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EUOWEB INTERNATIONAL CORP

Form 8-K/A

July 26, 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 23, 2004

EUOWEB 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

Euoweb International Corp. filed a Form 8-K dated March 9, 2004 with regard to the acquisition of the 100% of the issued and outstanding shares of Elender Rt. without the required financial information. Accordingly, Euoweb International Corp. is filing this Form 8-K/A to include that financial information.

ITEM 2. Acquisition or Disposition of Assets

On February 23, 2004, Euoweb International Corp., a Delaware corporation (the "Company"), entered into a Shares Purchase Agreement with Vitonas Investments Limited, a company with registered seat in Cyprus ("Vitonas"), Certus Kft., a Hungarian corporation ("Certus") and Rumed 2000 Kft., a Hungarian corporation ("Rumed" and collectively with Vitonas and Certus the "Seller"), to acquire Seller's 100% interest in Elender Business Communications Services Ltd., a Hungarian corporation ("Elender" or "Elender Rt"). Elender is an Internet service provider located in Hungary that provides internet access to the corporate and institutional (public) sector and, amongst others, 2,300 schools in Hungary. The Closing of the Elender acquisition occurred on June 9, 2004.

The total purchase price paid by the Company for Elender was \$9,500,000 as follows: (i) cash in the amount of \$6,500,000; and (ii) 677,201 shares of the

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Company's common stock. The number of shares was calculated by dividing \$3,000,000 by \$4.43, which is the average trade weighted stock market price during the 60 days prior to signing of the binding term sheet between the parties. At Closing, Elender had debt valued at \$2,900,000, consisting of a bank loan and a non-transferable shareholders loan payable by Elender to the Sellers. The Company guarantees the full repayment of the non-transferable shareholders loan in a period of one and a half years and, in addition, the Company has also placed in escrow 248,111 shares, which are to be issued to the Sellers in the event that there is a default in connection with the non-transferable shareholders loan. During the period that the Sellers hold an aggregate of 5% of the outstanding shares of common stock of the Company, they will be entitled to appoint a director to the Company's board. In addition, as long as the non-transferable shareholders loan is outstanding, the Sellers shall also be entitled to appoint a director to Elender's board or, in the alternative, the board of the Company's subsidiary managing the Company's Hungarian operations.

### ITEM 7. Financial Statements and Exhibits

#### (a) Financial Statements of businesses acquired.

Audited Financial Statements of Elender Rt. as of and for the years ended December 31, 2003 and 2002

Unaudited Condensed Financial Statements of Elender Rt. as of March 31, 2004 and for the quarters ended March 31, 2004 and 2003

#### (b) Pro forma financial statements

1. Unaudited pro forma consolidated balance sheet as of March 31, 2004
2. Unaudited pro forma consolidated statement of operations for the year ended December 31, 2003
3. Unaudited pro forma consolidated statement of operations for the quarter ended March 31, 2004

#### (c) Exhibits.

Exhibit No.	Description
10.1	Shares Purchase Agreement between Vitonas Investments Limited, a Hungarian corporation, Certus Kft., a Hungarian corporation, Rumed 2000 Kft., a Hungarian corporation and Euroweb International Corp., a Delaware corporation, dated as of February 23, 2004. (Incorporated by reference to Form 8-K Current Report filed on March 9, 2004)

ELENDER Business Communications Services Rt.

Financial Statements

December 31, 2003 and 2002

TABLE OF CONTENTS

Page

# Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 8-K/A

Independent Auditors' Report

2

## Financial Statements:

Balance Sheets	3
Statements of Operations	4
Statements of Changes in Shareholders' Deficit	5
Statements of Cash Flows	6
Notes to the Financial Statements	7-17

## Independent Auditors' Report

To the Shareholders of Elender Business Communications Services Rt.

We have audited the accompanying balance sheets of Elender Business Communications Services Rt. (the "Company") as of December 31, 2003 and 2002, and the related statements of operations, shareholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements referred to above present fairly, in all material respects, the financial position of Elender Business Communications Services Rt. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte

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Deloitte  
Budapest, Hungary

July 2, 2004

Elender Business Communications Services Rt.  
Balance Sheets  
December 31, 2003 and 2002  
In HUF'000

2003

20

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ASSETS

Current assets:

Cash and cash equivalents	76,702	1
Trade accounts receivable, net	201,152	5
Related party receivables	54,663	1
Prepaid and other current assets	257,631	1

Total current assets	590,148	1,0
----------------------	---------	-----

Property and equipment, net	920,909	1,1
Investment in affiliate	102,248	1

Total assets	1,613,305	2,2
--------------	-----------	-----

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Trade accounts payable	324,444	1
Related party payables	36,083	1
Short term related party loan	166,515	3
Short term portion of long term loan payable	94,196	1
Other current liabilities	58,278	1
Accrued expenses	203,361	1
Deferred revenue	11,196	2

Total current liabilities	894,073	1,4
---------------------------	---------	-----

Long term related party loan	679,339	8
Long term loan payable	56,597	1
Long term capital lease obligation	1,756	

Total long term liabilities	737,692	9
-----------------------------	---------	---

Total liabilities	1,631,765	2,3
-------------------	-----------	-----

Commitments and contingencies (note 11)

Shareholders' deficit

Common stock, HUF 10,000 par value (2,000 and 300 shares authorized, issued and outstanding as of December 31, 2003 and 2002, respectively)	20,000	
Additional paid in capital	501,874	3
Accumulated deficit	(540,334)	(4)

Total shareholders' deficit	(18,460)	(
-----------------------------	----------	---

Total liabilities and shareholders' deficit	1,613,305	2,2
---	-----------	-----

See accompanying notes to financial statements.

