries of Euroweb International Corporation in connection with the following services:

- Internet bandwidth
- Costs of international leased lines outside Romania and Slovakia

The total amount of these services were USD 518,972 in the first three months of 2002.

11

(b) Euroweb International and its subsidiaries invoice the following services to Pantel:

- Cost of international leased lines and local loops in Slovakia and Romania
- International IP and VOIP services for Pantel
- Re-invoice of costs of Pantel related work of consultants of Euroweb International Corporation

Total value of these services were approximately \$1,356,091 in the first three months of 2002.

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.

Other: Some services provided by Pantel are invoiced through Euroweb Hungary Rt (49% owned by the Company and 51% owned by Pantel). These transactions are considered as essentially Pantel services and disclosed as revenue of Pantel in point (a). No other service is invoiced to/from Euroweb Hungary Rt.

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 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

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

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.

12

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 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 to be completed by June 30, 2002.

Acquisitions

There were no new acquisitions in 2001 and the first three months of 2002.

Results of Operations

Three-month Period Ended March 31, 2002 Compared to Three-month Period Ended March 31, 2001

The Company has significantly increased its revenue and gross margin when compared with the same period in the previous year; most of this increase can be attributed to activities in Euroweb Romania. However, during the same time period, the company was able to keep operating expenses at similar levels to the previous year, resulting in a significant improvement of the operating results. Moreover, the Company has adopted SFAS 142 as of January 1, 2002 and so no amortization of goodwill is accounted in the first quarter of 2002, also contributing to an improved operating result.

In contrary to the improvement in the operating results, income from financial investments has reduced significantly due to falling yields in investments and also due to the nature of the investments.

Revenues

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Total revenues for the three months ended March 31, 2002 were \$3,150,580 in comparison with \$1,258,860 for the three months ended March 31, 2001. The increase in revenues of \$1,891,720 was due to the introduction of new services, while traditional ISP activity has not changed when compared with the previous period. Most of the increase has been in Euroweb Romania as can be seen as follows:

Revenue per countries	Q1 2002	Q1 2001
Czech Republic	\$ 343,384	\$ 292,673
Romania	2,123,474	337,161
Slovakia	683,722	629,026
Total	3,150,580	1,258,860

13

The new services were introduced in co-operation with Pantel Telecommunication Rt. Hungary, a subsidiary of KPN and therefore a related party. Sales to Pantel Rt. has increased compared with 2001. Approximately 55% of the 2001 annual revenues of Euroweb Romania (representing 30% of the consolidated revenues of the Company) were derived from the provision of services to Pantel, while in the first three months of 2002 this percentage has increased to 63% (representing 43% of the consolidated revenues of the Company).

The proportion of revenue per product lines has changed as follows:

Revenue per services	2002	2001
ISP	\$ 1,199,224	\$ 1,193,652
Data	1,584,125	47,208
VOIP	367,231	18,000
Total	3,150,580	1,258,860

Cost of revenues

Cost of revenues comprise mostly telecommunication expenses.

Network costs were \$1,956,838 in 2002 in comparison to \$638,818 in 2001. Gross margin has decreased from 49% to 37,88% when compared to previous years. Although there were no significant pricing policy changes within the Company during the first three months of 2002, the margin rate has decreased due to the new services, which have significantly less margin than traditional ISP activity resulting in a smaller gross profit ratio. Despite the decreasing ratio, the company was able to almost double the amount of gross profit (92% increase) in absolute terms.

Operating expenses (excluding depreciation and amortization)

There was no change in operating expenses (increased from \$1,100,083 to \$1,101,672) which can be attributed to the cost control measures undertaken within the Company and the increased effectiveness of internal resources as newly acquired operations in 1999 and 2000 were operationally consolidated enabling the Company to build new services on the existing infrastructure, minimizing the need for additional labour and other non-equipment related resources.

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Depreciation and amortization

From 2002, no amortization of goodwill is accounted, so these amounts are not comparable. If we ignore the amortization of goodwill and customer lists in both years, normal depreciation of equipment have increased from \$113,038 in 2001 to \$156,954 in 2002, reflecting depreciation of necessary investment in equipment used to provide the new services.

