

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

EUROWEB INTERNATIONAL CORP  
Form 10QSB  
November 14, 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 September 30, 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  
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EUROWEB INTERNATIONAL CORP.  
(Exact name of small business issuer as specified in its charter)

Delaware ----- (State or other jurisdiction of incorporation or organization)	13-3696015 ----- (I.R.S. Employer Identification No.)
--	--

1113 Budapest, Bocskai ut 134-146. Hungary  
-----  
(Address of principal executive offices)

+36-1-382-3771  
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 X No

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

Common Stock, \$.001 par value (Class)	4,665,326 (Outstanding at September 30, 2002)
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Transitional Small Business Disclosures Format (Check one): Yes No X

EUROWEB INTERNATIONAL CORP.

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PART I. Financial Information

# Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

## Item 1. Financial Statements

Consolidated balance sheets as of September 30, 2002 (unaudited) and December 31, 2001 (audited)

Consolidated statements of operations and comprehensive loss (unaudited) for the three months ended September 30, 2002 and 2001 and nine months ended September 30, 2002 and 2001

Consolidated statements of stockholders' equity for the nine months ended September 30, 2002 (unaudited) and twelve months ended December 31, 2001

Consolidated statements of cash flows (unaudited) for the nine months ended September 30, 2002 and 2001

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## Item 3. Controls and Procedures

## PART II. Other Information

### Signature

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

	September 30, 2002 (Unaudited)	December 31, 2001 (audited)
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents .....	\$ 1,501,254	\$ 1,512,303
Investment in securities .....	11,996,751	14,628,464
Trade accounts receivable, net .....	486,102	801,436
Current portion of note receivable .....	186,678	194,296
Prepaid and other current assets .....	609,417	598,484
	-----	-----
Total current assets .....	14,780,202	17,734,983
Note receivable, less current portion .....	222,702	363,976
Investment in affiliate .....	--	495,187
Property and equipment, net .....	1,336,201	1,426,604
Goodwill, net .....	3,562,538	3,562,538
Other intangibles, net .....	184,000	805,000
Other non-current assets .....	7,844	20,612
	-----	-----
Total assets .....	\$ 20,093,487	\$ 24,408,900

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Trade accounts payable .....	\$ 439,521	\$ 638,729
Current portion of acquisition indebtedness .....	180,000	180,000
Other current liabilities .....	579,395	704,483
Loan payable - short term portion .....	110,800	--
Accrued expenses .....	265,035	468,921
Deferred revenue .....	154,002	277,127

Total current liabilities ..... 1,728,753 2,269,260

Loan payable .....	--	94,904
Acquisition indebtedness, less current portion .....	--	180,000
Non-current portion of lease obligations .....	69,675	196,611

Total liabilities ..... 1,798,428 2,740,775

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	24,129
Additional paid-in capital .....	48,227,764	48,227,764
Accumulated deficit	(28,904,221)	(25,325,033)

Accumulated other comprehensive income/(loss): ..... 62,799 (143,323)

Treasury stock - 175,490 common shares, at cost ..... (1,115,412) (1,115,412)

Total stockholders' equity ..... 18,295,059 21,668,125

Commitments and contingencies

Total liabilities and stockholders' equity ..... \$ 20,093,487 \$ 24,408,900

See accompanying notes to consolidated financial statements.

