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EUROWEB INTERNATIONAL CORP
Form 10KSB
March 30, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

TRANSITIONAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-12000

EUROWEB INTERNATIONAL CORP.
(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.)

1138 BUDAPEST, VACI UT 141. HUNGARY
(Address of principal executive offices)

Issuer's telephone number, including area code: (+36) 1-88-97-101,
Facsimile: (+36)-1-88-97-100

Securities registered under Section 12(g) of the Exchange Act:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, par value \$.001 per share	NASDAQ SMALL CAP

Check whether the issuer is not required to file reports pursuant to Section 13
or 15 (d) of the Exchange Act.

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

Check if there is no disclosure of delinquent filers in response to Item 405 of
Regulation S-B contained in this form, and no disclosure will be contained, to
the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-KSB or any
amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in

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Rule 12b-2 of the Exchange Act) Yes No

Issuer had revenues of \$1,964,998 for the year ended December 31, 2005. As of March 24, 2006, 5,843,067 shares of Common Stock were outstanding of which 3,245,556 were held by non-affiliates of the Company. The aggregate market value of the Common Stock held by non-affiliates of the Company as of March 1, 2005 was \$11,524,969.

Transitional Small Business Disclosure Format (check one): Yes No

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

HISTORY OF BUSINESS

Euroweb International Corp. ("Euroweb") is a Delaware corporation and was organized on November 9, 1992. It was a development stage company through December 1993. In 1997, Euroweb entered the Internet field in Hungary and has started to grow through various acquisitions not only in Hungary, but also in the Czech Republic, Slovakia and Romania. Euroweb and its subsidiaries are collectively referred to herein as the "Company".

In December 2004, Euroweb disposed its 100% interest in its subsidiary in Czech Republic and in April 2005 also sold its 100% interest in its subsidiary in Slovakia. At that time, the Company was focusing on maintaining and growing its remaining operations in Hungary and Romania.

In October 2005, the Company stepped into the information technology ("IT") sector by acquiring 100% ownership of Navigator Informatika Rt. (,Navigator"), a Hungary-based provider of IT outsourcing, applications development, and IT consulting services.

On December 19, 2005, the Company has entered into a definitive Share Purchase agreement for the sale of its two Internet- and Telecom-related operating subsidiaries, Euroweb Internet Szolgaltato Rt. ("Euroweb Hungary") and Euroweb Romania S.A. ("Euroweb Romania"). These two Subsidiaries are classified as discontinued operations in the financial statements of the Company.

KPN Telecom BV ("KPN") owned approximately 43.54% of the outstanding

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shares of common stock of Euroweb as of December 31, 2004. On January 28, 2005, KPN entered into a Stock Purchase Agreement whereby it sold to CORCYRA d.o.o., a Croatian company ("CORCYRA"), 289,855 shares of Euroweb common stock for US \$1,000,000 on February 1, 2005 and has also agreed to sell its remaining 2,036,188 shares of Euroweb common stock on or prior to April 30, 2006. As of December 31, 2005, KPN owned 35.20% of the outstanding shares of common stock of Euroweb.

EUROWEB STRATEGY

The Company's business has shown continued revenue growth (taking into account revenue from continuing and discontinued operations) since it entered the Internet field in January 1997. The Company commenced a consolidation strategy in various Central and Eastern European countries as follows:

- o In Hungary the Company acquired three Internet and telecommunications companies in 1997 that were eventually consolidated and named Euroweb Internet Szolgaltato Rt. The Company acquired Freestart Kft ("Freestart") in 2003 and Elender Rt. ("Elender") in 2004, which were subsequently merged with Euroweb Hungary. The Company also acquired Navigator Informatika Rt. in Hungary in 2005;

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- o In Romania, the Company acquired two Internet and telecommunications companies in 2000 that were eventually consolidated and named Euroweb Romania;
- o In Slovakia the Company acquired four Internet and telecommunications companies from 1999 to 2000, that were eventually consolidated and named Euroweb Slovakia; and
- o In the Czech Republic the Company acquired two Internet and telecommunications companies during 1999 and 2000 that were eventually consolidated and named Euroweb Czech Republic.

This active and successful merger and acquisition approach, which was implemented over the last few years, is discussed in detail under the heading History of Acquisitions and Dispositions, below.

In 2004, management recognized that the leased line market for an Internet service provider ("ISP") has a limited ability to generate profit. The expectation that the Company's core Internet business is likely to become more and more difficult to grow without its own infrastructure led Euroweb to decide to move into a new and fresh market.

In 2004, the Company commenced this strategy with the sale of its Internet service assets located in the Czech Republic and Slovakia. The disposition of Euroweb Hungary and Romania, which are engaged in the business of providing Internet service in Hungary and Romania, respectively, will be the culmination of the Company's decision to move out of its Internet service market. The Company expects to close the sale of Euroweb Hungary and Romania during the second quarter of 2006 however it cannot provide any guarantees that such sale will close.

The acquisition of Navigator was a key element in redirecting Euroweb into new markets. The closing of the sale of Euroweb Hungary and Euroweb Romania will allow the Company to redeploy capital to acquire additional assets in IT space

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and other unidentified industries that the Company deems profitable, as well as focus its expertise in the area of IT outsourcing in Central and Eastern Europe. If the opportunity presents itself, the Company will consider implementing its consolidation strategy with its remaining subsidiary and any other business that it enters. However, the Company does not presently have any plans, proposals or arrangements to redeploy its capital or engage in any specific acquisitions. The Company has not yet identified any additional specific industries in which to invest.

Rather than servicing individual users, the Company focuses its efforts on business users and seeks to satisfy their IT outsource service needs with high quality and reliable service. In addition to Central Europe, the Company seeks opportunities in the United States, provided that they consist of certain parameters, which are deemed to be potentially lucrative for the Company.

HISTORY OF ACQUISITIONS AND DISPOSITIONS

Euroweb entered the ISP market in Central Europe through various acquisitions of companies in that area over the past eight years. In 2005, the scope of activity was changed by the acquisition of Navigator, which is active in the IT services industry and the decision to sell the Company's operations in the ISP market.

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Hungary

On January 2, 1997, the Euroweb acquired all of the outstanding stock of three Hungarian ISPs for a total purchase price of approximately \$1,785,000, consisting of 28,800 shares of common stock of the Company and \$1,425,000 in cash (collectively, the "1997 Acquisitions"). The 1997 Acquisitions included the following:

- o EUNET (Hungary Ltd.) for a total cash cost of \$1,000,000, and an assumption of \$128,000 in liabilities;
- o E-Net Hungary Telecommunications and Multimedia for a total cash cost of \$200,000 and \$150,000 in stock (12,000 shares); and
- o MS Telecom Rt. for a total cash cost of \$225,000 and \$210,000 in stock (16,800 shares).

Thereafter in 1997, the three Hungarian companies were combined and merged into a new Hungarian entity, Euroweb Hungary. On November 22, 1998, the Company sold 51% of the outstanding shares of Euroweb Hungary to Pantel Rt. ("Pantel") for \$2,200,000 in cash and an agreement to increase the share capital of Euroweb Hungary by \$300,000 without changing the ownership ratio. In February 2004, the Company acquired the 51% of Euroweb Hungary that it had sold to Pantel. Euroweb Hungary is presented as a discontinued operation in the financial statements for all periods presented due to the proposed sale of Euroweb Hungary to Invitel Tavkozlesi Szolgaltato Rt. ("Invitel"). The consideration paid by the Company for the 51% interest comprised EUR 1,650,000 (\$2,105,000) in cash and a guarantee that Euroweb Hungary will purchase at least HUF 600 million (approximately \$3,000,000) worth of services from Pantel Rt. in each of the three years ending December 31, 2006. In each of 2003 and 2004, Euroweb Hungary and subsidiaries purchased in excess of HUF 700 million (approximately \$3,500,000) in services from Pantel. In the event that Euroweb Hungary and its subsidiaries do not satisfy this commitment, Pantel may charge a penalty equal to 25% of the commitment amount less any services purchased.

On June 9, 2004, the Company acquired all of the outstanding shares of

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Elender, an ISP located in Hungary that provides internet access to the corporate and institutional (public) sector and, amongst others, 2,300 schools in Hungary. Consideration paid of \$9,350,005 consisted of \$6,500,000 in cash and 677,201 of the Company's shares of common stock, valued at \$2,508,353 excluding registration cost, and \$391,897 in transaction costs (consisting primarily of professional fees incurred related to attorneys, accountants and valuation advisors).

Under the terms of this agreement, the Company has placed 248,111 unregistered shares of newly issued (in the name of the Company) common stock with an escrow agent as security for approximately \$1.5 million loans payable to former shareholders of Elender. The shares will be returned to the Company from escrow once the outstanding loans have been fully repaid. However, if there is a default on the outstanding loan, then the shares will be issued to the other party and the Company is then obliged to register the shares. As of December 31, 2005, the Company had repaid all of the loans that were outstanding. In January 2006, the Company acquired and subsequently cancelled the shares that were put into escrow.

On October 7, 2005, the Company acquired all of the outstanding shares of Navigator, a Hungary-based provider of IT outsourcing, applications development and IT consulting services. Consideration paid of \$10,760,772 consisted of \$8,500,000 in cash and 441,566 shares of Euroweb common stock valued at \$1,752,134 excluding registration cost, and \$508,638 in transaction costs (consisting primarily of professional fees incurred related to attorneys, accountants and valuation advisors).