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	2003	2002
	-----	-----
Third party revenue	4,624,783	5,201,111
Related party revenue	70,740	11,111
	-----	-----
Total revenue	4,695,523	5,312,222
Cost of revenue (exclusive of depreciation and amortization shown separately below)	3,168,711	3,401,111
	-----	-----
Gross profit	1,526,812	1,911,111
Operating expenses		
Personnel expenses	252,950	401,111
Consulting, professional and directors fees	297,215	221,111
Other selling, general and administrative expenses (including THUF 234,570 and THUF 250,037 related party expenses in 2003 and 2002 respectively)	638,397	821,111
Depreciation and amortization	340,684	301,111
	-----	-----
Total operating expenses	1,529,246	1,754,554
(Loss)/income from operations	(2,434)	156,557
Other income/(expense)		
Interest income	350	111
Interest expense	(110,195)	(51,111)
Foreign exchange gain, net	2,766	111
	-----	-----
Total other expense	(107,079)	(39,889)
	-----	-----
(Loss)/income before income taxes and equity in loss of affiliate	(109,513)	116,668
Income taxes	-	-
	-----	-----
(Loss)/income before equity in loss of affiliate	(109,513)	116,668
	-----	-----
Equity in loss of affiliate	(6,357)	(71,111)
	-----	-----
Net (loss)/income	(115,870)	45,557
	=====	=====

See accompanying notes to financial statements.

4

Elender Business Communications Services Rt.  
Statements of Changes in Shareholders' Deficit  
Years Ended December 31, 2003 and 2002  
In HUF'000 (except number of shares)

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	Common Stock Shares*	Amount	Additional paid in capital	Accumulated Deficit
January 1, 2002	300	3,000	-	(463,922)
Net income	-	-	-	39,458
Return of capital to parent			(210,959)	
Forgiveness of related party loan	-	-	542,833	-
December 31, 2002	300	3,000	331,874	(424,464)
Issuance of common stock	1,700	17,000	-	-
Net loss	-	-	-	(115,870)
Forgiveness of related party loan	-	-	170,000	-
December 31, 2003	2,000	20,000	501,874	(540,334)

\* number of shares

See accompanying notes to financial statements.

5

Elender Business Communications Services Rt.  
Statements of Cash Flows  
Year Ended December 31, 2003 and 2002  
In HUF'000

	2003
Net (loss)/income	(115,870)
Adjustments to reconcile net (loss)/income to net cash used in operating activities:	
Depreciation and amortization	340,684
Loss on sale of property and equipment	21,702
Equity in loss of affiliate	6,357
Increase in allowance for doubtful receivables	16,239
Changes in assets and liabilities:	
Receivables	430,780
Prepaid and other assets	31,429
Related party payables	(137,557)
Payables and other current liabilities	198,022
Deferred revenue	(254,896)
Net cash provided by operating activities	536,890
Cash flows from investing activities:	
Redemption of marketable securities	-
Investment in affiliate	-
Purchase of property and equipment	(184,871)
Proceeds from sale of property and equipment	48,666
Net cash used in investing activities	(136,205)
Cash flows from financing activities:	

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Draw down of short-term and long-term loans from related parties	103,514	
Repayment of of short-term and long-term loans from related parties	(454,487)	
Draw down of short-term and long-term loans	125,000	
Repayment of short-term and long-term loans	(260,079)	
Proceeds from issuance of shares	17,000	
	-----	-----
Net cash used in financing activities	(469,052)	
Decrease in cash and cash equivalents	(68,367)	
Cash and cash equivalents, beginning of year	145,069	
	-----	-----
Cash and cash equivalents, end of year	76,702	=====
	=====	=====
Supplemental Disclosures:		
Cash paid for income taxes	-	
	-----	-----
Cash paid for interest	(81,777)	=====
	=====	=====
Non-cash financing transactions:		
Capital lease	2,201	
	-----	-----
Forgiveness of related party loan	170,000	=====
	=====	=====

See accompanying notes to financial statements.

6

### 1. Organization and Business

Elender Business Communications Services Rt was formed on October 23, 2003 at which time it legally merged with Elender Kft., an Internet Service Provider ("ISP") and three content providers Webigen Rt., Acquarius 2002 Rt. and Elender Web Kft., all of which were under common control at the time of the merger. Elender Rt., Elender Kft., Webigen Rt., Acquarius 2002 Rt. and Elender Web Kft are collectively referred to as "Elender" or the "Company." The Company began its operations in October 1995.