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

	Three months ended		Nine mo
	September 30		Septe
	2002	2001	2002
Revenues .....	\$ 3,195,364	\$ 2,037,678	\$ 9,315,126

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Cost of revenues .....	2,336,679	1,249,992	6,190,113
	-----	-----	-----
Gross profit .....	858,685	787,686	3,125,013
Operating expenses			
Compensation and related costs .....	413,346	499,296	1,389,712
Severance to officers .....	--	--	2,020,832
Consulting and professional fees .....	153,269	203,198	692,767
Other selling, general and administrative expenses	284,556	522,047	1,187,198
Depreciation and amortization .....	322,681	687,462	774,228
Writedown of intangible assets - customer lists ..	448,500	--	448,500
	-----	-----	-----
Total operating expenses .....	1,622,352	1,912,003	6,513,237
Loss from operations .....	(763,667)	(1,124,317)	(3,388,224)
Net interest income .....	77,978	185,691	304,223
Equity in loss of affiliate .....	--	269,504	495,187
Loss before income taxes .....	(685,689)	(1,208,130)	(3,579,188)
	-----	-----	-----
Provision for income taxes .....	--	--	--
	-----	-----	-----
Net Loss .....	(685,689)	(1,208,130)	(3,579,188)
Other comprehensive (gain) loss .....	(127,346)	(81,562)	(206,122)
	-----	-----	-----
Comprehensive loss .....	\$ (558,343)	\$ (1,126,568)	\$ (3,373,066)
	=====	=====	=====
Net Loss per share, basic .....	(.15)	(.26)	(.77)
Weighted average number of shares outstanding .....	4,665,326	4,671,133	4,665,326

See accompanying notes to consolidated financial statements

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

	Common Stock Shares*	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Gains
	-----	-----	-----	-----	-----
Balances, December 31, 2000	4,801,696	\$24,129	\$48,227,764	\$ (19,742,020)	\$ (14,226,000)
	=====	=====	=====	=====	=====
Foreign currency translation gain	-	-	-	-	16,000
Unrealized gain on securities available for sale	-	-	-	-	26,000
Reclassification of realized gain	-	-	-	-	(172,000)

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to net income					
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)	\$ (143,000)
	=====	=====	=====	=====	=====
Foreign currency translation gain (loss)	-	-	-	-	2,000
Unrealized gain (loss) on securities available for sale	-	-	-	-	230,000
Reclassification of realized gain to net income	-	-	-	-	(26,000)
Net loss for the period	-	-	-	(3,579,188)	
Treasury stock	-	-	-	-	
	-----	-----	-----	-----	-----
Balances, September 30, 2002	4,665,326	\$24,129	\$48,227,764	\$ (28,904,221)	\$62,000
	=====	=====	=====	=====	=====

\* restated to reflect 1 for 5 reverse stock split

See accompanying notes to consolidated financial statements

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

	Nine Months Ended
	September 30,
	2002
	-----
Cash flows from operating activities:	
Net loss .....	\$ (3,579,188)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization .....	774,228
Amortization of discount on acquisition indebtedness .....	12,768
Writedown of intangibles - customer lists .....	448,500
Equity in loss of affiliate .....	495,187
Foreign currency loss .....	15,896
Realized gain on sale of securities .....	(62,786)
Unrealized interest income on securities .....	(250,065)
Changes in operating assets and liabilities net of effects of acquisitions:	
Accounts receivable .....	315,334
Prepaid and other assets .....	(10,933)
Accounts payable, other current liabilities and accrued expenses .....	(612,988)
Deferred revenue .....	(123,125)
	-----
Net cash used in operating activities .....	(2,577,174)
	-----
Cash flows from investing activities:	
Investment in securities .....	(13,506,666)
Maturity of securities .....	16,654,820
Repayments of notes receivable .....	148,892

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Repayments of loan receivable .....	--
Acquisition of property and equipment, intangibles .....	(511,325)
Net cash provided by (used in) investing activities .....	2,785,721
	-----
Cash flows from financing activities:	
Payments to acquire treasury stock .....	--
Payment of acquisition indebtedness .....	(180,000)
Principal payments under capital lease obligations .....	(42,130)
	-----
Net cash used in financing activities .....	(222,130)
	-----
Effect of foreign exchange rate changes on cash .....	2,534
	-----
Net decrease in cash and cash equivalents .....	(11,049)
Cash and cash equivalents, beginning of period .....	1,512,303
	-----
Cash and cash equivalents, end of period .....	\$ 1,501,254
	=====

See accompanying notes to consolidated financial statements.

