

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

EUROWEB INTERNATIONAL CORP  
Form 10QSB  
May 15, 2003

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

Form 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2003

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-1200

EUROWEB INTERNATIONAL CORP.  
(Exact name of small business issuer as specified in its charter)

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

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

+36-1-2244000	+36-1-8883783
Issuer's telephone number	Issuer's facsimile number

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes X No

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

Common Stock, \$.001 par value -----	4,665,332
(Class)	(Outstanding at March 31, 2003)

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

EUROWEB INTERNATIONAL CORP.

# Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

## INDEX

### PART I. Financial Information

#### Item 1. Financial Statements

Consolidated balance sheets as of March 31, 2003 (unaudited)  
and December 31, 2002 (audited)

Consolidated statements of operations and comprehensive loss  
(unaudited) for the three months ended March 31, 2003 and 2002

Consolidated statements of stockholders' equity for the three months ended  
March 31, 2003 (unaudited) and twelve months ended December 31, 2002

Consolidated statements of cash flows (unaudited) for the three months  
ended March 31, 2003 and 2002

Notes to interim (unaudited) Consolidated Financial Statements

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

#### Item 3. Controls and Procedures

### PART II. Other Information

#### Signature

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

March 31, 2003  
(Unaudited)

#### ASSETS

##### Current Assets

Cash and cash equivalents	\$ 998,
Investment in securities	12,146,
Trade accounts receivable, net	414,
Related party receivables	1,464,
Current portion of note receivable	200,
Prepaid and other current assets	1,215,
	-----
Total current assets	16,439,

Note receivable, less current portion	124,
Investment in affiliate	
Property and equipment, net	1,164,
Construction in progress	1,186,
Goodwill	1,546,

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Intangibles - customer lists	150,
	----
Total assets	\$20,611,
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Trade accounts payable	\$1,279,
Related party payables	865,
Acquisition indebtedness	180,
Other current liabilities	276,
Loan payable	
Accrued expenses	548,
Deferred IRU revenue	30,
Deferred other revenue	448,
	----
Total current liabilities	3,628,
Non-current portion of deferred IRU revenue	889,
Non-current portion of lease obligations	54,
	----
Total liabilities	4,572,
Stockholders' Equity	
Preferred stock, \$.001 par value - Authorized 5,000,000 shares; no shares issued or outstanding	
Common stock, \$.001 par value - Authorized 60,000,000 shares; Issued and outstanding 4,665,332 shares	24,
Additional paid-in capital	48,227,
Accumulated deficit	(31,281,
Accumulated other comprehensive income	184,
Treasury stock - 175,490 common shares, at cost	(1,115,
	-----
Total stockholders' equity	16,039,
	-----
Commitments and contingencies (note 6)	
Total liabilities and stockholders' equity	\$20,611,
	=====

See accompanying notes to consolidated financial statements.

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

Revenues

Third party revenues

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Related party revenues

Total Revenues

Cost of revenues

Third party cost of revenues

Related party cost of revenues

Total Cost of revenues

Gross profit

Operating expenses

Compensation and related costs

Consulting and professional fees

Other selling, general and administrative expenses

Depreciation and amortization

Total operating expenses

Loss from operations

Net interest income

Equity in loss of affiliate

Loss from operations before income taxes

Provision for income taxes

Net Loss

Other comprehensive loss

Comprehensive loss

Net Loss per share, basic

Weighted average number of shares outstanding

See accompanying notes to consolidated financial statements

3

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

Additional

Accumulat  
Other

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

	Common Stock Shares	Amount	Paid-in Capital	Accumulated Deficit	Comprehen Gains (Los
	-----	-----	-----	-----	-----
Balances, December 31, 2001	4,665,332	\$24,129	\$48,227,764	\$(25,325,033)	(143,323)
	=====	=====	=====	=====	=====
Foreign currency translation loss	-	-	-	-	160,68
Unrealized gain on securities available for sale	-	-	-	-	245,21
Reclassification of realized gain included in net income	-	-	-	-	(26,43
Net loss for the period	-	-	-	(5,894,234)	
	-----	-----	-----	-----	-----
Balances, December 31, 2002	4,665,332	\$24,129	\$48,227,764	\$(31,219,267)	\$236,14
	=====	=====	=====	=====	=====
Foreign currency translation gain (loss)	-	-	-	-	(3,64
Unrealized gain (loss) on securities available for sale	-	-	-	-	(47,95
Net loss for the period	-	-	-	(62,310)	
	-----	-----	-----	-----	-----
Balances, March 31, 2003	4,665,332	\$24,129	\$48,227,764	\$(31,281,577)	\$184,54
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