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On December 19, 2005, Euroweb entered into a share purchase agreement with Invitel for the sale of Euroweb Hungary and Euroweb Romania. The purchase price for the subsidiaries specified in the share purchase agreement is \$30,000,000. 98% of the purchase price, or \$29,400,000, is payable at closing and the remaining 2% is payable upon delivery of a certificate prepared by an independent auditor identifying the net indebtedness of the two subsidiaries, which are required to be debt free. As part of the closing, \$6,000,000 from the cash proceeds will be paid by Euroweb International to Euroweb Hungary in exchange for the 85% ownership of Navigator currently held by Euroweb Hungary. This amount will be used by Euroweb Hungary for repayment of \$6,000,000 bank loan obtained for the acquisition of Navigator. The closing of the sale of Euroweb Hungary and Euroweb Romania is subject to approval of the competition office in Hungary, the buy-out of 85% ownership of Navigator from Euroweb Hungary by Euroweb International Corporation and approval of the shareholders of Euroweb. Euroweb Hungary and Euroweb Romania are classified as discontinued operations for all periods presented in the financial statements of the Company.

Romania

On May 19, 2000, the Company purchased all of the Internet related assets of Sumitkom Rokura, S.R.L. an ISP in Romania, for \$1,561,125 in cash. The acquisition has been accounted for as an asset purchase with a value of \$1,150,000 being assigned to customer lists acquired.

On June 14, 2000, the Company acquired all of the outstanding shares of capital stock of Mediator S.A., an ISP in Romania for \$2,040,000 in cash and the assumption of a \$540,000 liability to the former owner payable in annual installments of \$180,000 commencing on June 1, 2001. Goodwill arising on this purchase was \$2,455,223. Immediately after the purchase, the name of this company was changed to Euroweb Romania. This acquisition was effective as of

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July 1, 2000.

Czech Republic

On June 11, 1999, the Company acquired all of the participating interests of Luko CzechNet, an ISP in the Czech Republic, for a total cost of \$1,862,154, including 90,000 shares of the Company's common stock and 50,000 options valued at \$2.00 per share; the balance paid in cash. This acquisition was effective as of June 1, 1999.

On August 25, 2000, the Company, through its subsidiary, Luko Czech, acquired all of the outstanding capital stock of Stand s.r.o., an ISP in the Czech Republic, for \$280,735 in cash. Stand s.r.o. was merged into Luko Czech under the name of Euroweb Czech Republic. This acquisition was effective as of September 1, 2000.

On December 16, 2004, the Company sold all of its shares in its wholly-owned subsidiary, Euroweb Czech for cash of \$500,000. Additionally, as a part of the transaction, the Company forgave \$400,000 of loans receivable from Euroweb Czech.

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Slovakia

On July 15, 1999, the Company acquired all of the outstanding shares of capital stock of EUnet Slovakia, an ISP in the Slovak Republic, for a total cost of \$813,299 including 47,408 shares of the Company's common stock valued at \$400,005 issued August 9, 1999; the balance was paid in cash. This acquisition was effective as of August 1, 1999.

The Company made another acquisition of a Slovak ISP on July 15, 1999 with the purchase of 70% of the outstanding shares of Dodo s.r.o.'s subsidiary, R-Net, for a total cost of \$630,234, including 29,091 shares of the Company's common stock valued at \$200,000 issued August 13, 1999; the balance was paid in cash. This acquisition was effective as of August 1, 1999.

On September 23, 1999 and November 16, 1999, the Company acquired from Slavia Capital o.c.p., a.s. 70% and 30%, respectively, of the issued and outstanding stock of Global Network Services a.s.c., a Slovakian corporation providing Internet service primarily to businesses located in Bratislava and other major cities in Slovakia for a total purchase price of \$1,633,051, including 71,114 shares of the Company's common stock valued at \$499,929 issued on September 23, 1999; the balance was paid in cash. The acquisition of 70% of Global Network Services a.s.c. was effective as of October 1, 1999.

On April 21, 2000, the Company acquired all of the outstanding capital stock of Isternet SR, s.r.o., an ISP in the Slovak Republic, for \$1,029,299 in cash. Goodwill arising on this purchase was \$945,200. This acquisition was effective May 1, 2000.

On May 22, 2000, the Company acquired the remaining 30% of R-Net (the initial 70% being acquired in 1999) for \$355,810 in cash. Goodwill arising on this purchase was \$357,565.

All of the Company's Slovakian operations were then merged into one company under the name of Euroweb Slovakia. On April 15, 2005, Euroweb sold 100% of its interest in its wholly-owned subsidiary Euroweb Slovakia to DanubiaTel a.s. The purchase price was \$2,700,000.

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Euroweb Czech Republic, Euroweb Hungary, Euroweb Slovakia and Euroweb Romania are classified as discontinued operations in the Company's financial statements for all periods presented.

Stock issued to KPN Telecom B.V.

On February 11, 2000, a special meeting of the Company's shareholders approved the issuance and sale by the Company to KPN, of 2,057,348 shares at \$7.90 per share and rights to shares equal to all other outstanding warrants, options and other securities at \$6.90 per share. At closing, KPN exercised its option to purchase 303,362 shares at \$6.90 per share in addition to the 2,057,348 shares at \$7.90 per share. These transactions gave KPN control of 51% of the Company's common stock and therefore, voting control, of the Company. This transaction provided the Company with more than \$18,000,000 in capital to fund future acquisitions.

PRODUCTS AND SERVICES

Since Euroweb Hungary and Euroweb Romania are presented as discontinued operations, these Internet- and telecom- related activities are not included in the discussion below.

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Navigator operates through its wholly owned subsidiaries, Navigator Info Kft. and Navigator Engineering Kft. and is engaged in information technology outsourcing, applications development and information technology consulting services, primarily in the Hungarian market. Navigator's client base includes primarily large organizations both in the corporate and institutional (public) sector.

The revenues of Navigator are generated from recurring services, from project-based one-time services and from the sale of IT devices. Navigator provides IT services in the following fields, according to client demands:

- o Full service IT System operation (alias: Complete IT outsourcing), comprising full service support and maintenance with a cost-effective and competitive service desk system, call center, hotline support and remote troubleshooting
- o IT system implementation and IT project management, including: consultancy, system design, development and implementation and training; and
- o Sale of IT devices

CUSTOMERS

The Company, through its Navigator subsidiary, serves more than 3,500 users, close to 100 companies, government institutes, mid-sized and large corporations. The customers are local and national businesses and professionals, including telecommunication carriers and multinational corporations. However, 27% of the consolidated sales revenue of \$1,964,998 in the period from October 7, 2005 to December 31, 2005 is derived from one customer, which was a former owner of Navigator. 83% of the consolidated sales revenue for the period October 7, 2005 to December 31, 2005 was generated from the four most significant customers of the Company.

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ORGANIZATION

Project management

Navigator employs approximately five people in project management, who are mainly responsible for bid-management and operations service management activities. Their main task involves creating business offers and interaction with IT System operation departments within the Company.

Operations and maintenance

Navigator employs approximately 50 people in operations and maintenance, who are mainly responsible for client and servers support activities. Their main task involves full service client support, server hosting and close interaction with bid-management departments within the company.

Sales and Marketing

Navigator employs approximately three people in sales and one person in marketing. To date, Navigator has sold its IT outsource products and services primarily through direct personal and telephone contact. The sales force works closely with the bid-management group, which is responsible for installations at multiple sites, support and technical consulting services.

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EMPLOYEES

The Company employs a total of 85 employees, who are full-time employees as of December 31, 2005. The Company's employees are not represented by any labor organization.

GOVERNMENT REGULATIONS

Euroweb is not currently subject to direct government regulation other than laws and regulations applicable to businesses generally. There are specific industry laws that may apply to the local subsidiaries in the field of IT services. However, it is likely that new laws and regulations involving the provision of IT outsourcing and consultancy services will be adopted at the local, state, national or international levels covering issues such as user privacy, freedom of expression, pricing of products and services, taxation and information security.

ITEM 2. DESCRIPTION OF PROPERTIES

The following table lists the office space that the Company leases from unaffiliated persons:

Lessee	Address of Property	Primary Use	Sq. feet	Rent Amount/ Month
Navigator Informatika Rt.	1095 Budapest, Mariassy utca 5-7. Hungary	General operation	15,140	EUR 18,500

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Euroweb Hungary	Vaci ut 141. H-1138 Budapest, Hungary	stockholder relations, general executive, general operation	18,000	EUR 27,000
Euroweb Romania	Lipscani 102 Street, 3rd Floor, NOUVEAU CENTER, Sector 3 Bucharest, Romania	general operations	4,951	\$9,300

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are a party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not involved currently in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

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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 last quarter of the fiscal year ended December 31, 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

The Company's common stock is traded on the Nasdaq SmallCap Market ("Nasdaq") under the symbol "EWEB".

The following table sets forth the high and low bid prices for the Company's common stock during the periods indicated as reported by Nasdaq.

	HIGH (\$)	LOW (\$)
	-----	-----
QUARTER ENDING:		
2004		
March 31, 2004	7.45	3.70
June 30, 2004	6.20	3.25
September 30, 2004	3.74	2.13
December 31, 2004	5.56	2.40

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2005		
March 31, 2005	4.03	2.93
June 30, 2005	4.89	2.81
September 30, 2005	4.73	2.97
December 31, 2005	4.52	3.10

On March 24, 2006 the closing bid price on the Nasdaq for the Company's common stock was \$3.36.

HOLDERS OF COMMON STOCK

As of March 24, 2006, the Company had 5,843,067 shares of common stock outstanding and 104 shareholders of record. The Company was advised by its transfer agent, the American Stock Transfer & Trust Company, that according to a search made, the Company has approximately 6,153 beneficial owners who hold their shares in street names.

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DIVIDENDS

It has been the policy of the Company to retain earnings, if any, to finance the development and growth of its business.

EQUITY COMPENSATION PLANS

Plan Category	Number of shares to be issued upon exercise of outstanding options and warrants	Weighted-average exercise price of outstanding options and warrants	Number of shares remaining available for future issuance under equity compensation plans
-----	-----	-----	-----
Approved by security holders	605,000	\$4.20	195,000
Not approved by security holders	183,330	\$4.13	-
-----	-----	-----	-----
Total	788,330	\$4.18	195,000
=====	=====	=====	=====

The equity compensation plans are discussed in Note 14 of the 2005 Consolidated Financial Statements.