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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 majority owner of Euroweb International Corporation is KPN Telecom BV, a Netherlands corporation.

The Company owns and operates Internet service providers in the Czech Republic, Romania and Slovakia. The Company operates in one business segment. The Company's consolidated statements of operations also include the equity in the net income of Euroweb Hungary Rt. (also referred to as "Euroweb Rt."), in which the Company has a 49% ownership interest. The other 51% of Euroweb Hungary Rt. is held by Pantel Rt., of which KPN Telecom BV is also the majority owner.

### 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 September 30, 2002 are not necessarily

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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 recoverability and period of benefit of other intangible assets and recoverability of goodwill.

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Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

### (d) Revenue recognition

Revenues from monthly Internet services are recognized in the month in which the services are provided. Revenue for other services, including equipment sales are recognized as the service is performed or the equipment is delivered.

### (e) Cost of revenues

Cost of revenues comprise principally of telecommunication network expenses, costs of content services and cost of internet equipment sold.

### (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

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Euroweb Hungary Rt.(a 49% held associate) net of goodwill amortization. The other 51% of Euroweb Hungary Rt. is held by Pantel Rt., a related party and major trading partner.

### (i) Property and equipment

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. 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.

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Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

### (j) Intangibles

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 31 2001. In accordance with the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142"), no amortization of goodwill has occurred since January 1, 2002. The Company assesses 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. The assessment of the recoverability will be impacted if estimated future operating cash flows are not achieved.

### (k) Net loss per share

The Company calculates "basic" and "diluted" earnings per share. Basic earnings(loss) per share includes 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



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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 September 30, 2002 and 2001, which were not included in the computation of diluted net loss per share because they were antidilutive.

### 3. Cash Concentration

At September 30, 2002, cash and cash equivalents included \$625,727 on deposit with a U.S. money market fund or major money center bank.

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### Euroweb International Corp. Notes to Interim Unaudited Consolidated Financial Statements

### 4. Investment in Securities

On January 25, 2002, the Company purchased a 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.

On May 1, 2002, the Company sold US Treasury Notes with a face value of \$2,120,000 for \$2,004,820 in order to cover the severances discussed in Note 7.

Of the \$480,087 difference between the market value as of September 30, 2002 and the purchase price of the remaining investment, \$250,065 is recorded as interest income on securities calculated with an effective interest rate of 3%, while the remaining \$230,022 has been recorded as a comprehensive gain.

### 5. Affiliate, carried on an equity basis

The Company's consolidated financial statements for the nine months ended September 30, 2002 and 2001 include the Company's 49% interest in the loss of Euroweb Hungary Rt. (also referred to as "Euroweb Rt.") Key information is indicated below:

	2002 (nine months)	2001 (nine months)
	-----	-----
Revenues .....	\$ 4,496,373	\$ 3,407,551
Gross profit .....	2,535,879	2,285,029
Net loss .....	\$ (1,321,600)	\$ (59,769)
	=====	=====
Company's 49% share of net loss .....	(647,584)	(29,287)
Amortization of purchase goodwill related to the Company's initial investment .....	--	(142,215)
		-----
Equity in net loss of affiliate .....	\$ (647,584)	\$ (171,502)
	=====	=====

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Loss recorded by the Company .....	\$ (495,187)	\$ (171,502)
	=====	=====

More than half of the net loss of Euroweb Rt. was due to the write off of goodwill of unprofitable subsidiaries. Particularly, a significant portion of the goodwill impairment resulted from an April 2002 acquisition (purchase of 100% of the shares of Freestart Rt., a free Internet Service Provider, for a purchase price of \$10,000). This Company had a net liability position of approximately USD 500,000 at the purchase date, due to a USD 1,000,000 liability to Pantel Rt. (the majority owner of Euroweb Rt. and a KPN Group subsidiary). As the main revenue stream of this entity is a revenue-sharing arrangement with the dominant player in local fixed-line telephony, the terms of which may be subject to legislation, management has decided to write-off the entire amount of the excess of purchase price over net fair value of the assets.