4

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

Cash flows from operating activities:

Net loss	\$ (62
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	209
Amortization of discount on acquisition indebtedness	5
Equity in loss of affiliate	(3
Foreign currency (gain) loss	
Realized gain on sale of securities	
Unrealized interest income on securities	(90

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Changes in operating assets and liabilities net of effects of acquisitions:	
Accounts receivable	(675)
Prepaid and other assets	(369)
Accounts payable, other current liabilities and accrued expenses	568
Deferred revenue	302
Net cash used in operating activities	(116)
Cash flows from investing activities:	
Investment in securities	
Maturity of securities	
Collections on notes receivable	39
Purchase of property and equipment	(843)
Net cash (used in) provided by investing activities	(803)
Cash flows from financing activities:	
Repayment of loan payable	(129)
Principal payments under capital lease obligations	(51)
Net cash used in financing activities	(181)
Effect of foreign exchange rate changes on cash	
Net increase (decrease) in cash and cash equivalents	(1,100)
Cash and cash equivalents, beginning of period	2,098
Cash and cash equivalents, end of period	\$998

See accompanying notes to consolidated financial statements.

5

Euroweb International Corp.  
Notes to Interim Unaudited Consolidated Financial Statements

### 1. Organization and Business

EuroWeb International Corp. (the "Company") is a Delaware corporation which was organized on November 9, 1992, and was a development stage enterprise through December 31, 1993. The controlling owner of Euroweb International Corp. is KPN Telecom BV, a Netherlands corporation.

The Company operates in the Czech Republic, Romania and Slovakia, through its subsidiaries Euroweb Czech Republic spol. s.r.o. ("Euroweb Czech"), Euroweb Slovakia a.s. ("Euroweb Slovakia") and Euroweb Romania S.A. ("Euroweb Romania"). The Company operates in one industry segment, providing Internet access and additional

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

value added services to business customers. The Company's consolidated statements of operations also include the equity in the net income or loss of Euroweb Hungary Rt., in which the Company has a 49% ownership interest. The other 51% of Euroweb Hungary Rt. is held by Pantel Telecommunication Rt., Hungary ("Pantel Rt."), of which KPN Telecom BV is also the controlling owner.

The revenues come from the following three sources:

- (1) Internet Service Provider (Internet access, Content and Web services, Other services)
- (2) International/domestic leased line, Internet Protocol data services
- (3) Voice over Internet Protocol services

For the services in points (2) and (3), the main customer of the Company in 2003 and 2002 was Pantel Rt.

### 2. Summary of Significant Accounting Policies

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

The consolidated financial statements comprise the accounts of the Company and its controlled subsidiaries. All material 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.

#### (b) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the Company include the period of benefit and recoverability of goodwill and other intangible assets.

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

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

6

Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

#### (d) Revenue recognition

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

During the year, the Company entered into an agreement to provide transmission capacity to a customer pursuant to an indefeasible

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

rights-of-use agreement ("IRUs") that management believe qualifies as an operating lease under Financial Accounting Standards Board Interpretation No. 13, "Accounting for Leases" ("FAS 13"), since the IRU agreement provides rights to use a specific subject asset for a defined period. Revenue attributable to the lease will be recognized on a straight-line basis over the term of the 20-year lease agreement, commencing upon completion of the installation in April 2003.

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

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

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

### (e) Cost of revenues

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

### (f) Foreign currency translation

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

Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

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

The Company conducts business and maintains its accounts for Euroweb Romania in the Romanian Lei ("ROL"). Romania is considered a highly



## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

inflationary economy and, therefore the U.S. dollar is used as the functional currency. The Company's financial statements presented in ROL are remeasured into U.S. dollars using the following policies:

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

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

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

### (g) Cash and cash equivalents

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

### (h) 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. Investments with remaining maturities of greater than one year are classified as long-term, while those with remaining maturities of less than one year are classified as short-term.

### (i) Investment in affiliate

The Company holds a minority interest of 49% in Euroweb Hungary Rt. which is controlled by its 51% shareholder, Pantel Rt. As the Company exerts significant influence over Euroweb Hungary Rt., the investment is carried under the equity method of accounting, with the Company recording its share of the earnings or loss of Euroweb Hungary Rt. Dividends are credited against the investment account when received.