SALE OF SECURITIES THAT WERE NOT REGISTERED UNDER THE SECURITIES ACT OF 1933

The Company did not sell any securities that were not registered under the Securities Act of 1933 during the year ended December 31, 2005 that have not been previously included in a Quarterly Report on Form 10-QSB or a Current Report on Form 8-K.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company operates in Hungary and Romania, through its subsidiaries

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Euroweb Hungary, Navigator and Euroweb Romania. Euroweb Hungary and Euroweb Romania are currently held for sale and are classified as discontinued operations for all periods presented in the Company's financial statements.

On December 16, 2004, the Company disposed of Euroweb Czech Republic for \$500,000 and no longer has operations in the Czech Republic. On April 15, 2005, the Company disposed of Euroweb Slovakia for cash of \$2,700,000 and, as a result, has ceased operations in Slovakia.

On December 15, 2005, the Board of Directors of the Company decided to sell 100% of its interest in Euroweb Hungary and Euroweb Romania. On December 19, 2005, the Company entered into a share purchase agreement with Invitel, a Hungarian joint stock company, to sell 100% of the Company's interest in Euroweb Hungary and Euroweb Romania, subject to various conditions including, but not limited, to shareholders' approval.

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The Company believes that the sale of Euroweb Czech and Euroweb Slovakia and the proposed sale of Euroweb Hungary and Euroweb Romania meet the criteria for presentation as discontinued operations under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets.", Therefore Euroweb Czech, Euroweb Slovakia, Euroweb Hungary and Euroweb Romania are reclassified as discontinued operations in the financial statements of the Company for all periods presented.

Through its subsidiary Navigator, the Company provides a full range of information technology outsourcing services. The IT outsourcing services provided by the Company primarily comprise IT maintenance, procurement, consultancy and related services.

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

- o Full service IT System operation (alias: Complete IT outsourcing), comprising full service support and maintenance with a cost-effective and competitive service desk system, call center, hotline support and remote troubleshooting
- o IT system implementation and IT project management, including: consultancy, system design, development and implementation and training
- o Sale of IT devices

ACQUISITIONS AND DISPOSALS

(a) Acquisition of Navigator

On October 7, 2005, the Company acquired all of the outstanding shares of Navigator, an IT outsource service provider located in Hungary. Consideration paid of \$10,760,772 consisted of \$8,500,000 in cash and 441,566 of the Company's common shares valued at \$1,752,134 excluding registration cost, and \$508,638 in transaction costs (consisting primarily of professional fees incurred related to attorneys, accountants and valuation advisors). The results of Navigator have been included in the Company's consolidated financial statements from the date of acquisition.

In accordance with the purchase method of accounting prescribed by SFAS No. 141 "Business Combinations", the Company allocated the consideration to the tangible net assets and liabilities and intangible assets acquired, based on

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their estimated fair values. The consideration has been allocated as follows:

Fair value of Navigator's recorded assets acquired and liabilities assumed	\$ (325,055)
Identified intangibles - customer contracts	3,494,231
Deferred tax liabilities	(559,076)
Excess purchase price over allocation to identifiable assets and liabilities (Goodwill)	8,150,672

Total consideration	\$ 10,760,772
	=====

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In performing this purchase price allocation of acquired intangible assets, the Company considered its intention for future use of the assets, analyses of historical financial performance and estimates of future performance of Navigator's services, among other factors. Acquired identifiable intangible assets obtained in the Company's acquisition of Navigator relate to customer contracts which are being amortized over estimated useful lives of 1-4 years.

The excess of the purchase price over the fair value of the identifiable tangible and intangible net assets acquired was assigned to goodwill. In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), goodwill will not be amortized but will be tested for impairment at least annually.

Although the former owners of Navigator received shares of common stock of the Company, each of the former owners of Navigator currently holds less than 10% of the outstanding shares of common stock in the Company. Therefore, they are not considered related parties and those transactions are shown as third party transactions in the accompanying consolidated financial statements of the Company.

(b) Disposal of Euroweb Slovakia

On April 15, 2005, the Company disposed of Euroweb Slovakia a.s. ("Euroweb Slovakia") for cash of \$2,700,000 and, as a result, has ceased operations in Slovakia.

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our 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, assumptions and disclosures. We choose accounting policies within US GAAP that management believes are appropriate to accurately and fairly report our operating results and financial position in a consistent manner. Management regularly assesses these policies in light of current and forecasted economic conditions. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions for a number of reasons. Our accounting policies are stated in Note 2 to the 2005 Consolidated Financial Statements. We identified the following accounting policies as critical to understanding the

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results of operations and representative of the more significant judgments and estimates used in the preparation of the consolidated financial statements: impairment of goodwill, allowance for doubtful accounts, acquisition related assets and liabilities, accounting of income taxes.

Impairment of goodwill and other intangible assets: SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives are not to be amortized, but instead tested for impairment at least annually and at other times when facts or circumstances indicate that the recorded amount of goodwill may be impaired. If this review indicates that goodwill is not recoverable, the Company's carrying value of the goodwill is reduced by the estimated shortfall. The Company has compared the carrying value of Navigator with the estimated fair value of the business operations and determined that goodwill recorded as of October 7, 2005 was not impaired. We cannot assure that there will be no future events or changes in cash flow estimates or other circumstance, which may significantly change the carrying value of goodwill.

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Allowance for Doubtful Accounts: We make judgments as to our ability to collect outstanding accounts receivable and provide an allowance for a portion of our accounts receivable when collection becomes doubtful. We also make judgments about the creditworthiness of customers based on ongoing credit evaluations and the aging profile of customer accounts receivable and assess current economic trends that might impact the level of credit losses in the future. Historically, our allowance for doubtful accounts has been sufficient to cover our actual credit losses. However, since we cannot predict changes in the financial stability of our customers, we cannot guarantee that our allowance will continue to be sufficient. If actual credit losses are significantly greater than the allowance that we have established, this would increase our operating expenses and our reported net loss. To the extent the Company establishes a valuation allowance or increases this allowance in a period, the impact will be included in the tax provision in the statement of operations. So far, we have not experienced material differences in credit losses comparing to allowances. An increase of the valuation allowance by 1% of the outstanding receivable as of December 31, 2005 would result in a \$17,403 reduction of the Company's net income for the year then ended.

Acquisition Related Assets and Liabilities: Accounting for the acquisition of a business as a purchase transaction requires an allocation of the purchase price to the assets acquired and the liabilities assumed in the transaction at their respective estimated fair values. The most difficult estimations of individual fair values are those involving intangible assets. We use all available information to make these fair value determinations and, for major business acquisitions, engage an independent valuation specialist to assist in the fair value determination of the acquired long-lived assets. Due to inherent subjectivity in determining the estimated fair value of long-lived assets in business acquisitions that we have completed, we believe that the recording of acquired assets and liabilities is a critical accounting policy. Any decrease in useful life of the assets or necessary impairment may result reduction of Company's result through higher amount of amortization, depreciation of assets or impairment charge. The maximum exposure of such an effect is \$3,132,300, which is the net value of those assets as of December 31, 2005

Accounting for Income Taxes: We recognize deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and

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liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount of the valuation allowance. In addition, tax reserves are based on significant estimates and assumptions as to the relative filing positions and potential audit and litigation exposures related thereto. To the extent the Company establishes a valuation allowance or increases this allowance in a period, the impact will be included in the tax provision in the statement of operations.

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COMMITMENTS AND CONTINGENCIES

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

On April 6, 2005, Navigator entered into a long-term loan agreement with Commerzbank Bank Rt (the "Bank") for HUF 201,250,000 (approximately \$942,270 using December 31, 2005 exchange rate), with an interest rate of three month BUBOR +2.5%. Approximately \$740,354 was outstanding at December 31, 2005. The loan is repayable in 14 quarterly instalments of HUF 14,375,000 (approximately \$67,300) plus quarterly interest starting on May 31, 2005. The shares of Navigator were pledged as collateral for this loan, as well as a general lien established on all of the assets of the Company.

In addition to the long-term loan agreement, Navigator also entered into an overdraft facility for unlimited period of time with 30 days termination period with the Bank for HUF 130,000,000 (approximately \$608,671) on July 20, 2005. Approximately \$325,409 was outstanding at December 31, 2005

Additionally, on September 1, 2005, Navigator entered into a two-month loan facility agreement with the Bank for approximately \$140,462 (HUF 30,000,000) to fund working capital. The Company did not utilize these funds under this agreement as of December 31, 2005. The contract was extended to March 31, 2006.

The Company entered into a six-year agreement with its Chief Executive Officer and Director, Csaba Toro on October 18, 1999, which commenced January 1, 2000, and provided for an annual compensation of \$96,000. The agreement was amended in 2004 and 2005. The amended agreement provides for an annual salary of \$200,000 and a bonus of up to \$150,000 in 2005, and an annual salary of \$200,000 and a bonus of up to \$150,000 in 2006, 2007 and 2008, as well as an annual car allowance of \$30,000 for the same period.

The Company has entered into a two-year employment agreement with Moshe Schnapp as President and Director of the Company starting from April 15, 2005, which grants an annual compensation of \$250,000 to be paid in the form of Euroweb shares of common stock. The number of shares to be received by Mr. Schnapp is calculated based on the average closing price 10 days prior to the commencement of each employment year. For the year ended April 14, 2006, Mr. Schnapp will receive 82,781 Euroweb shares of common stock.

In February 2004, the Company purchased the remaining 51% of Euroweb Hungary from Pantel. The consideration paid by the Company for the 51% interest consisted of EUR 1,650,000 (\$2,105,000) in cash, and a purchase commitment that

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Euroweb Hungary will purchase at least HUF 600 million (approximately \$3 million) worth of services from Pantel in each year from 2004 to 2006. In the event that Euroweb Hungary and its subsidiaries do not satisfy this commitment, Pantel may charge a penalty equal to 25% of the commitment amount less any services purchased. Purchases in 2004 and 2005 exceeded this amount. From the date of acquisition of Euroweb Hungary by Invitel, any claim arising from this commitment will be payable by Invitel.