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The carrying value of the net investment in affiliate of \$ 495,187 at the beginning of the year has been written down to zero. Since the Company has no legal or commercial commitments to provide continuing financial support, the difference between the 49% equity interest in the net loss (\$ 647,584) and the opening net carrying value of the investment at the beginning of the year (\$495,187) has not been recorded.

### 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 nine 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. Severance to officers

In May 2002, the employment contract of two officers were terminated. The company has paid a total compensation of \$1,254,166 to Mr. Robert Genova and \$766,666 to Mr. Frank Cohen covering the period until the end of the employment contracts (December 2005).

The new management decided to close the New York offices and move the principal office to Budapest, Hungary by June 30, 2002.

### 8. Commitments and Contingencies

Employment agreements with Mr. Frank Cohen and Robert Genova were terminated in the second quarter of 2002 and their total compensation for the period from June 2002 to December 31, 2005 was settled. At the same time, Mr. Robert Genova and Mr. Frank Cohen forfeited all of their outstanding options in the Company.

There is one employment agreement remaining as of June 30, 2002 with the Company providing for aggregate annual compensation of \$96,000 through December 31, 2005.

### 9. Related Party Transactions

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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 nine months of 2002, sales to Pantel has increased to 52% of revenues of Euroweb Romania (which represents 35% in the consolidated revenues of the Company).

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Pantel has also invoiced USD 1,656,725 in the first nine months of 2002 to the subsidiaries of the Company in connection with the provision of internet bandwidth and international leased lines.

### 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 (Euroweb Czech Republic, Euroweb Slovakia, and Euroweb Romania) are wholly owned. The Company's consolidated statements of operations also includes 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 points (2) and (3), the main customer of the Company in 2002 was Pantel Telecommunication Rt., which is a Hungarian related party. The majority owner of Euroweb International Corporation and Pantel Telecommunication Rt is KPN Telecom BV, a Netherlands corporation.

##### Related party transactions - Pantel Telecommunications Rt.

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

Due to the fact that the increase of revenue comes from the new services 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, Chief Executive Officer of Euroweb International Corporation, is also the Chief Executive Officer of Pantel.

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

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

- Internet bandwidth

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- Costs of international leased lines outside Romania and Slovakia

The total amount of these services were USD \$1,656,725 during the nine month period ended September 30, 2002.

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

- Cost of international leased lines and local loops in Slovakia and Romania
- International IP and VOIP services for Pantel
- Commission

Total value of these services were approximately USD \$3,221,582 in the nine 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 considers alternative suppliers for individual projects, when appropriate.

Other: Some services provided by Pantel are invoiced through Euroweb Hungary Rt, of which 49% is owned by the Company and 51% is owned by Pantel. These transactions are considered as essentially Pantel services and disclosed as revenue of Pantel in point (a) as set forth above. 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 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

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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.

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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 been completed by June 30, 2002.

### Acquisitions

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

### Results of Operations

Nine-month Period Ended September 30, 2002 Compared to Nine-month Period Ended September 30, 2001

The Company has significantly increased its revenue and gross margin (in absolute terms) compared to the same period in the previous year; with most of this increase being attributable to activities in 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 (excluding the one-time termination payment to officers). In accordance with SFAS 142, the Company no longer amortizes goodwill. This has had a positive impact on the operating results of the nine months of 2002.