14

Net interest income

Net interest income of \$125,804 in the first three months of 2002 is lower than the net interest income of \$319,145 in the first three months of 2001. The decrease is due to the fact that less interest-generating funds were available in this period than in the same period of the previous year, and also because the effective interest rate on these investments has decreased over the periods in question.

Equity interest in affiliate

The decrease in the equity in the net income of affiliate is the result of loss making activities of the subsidiaries of Euroweb Rt., although, almost 80% of the loss is in connection with a one-time goodwill impairment recognized in the first Quarter of 2002 by Euroweb Rt.

Liquidity and Capital Resources

The Company's cash, cash equivalents and marketable securities were approximately \$15,875,077 as of March 31, 2002, a decrease of \$265,690 from the end of 2001. The Company has \$15,875,077 of cash, cash equivalents and marketable securities compared to \$ 2,686,267 total short and long term liabilities. Management 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.

Royal Dutch Telecom (NY Stock Exchange: KPN) owns 52% of the outstanding shares of Common Stock of the Company. KPN has announced that it intends to sell all of its non-core assets, including its ownership of 52% of the outstanding shares of the Company. KPN has distributed to interested buyers a Business Plan on the Company, has made available all the documents relating to the Company, and arranged for meetings of Management of the Company with prospective suitors. So far, non of the offers were accepted by KPN.

On February 20, 2002, Everest Acquisition Corp., a wholly owned subsidiary of Royal KPN, commenced a tender offer for all of the outstanding shares of common stock of EuroWeb International Corp. at the purchase price of \$2.25 in cash per share. This offer was raised to \$2.70 on March 20, 2002 and expired on April 4, 2002.

The tender offer was conditional on at least 90% of the outstanding common stock of EuroWeb calculated on a fully diluted basis being validly tendered and not withdrawn prior to the expiration date (March 19, 2002). Everest Acquisition Corp did not intend to waive this condition if the effect of the waiver would be to permit Everest Acquisition to purchase less than a majority of the outstanding EuroWeb shares that KPN does not already own.

Upon consummation of the Offer, Everest Acquisition and KPN intended to effect a merger between EuroWeb and Everest Acquisition with the cash and

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

marketable securities of Euroweb International to be used to pay off financing costs of the acquisition.

On April 8, 2002, the offer was cancelled after insufficient interest from investors.

15

Inflation and Foreign Currency

The Company maintains its books in local currencies, the Czech koruna for Euroweb Czech Republic and the Slovak koruna for Euroweb Slovakia. However, given the hyper-inflationary situation in Romania, the U.S. dollar is used as the functional currency.

The Slovakian Koruna has weakened by 0,075%, while the Czech Korona have strengthen against the U.S. dollar by approximately 4,5% between the first three months of 2002 and 2001. The impact of this is reflected in the exchange rates used in the first three months of 2002 and the first three months of 2001.

Effect of Recent Accounting Pronouncements

In July 2001, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("Statement 142") was issued. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provision of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The Company is required to implement Statement 142 on January 1, 2002.

Statement 142 established certain transition provisions which will require, amongst other things, the Company perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings. The Company was required to, and has adopted, Statement 142 as of January 1, 2002 and is now in the process of performing the required tasks under the transition provisions described above.

16

The Financial Accounting Standards Board No. 143 "Accounting for Asset Retirement Obligations" ("Statement 143") was issued in June 2001. Statement 143

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company is required to adopt the provisions of Statement 143 on January 1, 2003. The Company is evaluating the impact, if any, Statement 143 may have on its future consolidated financial statements.

The Financial Accounting Standards Board ("FASB") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("Statement 144") was issued in August 2001. Statement 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. Statement 144 addresses the financial accounting and reporting for (i) long-lived assets to be held and used, (ii) long-lived assets to be disposed of other than by sale and (iii) long-lived assets to be disposed of by sale. The Company is required to, and has adopted, the provisions of Statement 144 as of January 1, 2002.

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, including but not limited to the risks set forth below. See "Risk Factors." 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.