### Euroweb International Corp.

#### Notes to Interim Unaudited Consolidated Financial Statements

As a result of continuing losses, the carrying value of the net investment in affiliate was written down to zero during 2002. Since the Company has no legal or commercial commitments to provide continuing financial support, no further losses will be recognized unless the Company makes additional qualifying investments in Euroweb Hungary Rt., and future profits will be recognized only once such profits exceed the amount of unrecorded losses. If the Company makes additional qualifying investments in Euroweb Hungary Rt., the Company would be required to recognize additional losses to the extent these additional investments are considered funding of unrecognized prior losses of Euroweb Hungary Rt.

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

### (j) Property and equipment

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

Recurring maintenance on property and equipment is expensed as incurred.

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

### (k) Goodwill and Intangibles

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. On January 1, 2002 the Company adopted Statement of Financial Accounting Standard No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which establishes new accounting and reporting standards for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17. Goodwill and intangible assets that have indefinite useful lives are no longer amortized but rather are tested at least annually for impairment. Intangible assets that have finite useful lives (whether or not acquired in a business combination) will continue to be amortized over their estimated useful lives, which are no longer limited to a maximum of 40 years. The adoption of SFAS 142 has eliminated the goodwill charge in 2002 and 2003.

Intangibles consist of customer lists which 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 using estimates of undiscounted future cash flows in a manner in accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"), with a write-down recorded in the third quarter of 2002. The carrying value of customer lists is considered impaired when the projected undiscounted future cash flows related to the asset are less than its carrying value. The Company measures impairment based on the amount by which the carrying value of the customer lists exceeds its fair market value. Fair market value is determined primarily using the projected future cash flows discounted at a rate commensurate with the risk involved. The assessment of the recoverability of the remaining balance will be impacted if estimated future operating cash flows are not achieved.

9

Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

### (l) Net loss per share

The Company has adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," ("SFAS No. 128"), which provides for the calculation of "basic" and "diluted" earnings per share. Basic

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

earnings(loss) per share include no dilution and is computed by dividing income(loss) attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings(loss) per share reflects the potential effect of common shares issuable upon exercise of stock options and warrants in periods in which they have a dilutive effect. The Company had potentially dilutive common stock equivalents for the years ended December 31, 2002 and the quarter ended March 31, 2003, which were not included in the computation of diluted net loss per share because they were antidilutive.

### (m) Comprehensive loss

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," ("SFAS No. 130") which established standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by, and distributions to, owners. Among other disclosures, SFAS No.130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company has chosen to present a Combined Statement of Operations and Comprehensive Loss.

### (n) Business segment reporting

The Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," ("SFAS No. 131"). SFAS No. 131 superseded FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS No. 131 establishes standards for disclosures about operating segments, products and services, geographic areas and major customers. Management has determined that the Company operates in one industry segment, providing Internet access and additional value added services to business customers. Substantially all of the Company's revenues are derived from the provision of such services.

### (o) 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 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.

### (p) Stock-Based compensation

10

Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25,

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

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

### (q) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

On January 1, 2002, the Company adopted SFAS No. 144 ("SFAS 144"), "Accounting for Impairment or Disposal of Long-Lived Assets," which establishes a single accounting method for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations. The adoption of this statement had no significant impact on the Company's results of operations or financial position. The Company evaluates the carrying value of long-lived assets to be held and used, including goodwill, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the projected undiscounted future cash flows related to the asset are less than its carrying value. The Company measures impairment based on the amount by which the carrying value of the respective asset exceeds its fair market value. Fair market value is determined primarily using the projected future cash flows discounted at a rate commensurate with the risk involved.

### (r) Asset Retirement Obligations

On January 1, 2003, the Company adopted Financial Accounting Standards Board No. 143 "Accounting for Asset Retirement Obligations" ("Statement 143") 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.

### (s) Recent accounting pronouncements

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.

In April 2002, the FASB issued SFAS No.145, Rescission of FASB Statements No.4, 44 and 64, Amendment of FASB Statement No.13, and Technical Corrections. SFAS No.145 amends existing

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No.145 also amends SFAS No.13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No.4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No.13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No.145 is not expected to have a material effect on the Company's financial statements.

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 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.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002. The Group has adopted the disclosure requirements and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. To date the company has not entered into or modified guarantees.