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The following table summarizes the commitments described above:

Contractual Cash Obligations	2006	2007	2008	2009	After 2009
Capital leases	\$ 24,675	-	-	-	-
Operational leases	\$ 278,408	\$278,408	\$278,408	\$278,408	\$266,807
Employment agreements (1)	\$ 200,000	\$200,000	\$200,000	-	-
Purchase commitment	\$3,000,000	-	-	-	-
Bank overdraft	\$ 325,409	-	-	-	-
Bank loan payable	\$ 269,220	\$269,220	\$201,914	-	-
Total Contractual Cash Obligations	\$4,097,712	\$747,628	\$680,322	\$278,408	\$266,807

(1) Csaba Toro's (CEO) yearly base salary without bonus

On or before the date of closing of the sale of Euroweb Hungary and Euroweb Romania to Invitel, Euroweb International will purchase 85% ownership of Navigator representing a purchase obligation in a value of \$6,000,000 in cash. At the date of closing at the latest, Euroweb Hungary has to settle all of its bank loans including the \$6,000,000 Commerzbank loan obtained for the acquisition of Navigator.

Due to the Company's strategy of aggressive acquisition, the Company may seek to incur additional material debts, which are not reflected in the table above.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

Due to the acquisition of Navigator Informatika Rt. on October 7, 2005 and the discontinued operation presentation of Euroweb Hungary, Euroweb Romania, Euroweb Slovakia and Euroweb Czech, the profit and loss statements for the year ended December 31, 2005 and 2004 are not comparable. The financial figures for 2004 only show the corporate expenses of the Company's legal entity registered in the State of Delaware, while Navigator is only consolidated from October 7, 2005.

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Year ended December 31,	2005	2004
	-----	-----
Total Revenues	\$ 1,964,998	\$ 0

The revenue increase reflects the consolidation of Navigator from October 7, 2005.

Cost of revenues (excluding depreciation and amortization)

The following table summarizes our cost of revenues (excluding depreciation and amortization) for the year ended December 31, 2005 and 2004:

Year ended December 31,	2005	2004
	-----	-----
Total cost of revenues	\$ 511,658	\$ 0

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Cost of revenues (excluding depreciation and amortization) principally comprises cost of fixed assets sold during the course of IT outsourcing projects, cost of materials required to perform IT outsourcing activities and cost of project-dedicated sub-contractors consolidated from October 7, 2005.

Compensation and related costs

The following table summarizes our compensation and related costs for the year ended December 31, 2005 and 2004:

Year ended December 31,	2005	2004
	-----	-----
Compensation and related costs	\$ 1,054,342	\$ 361,809

Overall compensation and related costs increased by 291% (approximately \$693,000) due mainly to the following factors: increase due to acquisition of Navigator in October 2005 (estimated at approximately \$495,000) and compensation for the new president.

Consulting, director and professional fees

The following table summarizes our consulting and professional fees for the year ended December 31, 2005 and 2004:

Year ended December 31,	2005	2004
	-----	-----
Consulting, director and professional fees	\$ 1,396,096	\$ 463,549

Overall consulting, director and professional fees increased by 301% (approximately \$933,000) due mainly to the following factors: increase due to acquisition of Navigator in October 2005 (estimated at approximately \$384,000) and the remaining increase of \$549,000 is due to increased cost of several consultants, investment bankers, advisors, accounting and lawyers fee in relation with the acquisition and disposal activity of the company during the year as well as compensation charge of warrants issued during 2005.

Other selling, general and administrative expenses

The following table summarizes our other selling, general and

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administrative expenses for the year ended December 31, 2005 and 2004:

Year ended December 31,	2005	2004
	-----	-----
Other selling, general and administrative expenses	\$ 703,770	\$ 454,514

Overall other selling, general and administrative expenses increased by 155% (approximately \$249,000) mainly due to the acquisition of Navigator in October 2005.

Depreciation and amortization

The following table summarizes our depreciation and amortization for the year ended December 31, 2005 and 2004:

Year ended December 31,	2005	2004
	-----	-----
Depreciation	\$ 147,547	\$ 2,048
Amortization of intangibles	\$ 361,931	-
Total depreciation and amortization	\$ 509,478	\$ 2,048

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Depreciation has increased by \$147,547 in the year ended December 31, 2005 compared to the same period in 2004. The increase can be attributed exclusively to the acquisition of Navigator.

Amortization of intangibles of \$361,931 in 2005 relates to certain customer contracts of Navigator, which were recognized as intangible assets upon acquisition.

Net interest income

The following table summarizes our net interest income for the year ended December 31, 2005 and 2004:

Year ended December 31,	2005	2004
	-----	-----
Interest income	\$ 2,512	\$ 49,154
Interest expense	\$ (38,240)	-
Net interest (expense) income	\$ (35,728)	\$ 49,154

The decrease in net interest income is due to the fact that (i) less interest-generating funds were available in this period than in the same period of the previous year because funds were disbursed in connection with acquisition of Navigator in 2005 (ii) the effective interest rate on these investments has decreased over the periods in question (iii) securities expired on February 15, 2004, without new investments being made due to cash being needed to fund acquisitions in 2004, and (iv) consolidation of Navigator and the loan liability of Navigator has increased interest expense by more than \$38,000 due to loans outstanding, and consequently have reduced net interest income.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2005, our cash, cash equivalents and marketable securities were approximately \$1.6 million, a decrease of approximately \$0.8 million from the end of fiscal year 2004. Despite of increased cash flow from operations and sale of Euroweb Slovakia in 2005, the acquisition of Navigator, increased capital expenditures of subsidiaries and the repayment of notes

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payable and bank loans contributed mainly to the decrease of cash in 2005.

Cash flow from operations in fiscal 2005 was \$4.2 million, an increase of 53% from fiscal 2004. The change is due to the increased profitability and cash flow generation ability of Euroweb Hungary and Euroweb Romania.

Cash used in investing activities in 2005 was \$8.9 million due to the following three factors: (i) positive effect of sale of Euroweb Slovakia - \$2.7 million (ii) acquisition of Navigator - \$9, million and (iii) capital expenditures - \$2.6 million. In 2004, net cash provided by investing activities was \$1.4 million despite the acquisition of Elender and 51% of Euroweb Hungary for altogether \$9 million and capital expenditure of \$1.7 million primary due to the over \$11 million in cash invested into US Government Securities, which matured in February 2004 and originated from capital injections by KPN in previous years.

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Cash provided by financing activities in 2005 was approximately \$4 million. From this amount is \$4.2 million from discontinued operations consisting of \$6 million loan received from Commerzbank to acquire Navigator offset by \$1.8 million for repayment of bank and Pantel loans, notes and principal payments under capital leases. The remaining \$0.2 million cash used is in connection with Navigator loan repayments and payments under capital lease obligations of continued operation. In 2004, all of the Company's cash used in financing activities related to discontinued operations, comprising \$2.2 million for repayment of bank and Pantel loans, notes and principal payments under capital leases in connection with Euroweb Hungary and Euroweb Romania.

The Company currently anticipates that its available cash resources will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for at least the next 12 months if the Company completes the sale of Euroweb Hungary and Euroweb Romania. Unsuccessful disposition of these or one of the subsidiaries and an associated potential penalty of EUR 400,000 may lead to liquidity difficulties without further capital raising or additional indebtedness.

In the event the Company makes future acquisitions in Central and Eastern Europe, the excess cash on hand, additional bank loans or fund raising may be used to finance such future acquisitions. The Company may consider the sale of non-strategic assets or subsidiaries.

INFLATION AND FOREIGN CURRENCY

The Company maintains its books in local currencies: Hungarian Forint for Hungary and the Romanian Lei for Euroweb Romania.

The Company's operations are primary outside of the United States through its wholly owned subsidiaries. As a result, fluctuations in currency exchange rates may significantly affect the Company's sales, profitability and financial position when the foreign currencies, primarily the Hungarian Forint, of its international operations are translated into U.S. dollars for financial reporting. In addition, we are also subject to currency fluctuation risk with respect to certain foreign currency denominated receivables and payables. Although the Company cannot predict the extent to which currency fluctuations may or will affect the Company's business and financial position, there is a risk that such fluctuations will have an adverse impact on the Company's sales, profits and financial position. Because differing portions of our revenues and costs are denominated in foreign currency, movements could impact our margins

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by, for example, decreasing our foreign revenues when the dollar strengthens and not correspondingly decreasing our expenses. The Company does not currently hedge its currency exposure. In the future, we may engage in hedging transactions to mitigate foreign exchange risk.

The translation of the Company's subsidiaries forint denominated balance sheets into U.S. dollars, as of December 31, 2005, has been affected by the weakening of the Hungarian forint against the U.S. dollar from 180.29 as of December 31, 2004, to 213.58 as of December 31, 2005, an approximate 16% depreciation in value. The average Hungarian forint/U.S. dollar exchange rates used for the translation of the subsidiaries forint denominated statements of operations into U.S. dollars, for the years ended December 31, 2005 and 2004 were 199.42, 202.74, respectively.

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EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees in the income statement. SFAS 123(R) is effective for the Company as of January 1, 2006. The Company is currently assessing the impact SFAS 123(R) will have on its financial statements.