PART II

Item 1. Legal Proceedings

On March 8, 2002, the Company was served with a complaint filed in Delaware Chancery Court by Suan Investments Inc. against, among others, the Company, Purchaser, KPN and the individual directors of the Company, including the members of the Special Committee.

The complaint alleges, among other things, that the consideration offered by KPN is "unfair and inadequate" and that the "intrinsic value of [the Company's] publicly owned shares is materially in excess of the amount offered". The complaint also alleges that the documents disseminated to the Company's unaffiliated stockholders by KPN and its affiliates in respect of the tender

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

offer are "materially false and misleading" and that KPN, "with the acquiescence of the individual defendants, has breached and will continue to breach its fiduciary duties ... by engaging in improper overreaching and self-dealing in pursuing the proposed transaction."

17

According to the complaint, plaintiff is seeking, among other things, to recover unspecified damages and costs and to enjoin or rescind the tender offer and all related transactions contemplated in the Purchaser's tender offer documents.

A complaint containing similar allegations and seeking similar relief was filed in Delaware Chancery Court by Laurence Paskowitz on March 5, 2002 against the Company and the other defendants in the Suan Investments action.

In light of the fact that the Special Committee recommended that the Company's stockholders reject KPN's offer of \$2.25 per Share, it is not clear what relevance, if any, these actions have for the Company or for the individual directors who serve on the Special Committee.

Item 2. Changes in Securities

None

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 first quarter of 2002.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- A. Exhibits (numbers below reference Regulation S-B, Item 601)
- (2) Subscription Agreement and Option Agreement with KPN(23)
 - (3) (a) Certificate of Incorporation filed November 9, 1992(1)
 - (b) Amendment to Certificate of Incorporation filed July 9, 19972
 - (c) By-laws(2)
 - (4) (a) Form of Common Stock Certificate(2)
 - (b) Form of Underwriters' Warrants to be sold to Underwriters(2)
 - (c) Placement Agreement between Registrant and J.W. Barclay & Co., Inc. and form of Placement Agent Warrants issued in connection with private placement financing(2)
 - (d) Form of 10% Convertible Debenture used in connection with offshore private placement financing pursuant to Regulation S3

18

- (e) Form of Common Stock Purchase Warrant in connection with private placement financing under Section 506 of Regulation D(4)
- (10) (a) Consulting agreement between Registrant and Klenner Securities Ltd(2)

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

- (b) Consulting agreement between Registrant and Robert Genova(2)
- (c) Consulting agreement between Registrant and Laszlo Modransky(2)
- (d) 1993 Incentive Stock Option Plan(2)
- (e) Sharing agreement for space and facilities between Registrant and Hungarian Telephone and Cable Corp.(2)
- (f) Articles of Association (in English) of Teleconstruct Building Corp. (2)
- (g) Articles of Association (in English) of Termolang Engineer and Construction Ltd. (2)
- (h) Letter of intent between Teleconstruct Building Corp. and Pilistav(2)
- (i) Employment agreement between Registrant and Robert Genova and termination agreement dated February 5, 19974
- (j) Employment agreement between Registrant and Peter E. Klenner(2) and termination agreement dated October 30, 1996, and agreement for sale of condominium unit to M&A as amended(4)
- (k) Employment agreement between Registrant and Frank R. Cohen(2) and modification of employment agreement(4)
- (l) Letter of Intent agreement between Registrant and Raba-Com Rt. (4)
- (m) Letter of Intent agreement between Registrant and Kelet-Nograd Rt.(4)
- (n) Letter of Intent agreement between Registrant and 3 Pilistav villages for installation of cable in those areas(4)
- (o) Lease agreement between Registrant's subsidiary EUNET Kft. and Varosmajor Passage, Kft. for office space(4)
- (p) Acquisition agreement between Registrant and KFKI Computer Systems Corp. dated December 13, 1996(4)
- (q) Acquisition agreement between Registrant and E-Net Hungary(4)
- (r) Acquisition agreement between Registrant and MS Telecom Rt. (4)
- (s) Employment Agreement between Registrant and Imre Kovats(4)
- (t) Employment Agreement between Registrant and Csaba Toro(4)
- (u) Promissory Note from Registrant to HBC(4)
- (v) Communication Services Agreement between Registrant and MCI Global Resources, Inc.5
- (w) Lease and Option Agreement for Building B as of April 1, 1998 with Hafisa Kft.6
- (x) License Agreement between Gric Communications, Inc. and EuroWeb International Corp.(5)
- (y) Consulting Agreement between Registrant and Euris Capital Corporation and Rescission Agreement7
 - (y) (i) Agreement rescinding Option Agreement with Euris Capital Corporation8
- (z) Financial Consulting Agreement between Registrant and J.W. Barclay & Co., Inc.9
- (aa) Mergers and Acquisitions Agreement between Registrant and J.W. Barclay10