The Company operates in one industry segment, providing a full range of Internet related services. The Internet services provided by the Company include Internet access, web related services, consulting, application development, and other content services.

On February 23, 2004, Euroweb International Corp., a Delaware corporation, entered into a Shares Purchase Agreement with Vitonas Investments Limited, a company with registered seat in Cyprus ("Vitonas"), Certus Kft., a Hungarian corporation ("Certus") and Rumed 2000 Kft., a Hungarian corporation ("Rumed" and collectively with Vitonas and Certus the "Seller"), to acquire Seller's 100% interest in Elender.

### 2. Summary of Significant Accounting Policies

#### Accounting Principles

The financial statements and accompanying notes have been prepared in

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conformity with accounting principles generally accepted in the United States of America.

### Basis of presentation

The financial statements comprise the accounts of Elender Rt, Elender Kft, Webigen Rt, Aquarius 2002 Rt and Elender Web Kft. Elender Kft acquired Webigen Rt. in December 2002 from a related party at book value, while Aquarius 2002 Rt and Elender Web Kft together with Webigen Rt. merged with Elender Kft. as of October 13, 2003. The acquisitions and mergers were made from an entity under common control (all of the companies were owned or controlled by Wallis group at the time of mergers in October 2003) and accordingly, the transactions were accounted in a manner similar to a pooling-of-interest in accordance with accounting principles generally accepted in the United States of America, with all prior periods being restated as if the entities were combined for all periods presented.

All material intercompany balances and transactions have been eliminated.

## 2. Summary of Significant Accounting Policies Continued

### 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

7

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.

### 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. All of the Company's revenues are derived from the provision of such services.

### Fair value of financial instruments

The carrying values of cash equivalents, notes and loans receivable, accounts payable, loans payable and accrued expenses approximate their fair values.

### Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term deposits with maturity date of less than three months at the date of purchase.

8

## 2. Summary of Significant Accounting Policies Continued

### Property and equipment



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Property and equipment are stated at cost less accumulated depreciation. Equipment purchased under capital leases is stated at the present value of minimum lease payments at the inception of the lease less accumulated depreciation. Leased assets are depreciated using a straight-line method over the estimated useful lives of the leased asset. The Company provides for depreciation of property and equipment using the straight-line method over the following estimated useful lives:

Software	3 years
Computer equipment	3 years
Other furniture equipment and fixtures	3-5 years
Vehicles	5 years

Recurring maintenance on property and equipment is expensed as incurred.

### Long-lived assets

In accordance with Statements of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company periodically reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of those assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis.

### Investment in affiliate

The Company uses the equity method to account for its investments in non-marketable equity securities where it has an ownership interest of between 20-50%.

## 2. Summary of Significant Accounting Policies Continued

### Revenue recognition

Revenue is recognized when earned. Revenues from Internet services are recognized in the month in which the services are provided, either based on monthly usage or on fixed monthly fees. Revenues for

9

consulting services are recognized as the service is performed. The Company defers revenue recognition for payments on contracts for which services have not been performed.

### Cost of revenues

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

### Barter transactions

The Company periodically barter services for advertising credits. The

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Company is able to determine fair value based on comparable cash transactions for the services provided and for which the advertiser has the financial ability to pay cash. Revenue related to bartered services is recognized when the services are rendered. The barter advertising credits are initially recorded as an asset in "Prepaid and other current assets" and expensed in "Other selling, general and administrative expenses" when they are utilized. Barter transactions totaled approximately THUF 50,650 and THUF 102,902 during the years ended December 31, 2003 and 2002, respectively.

### Advertising costs

Advertising costs are expensed as incurred and amounted THUF 156,832 and THUF 64,336 for the years ended December 31, 2003 and 2002, respectively.

### Foreign currency translation

The Company considers the Hungarian Forint ("HUF") to be its functional currency.

Gains and losses from foreign currency transactions and the translation of monetary assets or liabilities not denominated in Hungarian forints are included in the income statements in the period in which they occur

## 2. Summary of Significant Accounting Policies Continued

### Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities, net of appropriate valuation allowances, 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

10

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.

### Recent accounting pronouncements

On April 30, 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149") which amends SFAS 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 has adopted this pronouncement and it has

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no material impact on its financial statements.

### 3. Trade accounts receivable

	2003	2002
-----		
Receivable	227,728	558,808
Less allowance for doubtful debts	(26,576)	(10,337)
-----		
Total	201,152 =====	548,471 =====

The Company establishes allowance for bad debt to reduce receivables to their net realizable value. The allowance is determined on an account by account basis.