In December 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing" ("ARB 43") to eliminate the "so abnormal" criterion in ARB 43 and requires companies to recognize abnormal freight, handling costs, and amounts of wasted material (spoilage) as current-period charges. Additionally, SFAS 151 clarifies that fixed production overhead cost should be allocated to inventory based on the normal capacity of the production facility. SFAS 151 is effective for inventory costs incurred during annual periods beginning after June 15, 2005. The Company is currently assessing the impact SFAS 151 may have on its financial statements and is not expected to have a material impact on our financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" which replaces Accounting Principles Board Opinions No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." This statement applies to all voluntary changes in accounting principle and changes resulting from adoption of a new accounting pronouncement that does not specify transition requirements. SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 with early implementation permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this statement was issued. SFAS 154 is effective for the Company as of January 1, 2006 and is not expected to have a material impact on financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 amends SFAS No. 133, "Accounting for Derivative

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Instruments and Hedging Activities" ("SFAS 133") and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS 155 resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS 155 is effective for the Company for all financial instruments acquired or issued after January 1, 2007 and is not expected to have a material impact on the Company's financial statements.

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RISK FACTORS

The Company is subject to certain risk factors due to the industry in which it competes and the nature of its operations. These risks include the following:

WE HAVE INCURRED NET LOSSES FOR THE PRIOR PERIODS AND WE WILL AGAIN INCUR NET LOSSES IF WE ARE UNABLE TO GENERATE SUFFICIENT REVENUE AND CONTROL COSTS.

We incurred net losses from continuing operations of \$2,018,166 for the year ended December 31, 2005 and \$1,402,766 for the year ended December 31, 2004. We may not achieve profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate or if operating expenses exceed our expectations or cannot be adjusted accordingly, we will continue to incur losses. Our future performance is dependent upon the successful development and marketing of our services and products and additional acquisition about which there is no assurance. Any future success that we might enjoy will depend upon many factors, including factors out of our control or which cannot be predicted at this time. These factors may include changes in or increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs, including costs of supplies, personnel and equipment, reduced margins caused by competitive pressures and other factors. These conditions may have a materially adverse effect upon us or may force us to reduce or curtail operations.

WE COULD INCUR MATERIAL ADDITIONAL EXPENSES, WHICH COULD REDUCE OUR GROSS MARGINS OR INCREASE OPERATING LOSSES, IF THE IT SERVICE INDUSTRY BECOMES SUBJECT TO ADDITIONAL REGULATIONS.

The IT service industry is not currently subject to direct regulation other than regulation applicable to businesses generally. However, changes in the regulatory environment relating to the IT industries could have an effect on our business, which may be materially adverse to our interests. Additionally, legislative proposals from international, federal, state and foreign governmental bodies in the areas of content regulation, intellectual property, privacy rights and tax issues, could impose additional regulations and obligations upon all online service and content providers, which may be materially adverse to our interests. We cannot predict the likelihood that any such legislation be introduced, nor the financial impact, if any, of the resulting regulation.

As we may seek to acquire more companies, we may choose to finance these acquisitions through proceeds generated from debt financing, which may lead to a substantial increase in interest expenses.

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OUR FUTURE SUCCESS IS DEPENDENT, IN PART, ON THE PERFORMANCE AND CONTINUED SERVICE OF OUR CHIEF EXECUTIVE OFFICER AND OUR ABILITY TO ATTRACT ADDITIONAL QUALIFIED PERSONNEL. IF WE ARE UNABLE TO DO SO OUR RESULTS FROM OPERATIONS MAY BE NEGATIVELY IMPACTED.

Our success will be dependent on the personal efforts of Csaba Toro, Chief Executive Officer. The loss of the services of Mr. Toro could have a material adverse effect on our business and prospects. We do not have and do not intend to obtain "key-man" insurance on the life of any of our officers. The success of our company is largely dependent upon our ability to hire and retain additional qualified management, marketing, technical, financial and other personnel. Competition for qualified personnel is intense, and there can be no assurance that we will be able to hire or retain additional qualified management. The inability to attract and retain qualified management and other personnel will have a material adverse effect on our company as our key personnel are critical to our overall management as well as the development of our technology, our culture and our strategic direction.

OUR WHOLLY OWNED SUBSIDIARY, NAVIGATOR, IS HIGHLY DEPENDENT ON FOUR CUSTOMERS. IF THESE COMPANIES WERE TO TERMINATE OUR RELATIONSHIP, OUR RESULTS FROM OPERATIONS WOULD BE MATERIALLY IMPACTED.

27% of the consolidated sales revenue in the year ended December 31, 2005 is derived from one customer, which was a former owner of Navigator Rt. 83% of the consolidated sales revenue for the year ended December 31, 2005 was generated from the four most significant customers of the Company.

INCREASED COMPETITION IN THE IT OUTSOURCE SERVICE INDUSTRY MAY MAKE IT DIFFICULT FOR OUR COMPANY TO ATTRACT AND RETAIN CUSTOMERS AND TO MAINTAIN CURRENT PRICING LEVELS.

The market for IT outsource products and services is intensely competitive. The Company expects competition to persist, intensify and increase in the future. Such competition could materially adversely affect the Company's business, operating results or financial condition.

The main competitors of Navigator are coming from different segments of market, depending on the size of the targeted customers. Therefore, the competitors of Navigator are the following:

- o Large accounts, corporate enterprises segment:
 - o T-Systems Hungary, subsidiary of the incumbent telecom operator
 - o EDS Magyarorszag
 - o HP Hungary
- o Medium size enterprises segment:
 - o IBM Hungary
 - o KFKI Group
 - o Synergon
 - o British Telecom Hungary

The Company may face intense competition from other companies directly involved in the same business and also from many other companies offering

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products which can be used in lieu of those offered by the Company. Competition can take many forms, including convenience in obtaining products, service, marketing and distribution channels. Although the Company believes it can compete on the basis of the quality and reliability of its services, there can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially adversely affect the Company's business, operating results or financial condition.

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FOREIGN CURRENCY AND EXCHANGE RISKS AND RATE REVALUATION.

The Company will be subject to significant foreign exchange risk. There are currently no meaningful ways to hedge currency risk in either Hungary, Romania or Slovakia. Therefore, the Company's ability to limit its exposure to currency fluctuations is significantly restricted. The Company's ability to obtain dividends or other distributions is subject to, among other things, restrictions on dividends under applicable local laws and foreign currency exchange regulations of the jurisdictions in which its subsidiaries operate. The laws under which the Company's operating subsidiaries are organized provide generally that dividends may be declared by the partners or shareholders out of yearly profits subject to the maintenance of registered capital and required reserves and after the recovery of accumulated losses.

OTHER RISK FACTORS AFFECTING SHAREHOLDERS/INVESTORS

Possible Future Capital Needs.

The Company currently anticipates that its available cash resources will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for at least the next 12 months if the Company completes the sale of Euroweb Hungary and Euroweb Romania. In case of unsuccessful disposition of these subsidiaries may lead to financial difficulties, which will partly due to the potention penalty of EUR 400,000. If the disposal is completed, the Company has no definitive plans for acquisitions at this time, the Company may have future acquisitions that could potentially exceed available funds. Therefore, the Company may need to raise additional funds in order to support more rapid expansion, acquire complementary businesses or technologies or take advantage of unanticipated opportunities through public or private financing, strategic relationships or other arrangements. There can be no assurance that such additional funding, if needed, will be available on terms acceptable to the Company, or at all. If adequate funds are not available on acceptable terms, the Company may be unable to develop or enhance its services and products or take advantage of future opportunities either of which could have a material adverse effect on the Company's business, results of operations and financial condition.

No Dividends.

It has been the policy of the Company to not pay cash dividends on its common stock. At present, the Company will follow a policy of retaining all of its earnings, if any, to finance the development and expansion of its business

Potential Issuance of Additional Common and Preferred Stock.

The Company is currently authorized to issue up to 35,000,000 shares. The Board of Directors of the Company will have the ability, without seeking stockholder approval, to issue additional shares of common stock in the future

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for such consideration as the Board of Directors may consider sufficient. The issuance of additional common stock in the future will reduce the proportionate ownership and voting power of the common stock offered hereby. The Company is also authorized to issue up to 5,000,000 shares of preferred stock, the rights and preferences of which may be designated in series by the Board of Directors. To the extent of such authorization, such designations may be made without stockholder approval. The designation and issuance of series of preferred stock in the future would create additional securities which may have voting, dividend, liquidation preferences or other rights that are superior to those of the common stock, which could effectively deter any takeover attempt of the Company.

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FORWARD-LOOKING STATEMENTS

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

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

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

ITEM 7. FINANCIAL STATEMENTS.

Reference is made to the Consolidated Financial Statements of the Company, beginning with the index thereto on page F-1

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On April 15, 2005, the Company was notified by KPMG Hungaria Kft. ("KPMG"), its independent public accountants, that it was declining to stand for re-election as the Company's auditor for the year ended December 31, 2005. Further, on April 15, 2005, the Company engaged Deloitte Kft. ("Deloitte") as its principal independent accountant. This decision to engage Deloitte was taken upon the unanimous approval of the Board of Directors of the Company and was approved by the shareholders meeting held on June 2, 2005.

During the fiscal year ended December 31, 2004 and through April 15, 2005, (i) there were no disagreements between the Company and KPMG on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of KPMG would have

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caused KPMG to make reference to the matter in its reports on the Company's financial statements, and (ii) KPMG's report on the Company's financial statements did not contain any adverse opinion, disclaimer of opinion, or modification or qualification of opinion. During the fiscal year ended December 31, 2004 and through April 15, 2005, there were no reportable events as the term described in Item 304(a)(1)(iv) of Regulation S-B.

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ITEM 8A. CONTROLS AND PROCEDURES

As of December 31, 2005, 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 December 31, 2005. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls in the quarter ended December 31, 2005 that materially affected or are reasonably likely to materially affect the Company's internal controls.