In December 2002, the FASB issued SFAS No.148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No.123. This Statement amends FASB Statement No.123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No.123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

notes to these consolidated financial statements.

12

Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For nonpublic enterprises, such as the Company, with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on the Company's financial statements.

In November 2002, the Emerging Task-Force issued its consensus on EITF 00-21, Revenue Arrangements with Multiple Deliverables ("EITF 00-21") on an approach to determine whether an entity should divide an arrangement with multiple deliverables into separate units of accounting. According to EITF 00-21, in an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if all of the following criteria are met: (1) the delivered item(s) has value to the customer on a standalone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s), and (3) if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor. If all the conditions above are met and there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration should be allocated to the separate units of accounting based on their relative fair values. The guidance in this Issue is effective for revenue arrangements entered into in fiscal beginning after June 15, 2003. The Company believes that the adoption of EITF 00-21 will not have a material impact on its financial statements.

At the January 23, 2003 meeting, the Emerging Issues Task Force (EITF) reached consensus on EITF 02-18 Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition. Issues 1 and 2 of EITF 02-18 which considered whether, (i) an investor should recognize any previously suspended losses when accounting for a subsequent investment in an investee that does not result in the ownership interest increasing from one of significant influence to one of control, and (ii), if the additional investment represents the funding of prior losses, whether all previously suspended losses should be recognized or whether only the previously suspended losses equal to the portion of the investment determined to be funding prior losses should be recognized. The EITF concluded that if the additional investment, represents, in substance, the funding of prior losses, the investor should recognize previously suspended losses only up to the amount of the additional investment determined to represent the funding of prior losses. At its February 5, 2003 meeting, the FASB ratified the consensus reached by the Task Force in this Issue. As discussed in notes 1 (i) and 6, the Company has discontinued recording losses on its equity method investment in Euroweb Hungary Rt., which is 51% owned by Pantel Rt., also a subsidiary of KPN. If the Company makes additional

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

investments in Euroweb Hungary Rt., the Company would be required to recognize additional losses to the extent these additional investments are considered funding of unrecognized prior losses of Euroweb Hungary Rt.

On April 30, 2003, the FASB issued FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to address (1) decisions reached by

13

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

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. Statement 149 has multiple effective date provisions depending on the nature of the amendment to Statement 133, and the Company is currently considering its potential effect on the financial statements.

#### 3. Investment in Securities

The Company holds investments in United States Treasury Notes with a face value of \$12,269,000, which mature on February 15, 2004.

As of March 31 2003, the Company has recorded net unrealized gains of \$ 197,258 and the accretion of interest and discount on the Notes of \$ 432,386 (\$ 90,159 of which is recorded in the first quarter of 2003).

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

The Company's consolidated statement of operations for the three months ended March 31, 2003 and 2002 include the Company's equity interest in the net income of Euroweb Hungary Rt. for each period, calculated as follows:

	2003 (three months)
Revenues	\$ 2,036,296
Gross profit	1,022,027
Net loss	\$ (132,470)
	=====
Company's 49% share of net loss	(64,910)
Equity in net loss recorded by the Company	\$ (-)
	=====
Unrecorded cumulative net loss	\$195,240
	=====

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

The carrying value of the investment was written down to zero in 2002. Since the Company has no legal or commercial commitments to provide continuing financial support, the equity in the net loss of Euroweb Hungary Rt. of \$64,910 has not been recorded. If the Company makes additional investments in Euroweb Hungary Rt., the Company would be required to recognize additional losses to the extent these additional investments are considered funding of unrecognized prior losses of Euroweb Hungary Rt. Moreover, only future profits in excess of the unrecorded loss of \$195,240 (\$64,910 from 2003 and \$130,330 unrecorded carry forward equity in loss of affiliate from 2002) may be recorded.

14

Pursuant to the non-compete provision in the shareholders' agreement, the Company cannot: (i) engage in any business activity listed in the scope of activities of Euroweb Hungary Rt.'s charter, which, among others, includes telecommunications, data bank activity and information technology activity, (ii) own or control any equity interest in any person or entity that engages in any such business activity or (iii) permit any of its employees to act as a director, officer, manager or consultant to any person or entity that engages in any such business activity. If the Company breaches its obligation set forth under this provision, the Company will be required to sell to PanTel Rt. all of its shares at the time of such breach at a price equal to the nominal value of such shares.

### 5. Stockholders' Equity

During the three months of 2003, 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.