### 4. Prepaid and other current assets

	2003	2002
-----		
Unbilled revenues	92,787	53,059
Prepaid costs	15,773	7,600
Barter credits	92,050	64,936
Value added tax receivable	7,578	-
Loans	15,000	10,023
Others	34,443	15,074
-----		
Total	257,631 =====	150,692 =====

11

### 5. Property and equipment

Property and equipment as at December 31, 2003 and 2002 in THUF were as follows:

	2003	2002
-----		
Software	392,826	323,733
Computer equipment	983,077	958,606
Vehicles, furniture, fixtures and other	310,453	298,472
Total	1,686,356	1,580,811
Less accumulated depreciation	(765,447)	(424,763)
Total property and equipment	920,909 =====	1,156,048 =====

The gross value of assets recorded under capital lease obligation was THUF 2,319, while accumulated depreciation was THUF 89 as of December 31, 2003. As of December 31, 2002 there were no assets under capital lease obligations.

### 6. Investment in affiliates

The Company owned 30.9% of the outstanding shares in Index Rt. as of December 31, 2003 and 2002. In March 2004, the Company sold its investment for THUF 171,920 to a related party. (See note 12). During 2003 and 2002 the Company recorded losses of THUF 77,436 and THUF 6,357, respectively, reflecting its

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proportional share of the operating losses of Index Rt.

12

### 7. Related party transactions

The Company has entered into transactions with related parties both during the course of its normal operating activities and for financing its operations. These transactions are summarized below:

#### Financing transactions

The balance of long term related party loan liabilities as of December 31, 2003 and 2002 were as follows:

	2003	2002
-----		
Vitonas Limited	528,818	609,652
Certus Kft.	76,427	102,552
Rumed Kft.	74,094	89,304
Wems - Wallis related entity	-	27,529
-----		
Total long-term related party loans	679,339	829,037
	=====	=====

The expiration date of all of the related party loans was October 7, 2007. Interest rate is BUBOR (interbank credit interest rate in Budapest) + 1.5% (13.24% and 9.12% as of December 31, 2003 and 2002, respectively).

Based on the share purchase agreement of the Company, the repayment schedule of the related party loans was amended such that the maturity date is now December 31, 2005.

The balance of short term related party loan liabilities as of December 31, 2003 and 2002 were as follows:

	2003	2002
-----		
Wallis Rt.	166,515	367,793
-----		
Total short-term related party loans	166,515	367,793
	=====	=====

Interest rate is BUBOR + 1.5% (13.24% and 9.12% as of December 31, 2003 and 2002, respectively).

The Company recorded related party interest expense in the accompanying income statement of THUF 94,377 and THUF 16,552 in 2003 and 2002, respectively.

### 7. Related party transactions, continued

13

During 2003 and 2002, certain loan liabilities were waived by related parties amounting to THUF 170,000 and THUF 542,833, respectively. The effect of the waivers has been shown as increase in additional paid-in-capital in the accompanying financial statements.

The schedule of principal payments on related party loans is as follows as of December 31, 2003:

Payments due in 2004	166,515
Payments due in 2005	679,339

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Total related party loans -----  
845,854  
=====

Operating transactions

The Company provides Internet access and related services to the related parties. Total revenues generated from these services was THUF 70,740 and THUF 113,947 during 2003 and 2002, respectively

Related parties also provided the following services to the Company:

- Office rental
- Car rental
- Consulting and advisory
- Labour outsourcing
- Advertising and public relations
- Telephone

Total amount of these services purchased by Elender was approximately THUF 234,570 and THUF 250,037 during 2003 and 2002, respectively.

14

8. Long-term loans

The Company has entered a loan agreement with Raiffeisen Bank Rt ("Bank") in a value of HUF 275,000,000 with an interest rate of BUBOR +2.25% (13.99% and 9.87% as of December 31, 2003 and 2002, respectively). The loan is payable in quarterly installments through October 22, 2005. The loan is guaranteed by the shares of the Company pledged as collateral and also guaranteed by Wallis Rt. In addition to the loan agreement, the Company also concluded an overdraft facility with the Bank in a value of HUF 100,000,000 with interest rate of BUBOR + 0.7% (12.44% and 8.32% as of December 31, 2003 and 2002). The facility will expire on August 31, 2004.

The outstanding balances were in THUF as follows at December 31:

	2003	2002
-----		
Long term loan	150,793	285,869
Short term portion of long term loan	(94,196)	(137,277)
-----		
Total long term loan payable	56,597	148,592
	=====	=====

The schedule of principal payments on long term loans is as follows as of December 31, 2003:

-----	
Loan payable in 2004	94,196
Loan payable in 2005	56,597
-----	
Total	150,793
	=====

There were no amounts drawn on the bank overdraft at December 31, 2003 and 2002.

9. Other current liabilities

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	2003	2002
Value added tax payable	-	47,545
Local tax payable	22,286	21,291
Wages related taxes	29,199	36,935
Other	6,793	18,884
Total other current liabilities	58,278	124,655
	=====	=====

15

10. Accrued expenses

	2003	2002
Telecommunication expenses	112,042	78,964
Interest	28,068	20,193
Subcontractors and consultants	35,281	20,970
Other	27,970	40,204
Total	203,361	160,331
	=====	=====

11. Commitments and Contingencies

Lease agreements

Capital lease - In 2003, the Company entered into capital lease, which expires over the next four years. The following is a schedule of future capital lease payments (with initial or remaining lease terms in excess of one year) as of December 31, 2003 in THUF:

Short term lease obligation	445
Long term lease obligation	1,756
Total lease payments	2,201
	=====

The current portion of the capital lease obligation is included in 'Other current liabilities' in the accompanying balance sheets.