ITEM 8B. OTHER INFORMATION

None.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The following table sets forth certain information regarding the executive officers and directors of the Company as of March 24, 2006

NAME	AGE	POSITION WITH COMPANY
-----	---	-----
Csaba Toro	40	Chief Executive Officer, Director, Treasurer
Moshe Schnapp	43	President and Director
Stewart Reich	61	Director, Board Chairman, Audit and Compensation Committees Chairman
Gabor Ormosy	36	Director
Ilan Kenig	45	Director, Audit and Compensation Committee's member
Yossi Attia	44	Director, Audit and Compensation Committee's member

CSABA TORO, age 40, Chief Executive Officer of the Company since June 2002, has been with the Company since September 1998 in various other positions. During 2001 and 2002, Mr. Toro held the positions of COO and CEO in Pantel Rt. He resigned as CEO of Pantel Rt. as of March 2003. From 1997 to 1999, Mr. Toro was managing director of the Company's Hungarian subsidiary. Prior thereto, since 1994, he was managing director of ENET Kft., which was acquired by the Company in 1997.

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MOSHE SCHNAPP, age 43, President and director of the Company since April 15, 2005 has worked in the construction and development industry for over fifteen years. Mr. Schnapp background covers all aspect of financial planning with project development, including, but not limited to, statistical research and analysis as applied before and during the project. Mr. Schnapp has acted in publicly traded companies both as director and as officer. Mr. Schnapp has experience in project management, cost accounting and supervising marketing from a financial point of view. Mr. Schnapp received a BA in economics and accounting from Haifa University in 1987, an MBA from Tel Aviv University in 1994 and he also holds doctorate degree in philosophy and a graduate degree in commercial and industrial economy from Pacific Western University. Mr. Schnapp is a licensed Certified Public Accountant in Israel. Mr. Schnapp served as director and CFO of Engel General Contractors LTD (symbol ENGEF) and later was appointed as CEO until January 1995. He served as CEO and Director of Genesis Construction LTD (symbol GDCUF) from February 1995 until June 1999. Since October 2000 until today he has been serving as director and president of American Realty Group, Inc. a private company. Mr. Schnapp is also director and officer of: AS Holdings LLC, Speedy the Plumber Inc, Bonanza Realty Inc, Bonanza Realty LLC, Glendon Advisors Inc, Van Nuys Plaza LLC, and few other private companies.

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STEWART REICH, age 61, was Chief Executive Officer and President of Golden Telecom Inc., Russia's largest alternative voice and data service provider as well as its largest ISP, since 1997. In September 1992, Mr Reich was employed as Chief Financial Officer at UTEL (Ukraine Telecommunications), of which he was appointed President in November 1992. Prior to that Mr. Reich held various positions at a number of subsidiaries of AT&T Corp. Mr. Reich has been a director of the Company since 2002.

GABOR ORMOSY, age 36, is CEO of Wallis Auto Holding, the largest Hungarian car dealer network. Previously he served as the Chief Financial Officer of Elender from 2002 to 2004 where he was responsible for strategic planning, controlling, treasury, accounting, administration, business development and investor relationships. From 2000 to 2002, Mr. Ormosy served as the Chief Financial Officer for Webigen Rt., which was a web developer and marketing company before merging into Elender. Prior to joining Webigen Rt., Mr. Ormosy served in the corporate finance department of CA IB Securities Ltd., Budapest where he was responsible as project manager for deal execution and valuations in mergers & acquisitions and capital market deals. Since 2002, Mr. Ormosy has also served as the President of the Board of Directors of Wallizing Rt. and as a member of the Board of Directors of Index Rt.

YOSSI ATTIA, age 44, has been self employed as a real estate developer since 2000. Mr. Attia was appointed to the Company's Board on February 1, 2005. Prior to entering into the real estate development industry, Mr. Attia served as the Senior Vice President of Investments of Interfirst Capital from 1996 to 2000. From 1994 though 1996, Mr. Attia was a Senior Vice President of Investments with Sutro & Co. and from 1992 through 1994 Mr. Attia served as the Vice President of investments of Prudential Securities. Mr. Attia obtained a BA in economics and marketing from Haifa University in 1987 and MBA from Pepperdine University in 1995. Mr. Attia held Series 7 and 63 securities licenses from 1991 until 2002. Since October 2000 until today Mr. Attia has been the majority member of AS Holdings LLC, a holding LLC for private real estate group of companies, serving as director/manger/president of all subsidiaries of AS Holdings. Effective March 21, 2005, Mr. Attia was appointed as a member of the Audit Committee and the Compensation committee.

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ILAN KENIG, age 45, has over 20 years of management, legal, venture capital and investment banking experience with specific emphasis in the technology and telecommunications arena. Mr. Kenig was appointed to the Company's Board on February 1, 2005. Mr. Kenig joined Unity Wireless Corporation ("Unity"), a designer, developer and manufacturer of wireless systems, as Vice President of Business Development in December 2001 before assuming the position of President and CEO in April 2002. From January 1999 until December 2001, Mr. Kenig pursued international finance activities and mergers and acquisitions in New York. Mr. Kenig was a founder of a law firm in Tel-Aviv representing technology and telecommunications interests. Mr. Kenig holds a law degree from Bar-Ilan University. Effective March 21, 2005, Mr. Kenig was appointed as a member of the Audit Committee and the Compensation committee.

Directors are elected annually and hold office until the next annual meeting of the stockholders of the Company and until their successors are elected and qualified. Officers are elected annually and serve at the discretion of the Board of Directors.

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ROLE OF THE BOARD

Pursuant to Delaware law, our business, property and affairs are managed under the direction of our board of directors. The board has responsibility for establishing broad corporate policies and for the overall performance and direction of Euroweb, but is not involved in day-to-day operations. Members of the board keep informed of our business by participating in board and committee meetings, by reviewing analyses and reports sent to them regularly, and through discussions with our executive officers.

2005 BOARD MEETINGS

In 2005, the board met four times and made two additional resolutions. No director attended less than 75% of all of the combined total meetings of the board and the committees on which they served in 2005.

BOARD COMMITTEES

AUDIT COMMITTEE

The audit committee of the board of directors reviews the internal accounting procedures of the Company and consults with and reviews the services provided by our independent accountants. During 2005, the audit committee consisted of Messrs. Stewart Reich and Howard Cooper, both of whom are considered to be independent. The audit committee held two meetings in 2005. Mr. Reich serves as the financial expert on the Audit Committee. On March 21, 2005, Mr. Cooper resigned as a director of the Company and a member of the Audit Committee. On March 21, 2005, the Board of Directors appointed Mr. Attia and Mr. Kenig, both independent members of the board of directors, to serve as members of the Audit Committee.

COMPENSATION COMMITTEE

The compensation committee of the board of directors i) reviews and recommends to the board the compensation and benefits of our executive officers; ii) administers our stock option plans and employee stock purchase plan; and iii) establishes and reviews general policies relating to compensation and employee benefits. In 2004, the compensation committee consisted of Messrs

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Cooper, Reich and Lipman. No interlocking relationships exist between the board of directors or compensation committee and the board of directors or compensation committee of any other company. During the past fiscal year the compensation committee had two meetings. On January 28, 2005, Mr. Lipman resigned as a director of the Company and a member of the Compensation Committee. On March 21, 2005, Mr. Cooper resigned as a director of the Company and a member of the Compensation Committee. On March 22, 2005, the Board of Directors appointed Mr. Attia and Mr. Kenig, both independent members of the Board of Directors,, to serve as members of the Compensation Committee.

SECTION 16(A) BENEFICIAL OWNERSHIP COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10 percent of the Company's Common Stock, to file with the SEC the initial reports of ownership and reports of changes in ownership of common stock. Officers, directors and greater than 10 percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Specific due dates for such reports have been established by the Commission and the Company is required to disclose in this Proxy Statement any failure to file reports by such dates during fiscal 2005. Based solely on its review of the copies of such reports received by it, or written representations from certain reporting persons that no Forms 5 were required for such persons, the Company believes that during the fiscal year ended December 31, 2005, there was no failure to comply with Section 16(a) filing requirements applicable to its officers, directors and ten percent stockholders.

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POLICY WITH RESPECT TO SECTION 162(M)

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), provides that, unless an appropriate exemption applies, a tax deduction for the Company for compensation of certain executive officers named in the Summary Compensation Table will not be allowed to the extent such compensation in any taxable year exceeds \$1 million. As no executive officer of the Company received compensation during 2005 approaching \$1 million, and the Company does not believe that any executive officer's compensation is likely to exceed \$1 million in 2005, the Company has not developed an executive compensation policy with respect to qualifying compensation paid to its executive officers for deductibility under Section 162(m) of the Code.

CODE OF ETHICS

The Company has adopted its Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of the officers, directors and employees of the Company.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth information concerning the annual and long term compensation of the Company's Chief Executive Officer and the President. The Company does not have any officer whose annual salary and bonus exceeds \$100,000 as of December 31, 2005:

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Name and Principal Position	Year Ended December 31,	ANNUAL COMPENSATION		LONG-TERM COMPENSATION		
		Salary (\$)	Bonus and Other Annual Compensation (\$)	Restricted Stock Award(s) (\$)	Number of Securities Underlying Options/SARs (#)	All O Compens (\$)
Csaba Toro, Director, CEO, and Treasurer	2005	\$ 224,000	\$ 150,000	--	125,000	
	2004	\$ 150,000	\$ 100,000	--	125,000	
	2003	\$ 96,000	--	--	--	

Name and Principal Position	Year Ended December 31,	ANNUAL COMPENSATION		LONG-TERM COMPENSATION		
		Salary (\$)	Bonus and Other Annual Compensation (\$)	Restricted Stock Award(s) (\$)	Number of Securities Underlying Options/SARs (#)	All O Compens (\$)
Moshe Schnapp, Director, President	2005	*\$177,083	--	--	--	
	2004	--	--	--	--	
	2003	--	--	--	--	

* the annual salary of \$177,083 was paid in form of issuance of 58,968 shares of common stock in January 2006.