### 6. Commitments and Contingencies

#### (a) Employment Agreements

An employment agreement with the Chief Executive Officer provides for aggregate annual compensation of \$96,000 through December 31, 2005.

#### (b) Lease agreements

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

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

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

#### (d) VAT audit - Romania

Currently the Romanian Tax Authorities are conducting an audit relating to the \$867,000 VAT receivable in the books of Euroweb Romania. This VAT receivable has been built up over the past 21 months as in Romania, it is normal practice to wait until a Tax Authority audit before requesting a refund from the Tax



## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Authorities. As of the date hereof, the Tax Authority has not reached a decision regarding this matter.

### 7. Related Party Transactions

The provision of international/domestic leased line and VOIP services are being provided in conjunction with Pantel Telecommunication Rt., an entity which is majority owned and controlled by the KPN Group (which also owns a majority interest in the Company). In 2002 and 2003, Pantel Telecommunication Rt. Hungary, a subsidiary of KPN and therefore a related party, is the most significant trading partner of the Company. Approximately 66% of the 2003 revenues of Euroweb Romania (translating into 36% of the consolidated revenues of the Company) were derived from the provision of services to Pantel.

15

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

#### Forward-Looking Statements

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

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

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

#### Operations

##### Overview

The Company owns and operates Internet Service Providers in the Czech Republic, Romania and Slovakia through its subsidiaries Euroweb Czech Republic spol. s.r.o. ("Euroweb Czech"), Euroweb Slovakia a.s. ("Euroweb Slovakia") and Euroweb Romania S.A. ("Euroweb Romania"). The Company operates in one industry segment, providing Internet access and additional value added services to business customers. The Company's consolidated statements of operations also include the equity in the net income or loss of Euroweb Hungary Rt., in which the Company has a 49% ownership interest. The other 51% of Euroweb Hungary Rt. is held by Pantel Telecommunication Rt., Hungary ("Pantel Rt."), of which KPN Telecom BV is also the controlling owner.

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

The Company's revenues come from the following three sources:

- (1) Internet Service Provider (Internet access, Content and Web services, Other services)
- (2) International/domestic leased line, Internet Protocol data services
- (3) Voice over Internet Protocol services

For the services in points (2) and (3), the main customer of the Company in 2002 and 2003 was Pantel Rt, a related party. The majority owner of Euroweb International Corporation and Pantel Rt is KPN Telecom BV, a Netherlands corporation.

Related party transactions - Pantel Telecommunications Rt.

16

General: The largest customer of the Company since early 2001 has historically 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 fibre cable connection which enables companies to transmit data to a variety of destinations by utilizing the international connections of Pantel.

Due to the fact that a significant level of revenue of the Company is generated as a result of sales to Pantel, several of the Company's consultants of 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 was also the Chief Executive Officer of Pantel in 2002. In February 2003, Csaba Toro resigned from the position of CEO of Pantel.

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 the Company:

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

The total amount of these services were USD \$514,896 during the three month period ended March 31, 2003.

(b) the Company 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 \$1,199,034 in the three month period ended March 31, 2003.

Direct sales to Pantel were 36% of total consolidated revenue, but Euroweb's dependency on Pantel is even greater than this figure suggests. Some third party sales involve Pantel as the subcontractor/service provider for the international/domestic lines, and some third party customers are also clients of Pantel outside of Romania (i.e. their relationship with Pantel is stronger than their relationship with Euroweb Romania).

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Effective dependency on Pantel, taking into account direct and Pantel-related sales, represents approximately 57% of total consolidated revenues of the Company and approximately 80-90% of total sales of Euroweb Romania. There is no such dependency in the case of Euroweb Czech or Euroweb Slovakia.

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

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

17

### Commitments and contingencies

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

The Company has entered into an employment agreement with the Chief Executive Officer which provides for aggregate annual compensation of \$96,000 through December 31, 2005.

In addition to the above contractual cash obligations, the Company's subsidiary in Romania has entered into a 20 year Indefeasible Right of Use agreement whereby for the duration of the agreement, Euroweb Romania is obliged to use all reasonable endeavours to ensure the Cable System is maintained in efficient working order and in accordance with industry standards. The total consideration of \$920,000 has already been received, and is being accounted for as an operating lease.

### Acquisitions

There were no new acquisition of subsidiaries or businesses in 2002 and the first three months of 2003.