Operating lease - On January 1, 2002, the Company has entered a non-cancelable rental contract for its office space for the period of seven years with a related party. The monthly rental fee is HUF 5,400,000 (EUR 21,560). Rent expense included in the accompanying income statements was THUF 64,800 and THUF 64,800 in 2003 and 2002, respectively.

Following are the Company's commitments under its non-cancelable lease obligations:

	Capital lease	Operating lease
2004	745	64,800
2005	745	64,800
2006	745	64,800
2007	683	64,800
2008	-	64,800
Total	2,917	324,000
	-----	-----
Less amount representing interest	(716)	
Net minimum lease payments	2,201	

=====

There are no restrictions on dividends imposed by lease contracts.

16

12. Income taxes

The statutory corporate tax rate was 18% as of December 31, 2003 and 2002. The statutory rate will be 16 % effective from January 1, 2004. Owing to the taxable losses, the Company did not have any corporate income taxes payable for the years of 2003 and 2002.

The following summarizes the Company's net deferred tax assets as of December 31:

	2003	2002
Investment in affiliate	13,407	12,390
Net operating loss carry forwards	21,891	13,483
Total deferred tax assets	35,298	25,873
Less allowance	(35,298)	(25,873)
Total	0	0

The losses incurred in the previous years can be carried forward for offset against future taxable profit. The carried forward taxable losses as of December 31, 2003 and 2002 were THUF 136,819 and THUF 84,272, respectively. Such losses expire beginning 2007 through 2008. The Company has recorded a full valuation allowance against its deferred tax assets, as management does not believe the assets will be realized.

13. Subsequent events

In the first quarter of 2004, Elender Rt. has sold its investment in its affiliate (Index Rt) for HUF 171,920,000 to Wallis. The sale was affected through a reduction of the short-term related party loan liabilities due to Wallis.

The Company has concluded a new bank loan agreement with Commerzbank Rt on June 1, 2004. This loan agreement was signed and replaced the existing loan facilities with Raiffeisen and to increase the current loan facilities to HUF 350 million and the overdraft facilities limit to 450 million HUF. Amounts outstanding on the Raiffeisen Loan were repaid.

17

TABLE OF CONTENTS

-----

Financial Statements:

- Unaudited Condensed Balance Sheets
- Unaudited Condensed Statements of Operations
- Unaudited Condensed Statements of Cash Flows
- Notes to the Unaudited Condensed Financial Statements

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18

Elender Business Communications Services Rt.  
 Unaudited Condensed Balance Sheets  
 March 31, 2004 and December 31, 2003  
 In HUF'000

	March 31, 2004	Decem 2
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	881	
Trade accounts receivable, net	364,622	2
Related party receivables	-	
Prepaid and other current assets	275,053	2
	-----	-----
Total current assets	640,556	5
Property and equipment, net	892,181	9
Investment in affiliate	-	1
	-----	-----
Total assets	1,532,737	1,6
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	380,559	3
Related party payables	-	
Short term related party loan	182,191	1
Short term portion of long term loan payable	127,335	
Other current liabilities	54,407	
Accrued expenses	267,607	2
Deferred revenues	6,932	
	-----	-----
Total current liabilities	1,019,031	8
Long term related party loan	471,147	6
Long term loan payable	970	
Long term capital lease obligation	1,632	
	-----	-----
Total long term liabilities	473,749	7
	-----	-----
Total liabilities	1,492,780	1,6
Commitments and contingencies		
Shareholders' deficit		
Common stock, HUF 10,000 par value (2,000 shares authorized, issued and outstanding)	20,000	
Additional paid in capital	501,874	5
	-----	-----
Accumulated deficit	(481,917)	(5
	-----	-----
Total shareholders' deficit	39,957	(



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Total liabilities and shareholders' equity/(deficit)	1,532,737	1,6
	=====	=====

See accompanying notes to unaudited condensed financial statements.

19

Elender Business Communications Services Rt.  
Unaudited Condensed Statements of Operations  
Quarters Ended March 31, 2004 and 2003  
In HUF'000

	2004 Q1	2003 Q1
Third party revenue	1,180,403	1,1
Related party revenue	20,458	1,1
Total revenue	1,200,861	1,1
Cost of revenues (exclusive of depreciation and amortization shown separately below)	825,502	8
	-----	-----
Gross profit	375,359	3
Operating expenses		
Personnel expenses	56,249	
Consulting, professional and directors fees	85,428	
Other selling, general and administrative expenses	126,353	1
Depreciation and amortization	90,600	
	-----	-----
Total operating expenses	358,630	3
Income/(loss) from operations	16,729	(
Interest income	727	
Interest expense	(32,341)	(
Foreign exchange gain, net	3,630	
	-----	-----
Total other expense	(27,984)	(
Loss before income taxes and equity in loss of affiliate	(11,255)	(
Income taxes	-	
	-----	-----
Loss before equity in loss of affiliate	(11,255)	(
Net gain from sale of equity investment	69,672	
	-----	-----
Net income/(loss)	58,417	(
	=====	=====

See accompanying notes to unaudited condensed financial statements.