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OPTIONS/SAR GRANTS IN LAST FISCAL YEAR

There were other grants of Stock Options/SAR made to the named Executive and President during the fiscal year ended December 31, 2005.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND YEAR-END OPTION/SAR VALUES

Name	Shares acquired on exercise (#)	Value realized (\$)	Number of securities underlying unexercised options/SARs at FY-end (#)		Value of the unexercised in the money options/SARs at FY-end (\$)*	
			Exercisable/ Unexercisable	Exercisable/ Unexercisable	Exercisable/ Unexercisable	Exercisable/ Unexercisable
Csaba Toro, CEO, Director and Treasurer	None	None	62,500		\$0.00	

* Fair market value of underlying securities (calculated by subtracting the exercise price of the options from the closing price of the Company's Common Stock quoted on the Nasdaq as of December 30, 2005), which was \$3.55 per share. None of Mr. Toro's options are presently in the money.

EMPLOYMENT AND MANAGEMENT AGREEMENTS

The Company entered into a six-year agreement with its Chief Executive Officer and Director, Csaba Toro on October 18, 1999, which commenced January 1, 2000, and provided for an annual compensation of \$96,000. The agreement was amended in 2004 and 2005. The amended agreement provides for an annual salary of \$200,000 and a bonus of up to \$150,000 in 2005, and an annual salary of \$200,000 and a bonus of up to \$150,000 in 2006, 2007 and 2008, as well as an annual car allowance of \$30,000 for the same period.

The Company has entered into a two-year employment agreement with Moshe Schnapp as President and Director of the Company starting from April 15, 2005, which grants an annual compensation of \$250,000 to be paid in the form of Euroweb shares of common stock. The number of shares to be received by Mr. Schnapp is calculated based on the average closing price 10 days prior to the commencement of each employment year. For the year ended April 14, 2006, Mr. Schnapp will receive 82,781 Euroweb shares of common stock.

The two employment agreements mentioned above further provide that, if employment is terminated other than for willful breach by the employee, for cause or in event of a change in control of the Company, then the employee has the right to terminate the agreement. In the event of any such termination, the employee will be entitled to receive the payment due on the balance of his employment agreement.

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The Company has no pension or profit sharing plan or other contingent forms of remuneration with any officer, director, employee or consultant, although bonuses are paid to some individuals.

DIRECTOR COMPENSATION

Directors who are also officers of the Company are not separately compensated for their services as a director. Directors who are not officers receive cash compensation for their services: \$2,000 at the time of agreeing to become a Director; \$2,000 for each Board Meeting attended either in person or by telephone; and \$1,000 for each Audit and Compensation Committee Meeting attended either in person or by telephone. Non-employee directors are reimbursed for their expenses incurred in connection with attending meetings of the Board or any committee on which they serve and are eligible to receive awards under the Company's 2004 Incentive Plan (described below).

STOCK OPTION PLAN

2004 INCENTIVE PLAN

GENERAL

The 2004 Incentive Plan was adopted by the Board of Directors. The Board of Directors has initially reserved 800,000 shares of Common Stock for issuance

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under the 2004 Incentive Plan. Under the Plan, options may be granted which are intended to qualify as Incentive Stock Options ("ISOs") under Section 422 of the Internal Revenue Code of 1986 (the "Code") or which are not ("Non-ISOs") intended to qualify as Incentive Stock Options thereunder.

The 2004 Incentive Plan and the right of participants to make purchases thereunder are intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The 2004 Incentive Plan is not a qualified deferred compensation plan under Section 401(a) of the Internal Revenue Code and is not subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

On April 28, 2004, the Company granted 125,000 options to the Chief Executive Officer and an additional 240,000 options to seven employees and consultants of our company. The exercise price of the options (\$4.78) is equal to the market price on the date the grants were made. The options vest over a period of between 3-4 years.

PURPOSE

The primary purpose of the 2004 Incentive Plan is to attract and retain the best available personnel for the Company in order to promote the success of the Company's business and to facilitate the ownership of the Company's stock by employees.

ADMINISTRATION

The 2004 Incentive Plan is administered by the Company's Board of Directors, as the Board of Directors may be composed from time to time. All questions of interpretation of the 2004 Incentive Plan are determined by the Board, and its decisions are final and binding upon all participants. Any determination by a majority of the members of the Board of Directors at any meeting, or by written consent in lieu of a meeting, shall be deemed to have been made by the whole Board of Directors.

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Notwithstanding the foregoing, the Board of Directors may at any time, or from time to time, appoint a committee (the "Committee") of at least two members of the Board of Directors, and delegate to the Committee the authority of the Board of Directors to administer the Plan. Upon such appointment and delegation, the Committee shall have all the powers, privileges and duties of the Board of Directors, and shall be substituted for the Board of Directors, in the administration of the Plan, subject to certain limitations.

Members of the Board of Directors who are eligible employees are permitted to participate in the 2004 Incentive Plan, provided that any such eligible member may not vote on any matter affecting the administration of the 2004 Incentive Plan or the grant of any option pursuant to it, or serve on a committee appointed to administer the 2004 Incentive Plan. In the event that any member of the Board of Directors is at any time not a "disinterested person", as defined in Rule 16b-3(c)(3)(i) promulgated pursuant to the Securities Exchange Act of 1934, the Plan shall not be administered by the Board of Directors, and may only be administered by a Committee, all the members of which are disinterested persons, as so defined.

ELIGIBILITY

Under the 2004 Incentive Plan, options may be granted to key employees,

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officers, directors or consultants of the Company, as provided in the 2004 Incentive Plan.

TERMS OF OPTIONS

The term of each Option granted under the Plan shall be contained in a stock option agreement between the Optionee and the Company and such terms shall be determined by the Board of Directors consistent with the provisions of the Plan, including the following:

(a) PURCHASE PRICE. The purchase price of the Common Shares subject to each ISO shall not be less than the fair market value (as set forth in the 2004 Incentive Plan), or in the case of the grant of an ISO to a Principal Stockholder, not less than 110% of fair market value of such Common Shares at the time such Option is granted. The purchase price of the Common Shares subject to each Non-ISO shall be determined at the time such Option is granted, but in no case less than 85% of the fair market value of such Common Shares at the time such Option is granted.

(b) VESTING. The dates on which each Option (or portion thereof) shall be exercisable and the conditions precedent to such exercise, if any, shall be fixed by the Board of Directors, in its discretion, at the time such Option is granted.

(c) EXPIRATION. The expiration of each Option shall be fixed by the Board of Directors, in its discretion, at the time such Option is granted; however, unless otherwise determined by the Board of Directors at the time such Option is granted, an Option shall be exercisable for ten(10) years after the date on which it was granted (the "Grant Date"). Each Option shall be subject to earlier termination as expressly provided in the 2004 Incentive Plan or as determined by the Board of Directors, in its discretion, at the time such Option is granted.

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(d) TRANSFERABILITY. No Option shall be transferable, except by will or the laws of descent and distribution, and any Option may be exercised during the lifetime of the Optionee only by him. No Option granted under the Plan shall be subject to execution, attachment or other process.

(e) OPTION ADJUSTMENTS. The aggregate number and class of shares as to which Options may be granted under the Plan, the number and class shares covered by each outstanding Option and the exercise price per share thereof (but not the total price), and all such Options, shall each be proportionately adjusted for any increase decrease in the number of issued Common Shares resulting from split-up spin-off or consolidation of shares or any like Capital adjustment or the payment of any stock dividend.

Except as otherwise provided in the 2004 Incentive Plan, any Option granted hereunder shall terminate in the event of a merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation of the Company. However, the Optionee shall have the right immediately prior to any such transaction to exercise his Option in whole or in part notwithstanding any otherwise applicable vesting requirements.

(f) TERMINATION, MODIFICATION AND AMENDMENT. The 2004 Incentive Plan (but not Options previously granted under the Plan) shall terminate ten (10) years from the earlier of the date of its adoption by the Board of Directors or the date on which the Plan is approved by the affirmative vote of the holders of a majority of the outstanding shares of capital stock of the Company entitled to

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vote thereon, and no Option shall be granted after termination of the Plan. Subject to certain restrictions, the Plan may at any time be terminated and from time to time be modified or amended by the affirmative vote of the holders of a majority of the outstanding shares of the capital stock of the Company present, or represented, and entitled to vote at a meeting duly held in accordance with the applicable laws of the State of Delaware.

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of our common stock as of March 24, 2006 by (i) each person known by our company to own beneficially more than 5% of the outstanding Common Stock; (ii) each director of our company; (iii) each officer of our company and (iv) all executive officers and directors as a group. Except as otherwise indicated below, each of the entities or persons named in the table has sole voting and investment powers with respect to all shares of Common Stock beneficially owned by it or him as set forth opposite its or his name.

Name and Address	Shares Beneficially Owned(1)	Percent Owned (1)
KPN Telecom B.V. (4) Maanplein 5 The Hague, The Netherlands	2,036,188	34.85%
Fleminghouse Investments Limited Chrysanthou Mylona 3, P.C. 3030 Limassol Cyprus	522,054	8.93%
CORCYRA d.o.o.(3) Verudela 17 Pula Croatia 52100	2,326,043	39.81%
Graeton Holdings Limited 256 Makarios Avenue,Eftapaton Court, CY3105 Limassol, Cyprus;	441,566	7.60%
Csaba Toro (2) (5) (6) 1138 Budapest Vaci ut 141. Hungary	62,500	1.07%
Stewart Reich (6) (7) 18 Dorset Lane, Bedminister, NJ 07921	75,000	1.28%
Gabor Ormosy Fleminghouse Investments Limited Chrysanthou Mylona 3, P.C. (6) (9) 3030 Limassol Cyprus	25,000	*
Yossi Attia (6) (8) 1061 1/2 Spalding Ave. West Hollywood, CA 90046	25,000	*

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Ilan Kenig (6) (8) 7438 Fraser Park Drive Burnaby, BC Canada V5J 5B9	25,000	*
Moshe Schnapp (5) (6) 846 N Huntley West Hollywood, CA 90069	58,968	1.01%
All Officers and Directors as a Group (6 Persons)	240,218	4.65%

* Less than one percent

- (1) Unless otherwise indicated, each person has sole investment and voting power with respect to the shares indicated. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares which such person has the right to acquire within 60 days after March 24, 2006. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on March 24, 2006, any security which such person or group of persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing the percentage ownership for such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Mr. Toro owns, directly or indirectly, 1.07% of the issued and outstanding shares of the Company represented by options to purchase 62,500 shares.