### Revenues

Total revenues for the nine months ended September 30, 2002 were \$9,315,126 in comparison with \$4,851,685 for the nine months ended September 30, 2001. The increase in revenues of \$4,463,441 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/nine months of	2002	2001
--------------------------------------	------	------

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Czech Republic	\$ 1,083,573	\$ 892,749
Romania	6,182,922	2,128,240
Slovakia	2,048,631	1,830,696
-----		
Total	9,315,126	4,851,685

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The new services were introduced in co-operation with Pantel Telecommunication Rt., a subsidiary of KPN Telecom BV, which is also the majority shareholder of the Company and therefore a related party. Sales to Pantel have 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 nine months of 2002 this percentage has increased to 52% (representing 35% of the consolidated revenues of the Company).

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

Revenue per services	2002	2001
-----		
ISP	\$ 3,563,873	\$ 3,538,577
Int. leased line and IP data	4,786,462	506,748
VOIP	964,791	806,360
-----		
Total	9,315,126	4,851,685

Cost of revenues

Cost of revenues consist primarily of telecommunication expenses.

Network costs were \$6,190,113 in 2002 in comparison to \$2,778,284 in 2001. Gross margin has decreased from 43% to 33% when compared to the previous year. Although there were no significant pricing policy changes within the Company during the first nine months of 2002, the margin rate has decreased due to the new services, which have significantly less margin than traditional ISP activity. Although the gross margin has fallen, the Company was able to increase gross profit by 51% in absolute terms.

Severance to officers

In May 2002, the employment contracts for two executive officers, which had fixed-terms until 2005, were terminated. A significant one-time cash outflow was paid as severance, with Mr. Robert Genova receiving \$1,254,166 and Mr. Frank Cohen receiving \$766,666.

The new management has closed the office in New York and moved the Company's principal office to Budapest, Hungary. The Company expects to reduce its compensation and related costs by \$45,000 per month as a result of the Company's relocation of its principal offices.

Operating expenses (excluding depreciation, amortization and severance)

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Despite the 92% increase in revenues and 51% increase in gross profit, overall operating expenses (excluding depreciation, amortization and severance) decreased by 4% as cost control measures and the operational consolidation of the subsidiaries acquired in 1999 and 2000 began to have a positive impact. This enabled the Company to roll out new services using the existing operational infrastructure minimizing the need for additional resources.

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### Depreciation and amortization

As disclosed above, no goodwill was amortized in 2002. Other intangibles, representing customer lists obtained in an acquisition in Romania in 2000, are being amortized (\$57,500 quarterly) over a period of five years. Depreciation of tangible fixed assets has increased from \$490,931 in 2001 to \$601,728 in 2002, reflecting the investment in equipment used to provide the new services.

### Writedown of intangibles - customer lists

On May 19, 2000, the Company purchased all of the Internet related assets of Sumitkom Rokura, S.R.L. an Internet service provider in Romania. The acquisition was accounted for as an asset purchase with a value of \$1,150,000 being assigned to customer lists acquired which are being depreciated over an estimated period of benefit of 5 years. However, an analysis of the customers and revenues as at September 30, 2002 indicated that most of the expected revenues to be generated by this customer list did not materialize. Therefore, the Company has written down \$448,500 of the customer list net book value. The remaining \$184,000 will continue to be amortized over the remaining period of benefit of 33 months. However, the Company will continue to assess the recoverability of this amount on a periodic basis and further writedowns will be made if required.

### Net interest income

Net interest income of \$304,223 in the nine months of 2002 is lower than the net interest income of \$778,352 in the nine 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

Euroweb Rt. has made several acquisitions over the past two years where goodwill has been initially recognized. However, management has considered such goodwill to be impaired and has subsequently made write-offs which have had a significant impact in the results for the first half of 2002. All goodwill previously recognized by Euroweb Rt. have now been written off and as of June 30, 2002, no goodwill exists on its books.