20

Elender Business Communications Services Rt.

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Unaudited Condensed Statements of Cash Flows  
 Quarters Ended March 31, 2004 and 2003  
 In HUF'000

	2004 Q1
Cash flows from operating activities	
Net profit/(loss)	58,417
Adjustments to reconcile net profit to net cash used in operating activities:	
Depreciation and amortization	90,600
Gain from sale of equity investment	(69,672)
Changes in assets and liabilities	
Receivables	(108,807)
Prepaid and other assets	24,267
Payables and other current liabilities	38,718
Deferred revenue	(4,264)
	-----
Net cash provided by operating activities	29,259
Cash flows from investing activities:	
Purchase of property and equipment	(61,872)
	-----
Net cash used in investing activities	(61,872)
Cash flows from financing activities:	
Repayment of short-term and long-term loans	(43,208)
	-----
Net cash used in financing activities	(43,208)
Decrease in cash and cash equivalents	(75,821)
	-----
Cash and cash equivalents, beginning of period	76,702
Cash and cash equivalents, end of period	881
	=====

See accompanying notes to unaudited condensed financial statements.

21

### Basis of presentation

Elender Business Communications Services Rt. (the "Company") is a Hungarian Corporation, which is owned by Vitonas Investments Limited, a company with registered seat in Cyprus ("Vitonas"), Certus Kft., a Hungarian corporation ("Certus") and Rumed 2000 Kft. The Company is an Internet service provider in Hungary.

The accompanying unaudited condensed financial statements of the Company are stated in Hungarian Forints ("HUF") (the currency in Hungary) and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these financial statements include all adjustments, consisting mainly of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. Results for the interim periods are not necessarily indicative of the results for a full

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fiscal year. These unaudited condensed financial statements should be read in conjunction with the Company's audited financial statements and notes thereto as of and for the year ended December 31, 2003.

### Material events

In the first quarter of 2004, the Company sold its investment in its affiliate (Index Rt) for HUF 171,920,000 to Wallis. The sale was affected through a reduction of the short-term related party loan liabilities due to Wallis.

The Company has concluded a new bank loan agreement with Commerzbank Rt on June 1, 2004. This loan agreement was signed and replaced the existing loan facilities with Raiffeisen and to increase the current loan facilities to HUF 350 million and the overdraft facilities limit to HUF 450 million. Amounts outstanding on the Raiffeisen Loan were fully repaid.

22

(b) Pro forma financial statements:

EUROWEB INTERNATIONAL CORP.  
AND ELENDER RT

### UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

#### Basis of Preparation

The accompanying unaudited pro forma consolidated financial statements give effect to the acquisition by Euroweb International Corporation of 100% of Elender Rt. for approximately \$6,611,000 in cash consideration (including direct transaction costs of \$111,000) and 677,201 shares of Euroweb International Corporation's common stock with a fair value of \$2,898,420 less registration cost of \$21,000. The acquisition will be accounted for using the purchase method of accounting. Under this method, the purchase price has been allocated to the assets and liabilities based on preliminary estimates. The final purchase price allocation will be calculated based on the transaction value and the fair values of Elender Rt. identifiable assets and liabilities at the date of closure as of June 10, 2004 and it will be presented in the 06/30/2004 quarterly report. Therefore, the actual goodwill amount, as well as other balance sheet items, could differ from the preliminary unaudited pro forma consolidated financial statements presented herein, and in turn affect items in the preliminary pro forma condensed consolidated statement of operations, such as intangible asset amortization and income taxes.

The accompanying unaudited pro forma consolidated balance sheet as of March 31, 2004 and accompanying unaudited pro forma consolidated statements of operations for the year ended December 31, 2003 and the quarter ended March 31, 2004 were prepared based on the Company's interpretation of guidance issued by the United States Securities and Exchange Commission (specifically Article 11 of Regulation S-X). The unaudited pro forma consolidated statements of operations give effect to the acquisition as if it occurred on January 1, 2003. The unaudited pro forma consolidated balance sheet gives effect to the acquisition as if it occurred on March 31, 2004.

Euroweb International Corporation has presented these unaudited pro forma consolidated financial statements for illustrative purposes only. The unaudited pro forma consolidated financial statements are not necessarily indicative of the actual results of operations or financial position that would have occurred had the acquisitions occurred on the dates indicated, nor are they necessarily indicative of future operating results or financial position. No account has been taken within the unaudited pro forma consolidated financial statements to

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any synergy or any severance and restructuring costs that may, or may be expected to, occur following the acquisition. The unaudited pro forma consolidated financial statements are only a summary and should be read in conjunction with the historical consolidated financial statements and related notes of Euroweb International Corporation and Elender Rt. and other information included or incorporated by reference in this current report.