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- (3) Pursuant to a Stock Purchase Agreement dated as of January 28, 2005, by and between KPN Telecom B.V. ("KPN Telecom"), a company incorporated under the laws of the Netherlands, and CORCYRA d.o.o., a Croatian company ("CORCYRA"), (the "Purchase Agreement"), KPN Telecom sold to CORCYRA 289,855 shares (the "Initial Shares") of our common stock for US \$1,000,000 (the "Initial Closing"). The Initial Closing occurred on February 1, 2005. Pursuant to the Purchase Agreement, CORCYRA has also agreed to purchase and, KPN has agreed to sell, KPN Telecom's remaining 2,036,188 shares of our common stock (the "Final Shares") on April 30, 2006 (the "Final Closing"); provided, however, that upon 14 days' prior written notice to KPN Telecom, CORCYRA may accelerate the Final Closing to an earlier month-end date as specified in such notice; provided, further, that the Final Closing is subject to the satisfaction or waiver of all of the conditions to closing set forth in the Purchase Agreement. Accordingly, CORCYRA presently owns 289,855 shares of common stock and is deemed to own, pursuant to Rule 13d-3(d), promulgated under the Securities Exchange Act of 1934, as amended, the remaining 2,036,188 shares held by KPN Telecom.
- (4) KPN Telecom B.V. is a subsidiary of Royal KPN N.V.
- (5) An officer of the Company.
- (6) A director of the Company.
- (7) Includes an option to purchase 75,000 shares of common stock at an exercise price of \$4.21 per share. 25,000 options vest on April 13, 2004, 25,000 options vest on April 13, 2005, while 25,000 options vest on April 13, 2006

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- (8) Effective March 22, 2005 the Board of Directors granted the two new directors 100,000 options each at an exercise price of \$3.40 per share under the 2004 Incentive Plan. Each directors options vest in four equal installments of 25,000 shares on September 22, 2005, September 22, 2006, September 22, 2007 and September 22, 2008.
- (9) Effective June 2, 2005, the Board of Directors granted 100,000 options at an exercise price of \$4.05 per share under the 2004 Incentive Plan. The options vest in four equal installments of 25,000 shares on December 2, 2005, December 2, 2006, December 2, 2007 and December 2, 2008.

The foregoing table is based upon 5,843,067 shares of common stock outstanding as of March 24, 2006.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In order to provide management of the Company with the appropriate motivation to achieve the highest possible purchase price in connection with the sale of its subsidiaries in Hungary and Romania, the Company's Compensation Committee was granted the discretionary ability to pay a bonus to members of management that were associated with the Company receiving a purchase price in excess of US \$28,000,000 for the subsidiaries. The bonus, which is at the discretion of the Compensation Committee, will be up to 20% of the purchase price received in excess of US \$28,000,000. Upon the Company closing on the sale of the subsidiaries for US \$30,000,000 to Invitel, a bonus of up to US \$400,000 (or 20% of US \$2,000,000) may be paid by the Compensation Committee to select members of management.

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ITEM 13. EXHIBITS

- A. Exhibits (numbers below reference Regulation S-B, Item 601)
- (2) Subscription Agreement and Option Agreement with KPN(1)(2)
 - (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)
 - (4) (a) Form of Common Stock Certificate(1)
 - (b) Form of Underwriters' Warrants to be sold to Underwriters(1)
 - (c) Placement Agreement between Registrant and J.W. Barclay & Co., Inc. and form of Placement Agent Warrants issued in connection with private placement financing(1)
 - (10) (a) Shares Purchase Agreement between PanTel Tavkozlesi es Kommunikacios rt., a Hungarian company, and Euroweb International Corp., a Delaware corporation (3)
 - (10) (b) Guaranty by Euroweb International Corp., a Delaware corporation, in favor of PanTel Tavkozlesi es Kommunikacios rt., a Hungarian company (3)
 - (10) (c) Shares Purchase Agreement between Vitonas Investments Limited, a Hungarian corporation, Certus Kft., a Hungarian corporation, Rumed 2000 Kft., a Hungarian corporation and Euroweb International Corp., a Delaware corporation, dated as of February 23, 2004. (4)
 - (10) (d) Share Purchase Agreement by and between Euroweb International

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Corp. and Invitel Tavkozlesi Szolgaltato Rt. (5)

- (31) (a) Certification of the Chief Executive Officer of Euroweb International Corp. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31) (b) Certification of the Chief Accounting Officer of Euroweb International Corp. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32) (a) Certification of the Chief Executive 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.
- (32) (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.
- (99) (a) Code of Ethics and Business Conduct of Officers, Directors and Euroweb International Corp.

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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.
 - (3) Filed as an exhibit to Form 8-K on February 27, 2004.
 - (4) Filed as an exhibit to Form 8-K on March 9, 2004.
 - (5) Filed as an exhibit to Form 8-K on December 21, 2005.

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ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

Audit Fees. The aggregate fees billed by our auditors, for professional services rendered for the audit of the Company's annual financial statements for the years ended December 31, 2005 and 2004, and for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-QSB during the fiscal years were \$192,000 and \$217,000, respectively.

Audit related fees: Additionally, in 2005, fees for the audit of the 2004 US GAAP financials statements of Navigator (for 8-K filing purposes) was \$127,000. In 2004, fees for the audit of the 2003 US GAAP financial statements of Euroweb Hungary (for 8-K filing purposes) was \$18,750 and fees for the restatement of the Company's 2003 financial statements to reflect the "as-if" pooling of Euroweb Hungary Rt. for purposes of the SB-2 filing was \$37,000.

All Other Fees. The aggregate fees billed by auditors for services rendered to the Company, other than the services covered in "Audit Fees" and "Audit related fees" and for the fiscal years ended December 31, 2005 and 2004 were \$67,200 and \$124,000. - The 2005 and 2004 fees relate to the SB-2 registration statement costs (\$189,600), and miscellaneous tax advice (\$1,600) provided during the course of 2005 and 2004.

The Board of Directors has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

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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 29th day of March 2005.

EUROWEB INTERNATIONAL CORP.

By: /s/Csaba Toro

Csaba Toro
Chief Executive Officer and Director
(Principal Executive Officer)

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Pursuant to the requirements of the Securities Exchange of 1934, as amended, this Report has been signed below by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
----- By: /s/Csaba Toro ----- Csaba Toro	----- Chief Executive Officer and Director (Principal Executive Officer)	----- March 29, 2006
By: /s/Stewart Reich ----- Stewart Reich	Chairman of the Board and Director	March 29, 2006
By: /s/Moshe Schnapp ----- Moshe Schnapp	President, Director	March 29, 2006
By: /s/ Gabor Ormosy ----- Gabor Ormosy	Director	March 29, 2006
By: /s/ Yossi Attia ----- Yossi Attia	Director	March 29, 2006
By: /s/ Ilan Kenig ----- Ilan Kenig	Director	March 29, 2006
By: /s/ Peter Szigeti ----- Peter Szigeti	Chief Accounting Officer (Principal Financial Officer)	March 29, 2006

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EUROWEB INTERNATIONAL CORP.

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Consolidated Balance Sheet as of December 31, 2005, and
Consolidated Statements of Operations & Comprehensive Income (Loss)
Stockholders' Equity, and Cash Flows for the
Years ended December 31, 2005 and 2004

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EUROWEB INTERNATIONAL CORP.

Consolidated Financial Statements

As of December 31, 2005 and for the Years Ended December 31, 2005 and 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Euroweb International Corp.

We have audited the accompanying combined balance sheet of Euroweb International Corp. and subsidiaries (the "Company") as of December 31, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes

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examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Euroweb International Corp. and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte Kft.
Budapest, Hungary
March 27, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Euroweb International Corp.

We have audited the accompanying consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows of Euroweb International Corp. and subsidiaries for the year ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of the operations and the cash flows of Euroweb International Corp. and subsidiaries for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

KPMG Hungaria Kft.
Budapest, Hungary
March 24, 2006

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EUROWEB INTERNATIONAL CORP.
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2005

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AMOUNTS IN US DOLLARS

	2005

ASSETS	
Current assets:	
Cash and cash equivalents (note 3)	\$ 1,568,690
Trade accounts receivable, less allowance for doubtful accounts of \$206,518	1,533,855
Prepaid and other current assets	321,315

Total current assets of continuing operations	3,423,860

Total assets of discontinued operations (note 9)	20,371,849
Total current assets	23,795,709
	=====
Property and equipment, net (note 4)	1,071,989
Goodwill (note 5)	8,150,672
Intangible assets - customer contracts, net (note 5)	3,132,300

Total assets	\$ 36,150,670
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Trade accounts payable	\$ 2,065,333
Current portion of bank loans (note 7)	269,220
Bank overdrafts (note 7)	325,409
Other current liabilities	827,703
Accrued expenses	545,964

Total current liabilities of continuing operations	4,033,629
Total liabilities of discontinued operations (note 9)	13,783,582
Total current liabilities	17,817,211
Deferred tax liability (note 10)	501,168
Non-current portion of bank loans (note 7)	471,134

Total liabilities	18,789,513
Commitments and contingencies (note 12)	
Stockholders' equity	
Common stock, \$.001 par value - Authorized 35,000,000 shares; 6,032,221 shares issued of which 5,784,099 shares are outstanding and 248,122 shares are held in escrow	25,248
Additional paid-in capital	51,538,659
Accumulated deficit	(34,302,431)
Accumulated other comprehensive income	99,681

Total stockholders' equity	17,361,157

Total liabilities and stockholders' equity	\$ 36,150,670
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See accompanying notes to consolidated financial statements.

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