Although the Company's 49% interest in the net loss of Euroweb Rt. for the nine months ended September 30, 2002 is \$647,584, the opening net carrying value of the investment in the Company's financial statements at the beginning of the year was only \$495,187. Therefore, the net investment has been written down to zero. The difference of \$152,397 is not required to be recorded in the books of the Company as there is no legal or commercial commitment to provide continuing financial support. However, if in the future, Euroweb Rt. has net income, then the Company may only recognize its 49% interest on Euroweb Rt. net income in excess of \$152,397.

#### Liquidity and Capital Resources

The Company's cash, cash equivalents and marketable securities were approximately \$13,498,005 as of September 30, 2002, a decrease of \$2,642,762 from the end of 2001.

The Company has \$13,498,005 of cash, cash equivalents and marketable securities compared to \$ 1,798,428 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.

KPN Telecom B.V. (NY Stock Exchange: KPN) owns 52% of the outstanding shares of Common Stock of the Company. In November 2000, KPN 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, none of the offers to purchase 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.

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

#### Inflation and Foreign Currency

The Company maintains its books in local currencies, including 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 strengthened by 4.13%, while the Czech Korona has strengthened against the U.S. dollar by approximately 13% when comparing the nine months of 2002 and 2001. The impact of this is reflected in the exchange rates used in the nine months of 2002 and the nine 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 requires 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



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Assets to be Disposed of." The Company is required to implement Statement 142 on January 1, 2002.

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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 has completed the transition provisions described above .

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

The Financial Accounting Standards Board ("FASB") No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" ("Statement 146") was issued in June 2002. Statement 146 nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". `Costs' include (a) one-time termination benefits, (b) costs to terminate a contract that is not a capital lease and (c) other associated costs including costs to consolidate facilities or relocate employees. The Statement is based on the general principle that a liability for a cost associated with an exit or disposal activity should be (1) recorded when it is incurred and (2) initially measured at fair value. Thus, a commitment to an exit or disposal plan no longer will be

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a sufficient basis for recording a liability for those activities. The Company is required to adopt the provisions of Statement 146 for exit or disposal activities initiated after December 31, 2002. The Company is evaluating the impact, if any, Statement 146 may have on its future consolidated financial statements.

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### Forward-Looking Statements

When used in this Form 10-QSB, in other filings by the Company with the SEC, in the Company's press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer of the Company, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

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

Unless otherwise required by applicable law, the Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

### ITEM 3. CONTROLS AND PROCEDURES

As of September 30, 2002, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Accounting Officer, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2002. There have been no significant changes in the Company's internal controls or in other factors that significantly affect internal controls subsequent to September 30, 2002.

## PART II

### Item 1. Legal Proceedings

The Company is not a party to any material legal proceedings or aware of any governmental proceeding being contemplated by a governmental authority that has become reportable or had material developments during the quarter ended September 30, 2002.

### ITEM 2. Changes in Securities

None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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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 nine months 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)

- (3) (a) Certificate of Incorporation filed November 9, 1992(1)
- (3) (b) Amendment to Certificate of Incorporation filed July 9, 1997(2)
- (3) (c) By-laws(2)
- (99) (a) Certification of the Chief Executive Officer of Euroweb International Corp. U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley A
- (99) (b) Certification of the Chief Accounting Officer of Euroweb International Corp U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley A

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 November 2002.

EUROWEB INTERNATIONAL CORP.

By /s/Csaba Toro  
Csaba Toro, Chairman of the Board

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(1) Exhibits are incorporated by reference to Registrant's Registration Statement on Form SB-2 dated May 12, 1993 (Registration No. 33-62672-NY, as amended)

(2) Filed with Form 10-QSB for quarter ended June 30, 1998.

CERTIFICATIONS

I, Csaba Toro, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Euroweb International Corp.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such

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statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant, and we have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002.

/s/Csaba Toro  
Csaba Toro  
Chief Executive Officer

### CERTIFICATIONS

I, Peter Szigeti, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Euroweb International Corp.;

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2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant, and we have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002.

/s/Peter Szigeti  
Peter Szigeti  
Chief Accounting Officer