### Results of Operations

Three-month Period Ended March 31, 2003 Compared to Three-month Period Ended March 31, 2002

The Company has slightly increased its revenue (6%), although gross margin has decreased in absolute terms (14%) as well as in percentage terms (gross margin was 37.8% in the first quarter of 2002, and decreased to 30.6% in the first quarter of 2003) compared to the same period in the previous year. A significant part (67%) of the revenue can be attributed to activities in Romania. During the same time period, the Company was able to reduce operating expenses, resulting in a significant improvement of the operating results. In accordance with SFAS 142, the Company no longer amortizes goodwill.

### Revenues

Total revenues for the three months ended March 31, 2003 were \$3,341,896 in comparison with \$3,150,580 for the three months ended March 31, 2002, which is an increase of 6%. There was a slight increase revenue in Romania and Slovakia, with a decrease in Czech Republic as follows:

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Revenue per countries/three months of	2003	2002
Czech Republic	\$ 322,323	\$ 343,384
Romania	2,236,257	2,123,474
Slovakia	783,316	683,722
Total	3,341,896	3,150,580

18

The Company has increased ISP and VOIP revenue in 2003 compared with the same period of 2002, however it has experienced reduction of revenue from international/national leased line and IP data revenue due to the loss of some key customers as well as market competition forcing the Company to reduce prices. Moreover, a significant part of the increase in ISP activity can be attributed to the weakened USD compared with the same period in 2002.

The proportion of revenue per service lines is as follows:

Revenue per services	2003	(margin)	2002
ISP	\$ 1,338,472		\$ 1,199,224
Int./dom leased line and IP data	1,431,424		1,584,125
VOIP	572,000		367,231
Total	3,341,896	(30.6%)	3,150,580

Cost of revenues

Cost of revenues comprise mostly telecommunication network telecom expenses which are related to the provision of access facilities to customers. This category also includes costs of phone calls in connection with VOIP services

Network costs were \$2,318,808 in the first quarter of 2003 in comparison to \$1,956,838 in the first quarter of 2002. Gross margin has decreased when compared to the same period in the previous year. The margin has decreased due to the following reasons: (1) the previously high internet margin in Slovakia and Czech Republic has been reduced to a more sustainable level; and (2) International/domestic leased line have also fallen significantly. The International/domestic leased line has a very high gross margin in 2002 due to a favourable one time agreement with one of the major suppliers of the Company.

Operating expenses (excluding depreciation and amortization)

Overall operating expenses (excluding depreciation and amortization) decreased by 12% due to cost control measures and the positive impact of the closing of the New York office in June 2002. The Company has implemented stringent cost control measures and is managing the business with the existing operational

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

infrastructure and minimizing the need for additional resources.

### Depreciation and amortization

As disclosed in Note 2(k) of the financial statements, no goodwill was amortized in 2002 and 2003. Depreciation of tangible fixed assets has increased from \$156,954 in 2002 to \$192,313 in 2003, reflecting the investment in equipment used to provide the new services.

19

### Net interest income

Net interest income of \$84,397 in the three months of 2003 is lower than the net interest income of \$125,804 in the three months of 2002. 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

Although the Company's 49% share in the net loss of Euroweb Hungary Rt. for the three months ended March 31, 2003 is \$64,910, the opening net carrying value of the investment in the Company's financial statements at the beginning of the year was zero due to the goodwill write-offs in 2002. Therefore, the loss of \$64,910 is not required to be recorded in the books of the Company. However, if in the future, Euroweb Hungary Rt. has net income, then the Company may only recognize its 49% interest on Euroweb Hungary Rt. net income in excess of \$195,240 (\$130,330 unrecorded from 2002 and \$64,910 unrecorded for the first quarter of 2003).

### Liquidity and Capital Resources

The Company's cash, cash equivalents and marketable securities were approximately \$13,144,747 as of March 31, 2003, a decrease of \$1,058,340 from the end of 2002, mainly due to capital expenditures related to the installation of the fibre optic cables in Romania.

The Company has \$13,144,747 of cash, cash equivalents and marketable securities compared to \$4,572,092 total short and long term liabilities, indicating that the Company is in a strong financial position. 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 for 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. KPN has announced that it intends to sell all of its non-core assets, including its ownership of 52% of the outstanding shares of the Company.