The pro forma adjustments described in the accompanying notes are based upon available information and certain assumptions that management believes are reasonable.

All pro forma amounts are presented in U.S. dollars, the reporting currency of Euroweb International Corporation.

23

There were no business transactions between Euroweb International Corporation and its subsidiaries and Elender Rt. during the periods presented.

24

Euroweb International Corp.  
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET  
March 31, 2004

	Restated Euroweb International Corporation (C)	Elender Rt.  (D)	Pro forma adjustments
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$12,050,485	\$ 4,326	(6,611,000)
Investment in securities	-	-	-
Trade accounts receivable, net	1,235,842	1,790,434	-
Related party receivables	748,285	-	-
Current portion of note receivable	124,143	-	-
Prepaid and other current assets	1,584,887	1,350,616	-
Total current assets	15,743,642	3,145,376	(6,611,000)
Note receivable, less current portion	-	-	-
Investment in affiliate	-	-	-
Property and equipment	2,727,193	4,380,952	-
Assets under construction	78,355	-	-
Goodwill	566,000	-	5,814,228
Intangibles- customer lists, brand name	-	-	2,412,759
Total assets	\$19,115,190 =====	\$7,526,328 =====	\$1,615,987 =====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Trade accounts payable	\$1,638,049	\$1,868,691	-
Related party payables	913,211	-	-
Related party loan payable	240,608	894,628	(894,628)
Other loan payable	-	625,263	1,606,138
Other current liabilities	998,387	267,159	-
Accrued expenses	431,247	1,314,057	-
Deferred IRU revenue	46,000	-	-
Deferred other revenues	951,472	34,038	-

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Total current liabilities	5,218,974	5,003,836	711,510
Non-current portion of def. IRU revenue	831,834	-	-
Non-current related party loan payable	962,435	2,313,513	(2,313,513)
Non-current other loan payable	-	4,763	536,773
Non-current portion of lease obligations	219,239	8,013	-
Total liabilities	7,232,482	7,330,125	(1,065,230)
Stockholders' equity			
Preferred stock, \$.001 par value			
Common stock, \$.001 par value	24,129	92,514	(91,837)
Additional paid-in capital	48,227,764	2,286,091	590,652
Accumulated deficit	(35,206,856)	(1,758,641)	1,758,641
Accumulated other comprehensive loss	(46,917)	(423,761)	423,761
Treasury stock	(1,115,412)	-	-
Total stockholders' equity	11,882,708	196,203	2,681,217
Total liabilities and stockholders' equity	\$19,115,190	\$7,526,328	\$1,615,987

See accompanying notes to the unaudited pro forma consolidated financial statements.

25

Euroweb International Corp.  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Restated Euroweb International Corporation (C)	Elender Rt. (D)	Pro forma adjustments	N o t e
Revenues				
Third party revenues	\$ 17,540,011	\$ 20,677,738	316,283	B
Related party revenues	5,740,709	316,283	(316,283)	B
Total Revenues	23,280,720	20,994,021	-	
Cost of revenues				
Third party cost of revenues	8,827,513	14,167,535	-	
Related party cost of revenues	5,796,351	-	-	
Total Cost of revenues	14,623,864	14,167,535	-	
Gross profit	8,656,856	6,826,486	-	
Operating expenses				
Compensation and related costs	3,173,720	1,130,957	-	
Severance to officers	-	-	-	
Consulting, professional and directors fees	2,135,056	1,328,870	-	
Other selling, general and	2,723,012	2,854,319	-	

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administrative expenses				
Goodwill impairment	980,538	-	-	
Impairment of intangibles	100,364	-	-	
Depreciation and amortization	1,727,796	1,523,222	804,253	A
	-----	-----	-----	
Total operating expenses	10,840,486	6,837,368	-	
	-----	-----	-----	
Loss from operations	(2,183,630)	(10,882)	(804,253)	
Net interest income/(expense)	344,571	(491,125)	-	
Foreign exchange gain, net	-	12,366		
Loss before income taxes	(1,839,059)	(489,641)	(804,253)	
Provision for income taxes	61,590	-	-	
	-----	-----	-----	
Equity in earnings (loss) of affiliate	109,622	(28,422)	-	
Net loss	<u>\$ (1,791,027)</u>	<u>\$ (518,063)</u>	<u>(804,253)</u>	
Net loss per share, basic and diluted	(0.44)			
Weighted aver. number of shares outst.	4,665,332			

See accompanying notes to the unaudited pro forma consolidated financial statements.