19

- (bb) Placement Agreement between Registrant and J.P. Carey, Inc. and form of Placement Agent Warrants issued in connection with private placement financing11
- (cc) Private Placement Agreement between Registrant and Peter E. Klenner12
- (dd) Employment Agreement between Registrant and Csaba Toro13
- (ee) Employment Agreement between Registrant and Robert Genova14
- (ff) Employment Agreement between Registrant and Frank R. Cohen15
- (gg) Placement Agreement between Registrant and JP Carey Securities Inc. and Warrant Agreement in connection with private placement financing16
- (hh) Private Placement Agreement between Registrant and M&A Management17
- (ii) Form of Subscription Agreement in connection with private offering of common stock and Warrants pursuant to Rule 506 of Regulation D under Section 4(2) of the Securities Act of 1933 18
- (jj) Acquisition Agreement between Registrant and Luko Czech Net, 5.1.0.

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

- dated June 11, 1999 19
(kk)Acquisition Agreement between Registrant and Slavia Capital, O.C.P.,
a.s. dated July 2, 199920
(ll)Acquisition Agreement between Registrant and EUNET Slovakia s.r.o.
dated July 14, 199921
(mm)Acquisition Agreement between Registrant and shareholders of Dodo,
s.r.o. dated August 5, 199922
(nn)Acquisition Agreement between Registrant and shareholders of Mediator
S.A. dated May 17, 2000 27 and Amendment thereto on August 28, 2000 28.
- (16) (a)Letter on Change in Certifying Accountant23
(b)Letter by Former Accountant Agreeing with Company's Statements.(24)
(22) (a)Proxy Statement for Special Meeting of Stockholders.24
(b)Press Release on Adjournment of Special Meeting.25
(c)Press Release on Results of Vote.26

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.
3 Filed with Form 8-K as of February 17, 1994
4 Filed with Form 10-KSB for year ended December 31, 1996
5 Filed with Form 10-QSB for quarter ended September 30, 1997.
6 Filed with Form 10KSB for year ended December 31, 1997.
7 Filed with Amendment No. 1 to Registration Statement 333-52841
8 Filed with Amendment No. 2 to Registration Statement 333-52841
9 File with Amendment No. 1 to Registration Statement 333-52841
10 Filed with Amendment No. 1 to Registration Statement 333-52841
11 Filed with Form 8-K as of October 14, 1998
12 Filed with Form 8-K as of October 14, 1998
13 Filed with Form 8-K as of October 14, 1998
14 Filed with Form 8-K as of October 14, 1998
15 Filed with Form 8-K as of October 14, 1998
16 Filed with Form 8-K as of April 21, 1999
17 Filed with Form 8-K as of April 21, 1999
18 Filed with Form 8-K as of April 21, 1999
19 Filed with Form 8-K as of June 11, 1999
20 Filed with Form 10-QSB for quarter ended June 30, 1999
21 Filed with Form 10-QSB for quarter ended June 30, 1999
22 Filed with Form 10-QSB for quarter ended June 30, 1999
23 Filed with Form 8-K on December 21, 1999.
24 Filed with Form DEF 14A on December 14, 1999.
25 Filed with Form 8-K on January 12, 2000.
26 Filed with Form 8-K on February 14, 2000.
27 Filed with Form 8-K on June 27, 2000.
28 Filed with Form 8-K/A on August 28, 2000.

20

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 9th day of May 2002.

EUROWEB INTERNATIONAL CORP.

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

By /s/Frank R. Cohen
Frank R. Cohen
Chief Financial Officer