### 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.

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

The Slovakian Koruna has strengthened by 19%, while the Czech Koruna has strengthened against the U.S. dollar by approximately 19% between when comparing the three months of 2003 and 2002. The impact of this is reflected in the exchange rates used in the three months of 2003 and the three months of 2002.

20

### Effect of Recent Accounting Pronouncements

In April 2002, the FASB issued SFAS No.145, Rescission of FASB Statements No.4, 44 and 64, Amendment of FASB Statement No.13, and Technical Corrections. SFAS No.145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No.145 also amends SFAS No.13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No.4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No.13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No.145 is not expected to have a material effect on the Company's financial statements.

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 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.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others", an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002. The Company has adopted the disclosure requirements and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. To date, the Company has not entered into or modified guarantees.

In December 2002, the FASB issued SFAS No.148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No.123". This Statement amends FASB Statement No.123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Statement No.123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For nonpublic enterprises, such as the Company, with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on the Company's financial statements.

21

In November 2002, the Emerging Task-Force issued its consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21") on an approach to determine whether an entity should divide an arrangement with multiple deliverables into separate units of accounting. According to EITF 00-21, in an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if all of the following criteria are met: (1) the delivered item(s) has value to the customer on a standalone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s), and (3) if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor. If all the conditions above are met and there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration should be allocated to the separate units of accounting based on their relative fair values. The guidance in this Issue is effective for revenue arrangements entered into in fiscal beginning after June 15, 2003. The Company believes that the adoption of EITF 00-21 will not have a material impact on it's financial statements.

At the January 23, 2003 meeting, the Emerging Issues Task Force (EITF) reached consensus on EITF 02-18 "Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition". Issues 1 and 2 of EITF 02-18 which considered whether, (i) an investor should recognize any previously suspended losses when accounting for a subsequent investment in an investee that does not result in the ownership interest increasing from one of significant influence to one of control, and (ii), if the additional investment represents the funding of prior losses, whether all previously suspended losses should be recognized or whether only the previously suspended losses equal to the portion of the investment determined to be funding prior losses should be recognized. The EITF concluded that if the additional investment represents, in substance, the funding of prior losses, the investor should recognize previously suspended losses only up to the amount of the additional investment determined to represent the funding of prior losses. At its February 5, 2003 meeting, the FASB ratified the consensus reached by the Task Force in this Issue. As discussed in notes 1 (i) and 6, the Company has discontinued recording losses on its equity method investment in Euroweb Hungary Rt, which is 51% owned by Pantel Rt., also a subsidiary of KPN. If the Company makes additional investments in Euroweb Hungary Rt., the Company would be required to recognize additional losses to the extent these additional investments are considered funding of unrecognized prior losses of Euroweb Hungary Rt.

On April 30, 2003, the FASB issued FASB Statement No. 149, Amendment of

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

Statement 133 on Derivative Instruments and Hedging Activities, which amends FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to address (1) decisions reached by the Derivatives Implementation Group, (2) developments in other Board projects that address financial instruments, and (3) implementation issues related to the definition of a derivative. Statement 149 has multiple effective date provisions depending on the nature of the amendment to Statement 133, and the Company is currently considering its potential effect on the financial statements.

22

### Item 3. Controls and Procedures

As of March 31, 2003, 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 March 31, 2003. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2003.

## PART II

### Item 1. LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings as of the date of this report.

### Item 2. CHANGES IN SECURITIES

None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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

### ITEM 5. OTHER INFORMATION

None

23

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

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

- (3) (a) Certificate of Incorporation filed November 9, 1992(1)
- (b) Amendment to Certificate of Incorporation filed July 9, 1997(2)
- (c) By-laws(2)
- (99) (a) Certification of the Chief Executive Officer of Euroweb International Corp. Pursuant to 18 U.S.C. Section 1350,



## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (99) (b) Certification of the Chief Accounting Officer of Euroweb International Corp. Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 13th day of May 2003.

EUROWEB INTERNATIONAL CORP.

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

-----  
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.

24

### CERTIFICATIONS

I, Csaba Toro, certify that:

1. I have reviewed this quarterly report on Form 10-QSB 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 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

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

(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: May 15, 2003.

/s/Csaba Toro  
Csaba Toro  
Chief Executive Officer

### CERTIFICATIONS

I, Peter Szigeti, certify that:

1. I have reviewed this quarterly report on Form 10-QSB 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 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

## Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

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: May 15, 2003.

/s/Peter Szigeti  
Peter Szigeti  
Chief Accounting Officer