26

Euroweb International Corp.  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF  
 OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2004

	Restated Euroweb International Corporation (C)	Elender Rt. (D)	Pro forma adjustments	Note
Revenues				
Third party revenues	\$4,922,587	5,661,677	98,124	B
Related party revenues	1,490,767	98,124	(98,124)	B
	-----	-----	-----	-
Total Revenues	6,413,354	5,759,801	-	
Cost of revenues				
Third party cost of revenues	2,803,707	3,959,432	-	
Related party cost of revenues	1,251,354	-	-	
	-----	-----	-----	
Total Cost of revenues	4,055,061	3,959,432	-	
	-----	-----	-----	
Gross profit	2,358,293	1,800,369	-	
Operating expenses				
Compensation and related costs	876,237	269,792	-	
Consulting, professional and directors fees	411,179	409,746	-	

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Other selling, general and administrative expenses	716,194	606,038	-	
Depreciation and amortization	290,081	434,553	201,063	A
	-----	-----	-----	-
Total operating expenses	2,293,691	1,720,129	(201,063)	
Loss from operations	64,602	80,240	(201,063)	
Net interest income/(expense)	7,841	(134,222)	-	
Loss before income taxes	72,443	(53,982)	(201,063)	
Provision for income taxes	31,583	-	-	
	-----	-----	-----	
Gain from equity investment	-	334,174	-	
Net profit	\$40,860	\$280,192	(201,063)	
	=====	=====	=====	
Net profit per share, basic and diluted	0.01			
Weighted aver. number of shares outst.	4,665,332			

See accompanying notes to the unaudited pro forma consolidated financial statements.

27

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

- (A) To reflect the excess of acquisition cost over the estimated fair value of net assets acquired (goodwill). The purchase price, purchase price allocation, and financing of the transaction are summarized as follows:

Purchase price is calculated as as:

Cash	\$ 6,500,000
Fair value of shares issued less registration cost	2,877,420
Direct acquisition expenditures	111,000
	-----
Total purchase consideration	9,488,420
Allocated to:	
Transferable shareholders loan	1,065,230
Fair value of Elender's assets acquired and liabilities assumed	196,203
Customer contracts	2,412,759
	-----
Excess purchase price over allocation to identifiable assets and liabilities (Goodwill)	\$ 5,814,228
	=====

These unaudited pro forma consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately \$2.4 million to customer contracts intangible assets.

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These identified intangible assets will be amortized over a period of three years, which has been reflected as pro forma adjustment in the profit and loss statements. The purchase price allocation will be finalized upon the completion of intangible assets valuation.

In accordance with Statement of Financial Accounting Standard ("SFAS") No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized. Accordingly, there is no goodwill amortization expense in the pro forma consolidated statements of operations.

The estimated total purchase price of approximately \$9,488,420 consists of approximately \$6,500,000 cash, \$2,877,420 of Euroweb International's common stock, representing an estimated 677,201 shares and estimated direct transaction costs of approximately \$111,000. Under US GAAP, securities issued in a purchase business combination should be valued at market prices for a reasonable period before and after the measurement date in determining the fair value of the securities issued. For the purposes of these unaudited pro forma consolidated financial statements, the purchase consideration has been estimated using a signing date of the transaction, as measurement date, of February 23, 2004. Accordingly, the Euroweb International's shares issued in consideration are valued based on the average closing price of the Company's common stock for the five consecutive trading days between February 19, 2004 and February 25, 2004, which was \$4.28 per share.

28

- (B) The selling parties will also receive Euroweb International shares during the acquisition of Elender Rt. Each of them will have less than 10% of ownership in Euroweb International Corporation, so they are not categorized as related parties and those transactions are shown as third party transactions. Elender Rt has an insignificant business relationship with Pantel Rt, the related party in respect to Euroweb International Corporation. Total of \$3,208,141 short and long term related party loans of Elender has been reclassified as \$1,606,138 short term and \$536,773 long term third party loan, while \$1,065,230 is owed to Euroweb International Corporation (transferable shareholder loan).
- (C) Restated financial statements include the combined financial statements of Euroweb International Corporation and Euroweb Hungary Rt purchased in February 2004. According to SFAS No. 141, Business Combinations, transfers of net assets or exchanges of shares between entities under common control are required to be accounted for by the receiving entity at carryover or the predecessor basis of the transferring entity, so Euroweb Hungary is included in the books as if Euroweb Hungary had always been consolidated.
- (D) The historical financial position and results of operations of Elender Rt. have been derived from Elender's historical financial statements (denominated in Hungarian Forint) and translated, for the purpose of preparing pro forma financial information, into U.S. dollars using the following exchange rates:

Consolidated pro forma balance sheet as of March 31, 2004 - 203.65 HUF/US\$ (current exchange rate)

Consolidated pro forma statements of operations for the year ended December 31, 2003 - 223.66 HUF/US\$ (average exchange rate)

Consolidated pro forma statements of operations for the quarter ended March 31, 2004 - 208.49 HUF/US\$ (average exchange rate)



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(E) No adjustments were made to reflect the income tax effect of increased amortization of intangibles since Euroweb International Corporation has significant net operating loss carryforwards and, therefore, does not expect to have taxable income in the foreseeable future.

29

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: July 23, 2004  
Budapest, Hungary

30