EUROWEB INTERNATIONAL CORP
Form 10QSB
August 13, 2004

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

Form 10-QSB

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2004

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to _______________
Commission file number 1-1200

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

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

1138 Budapest, Vaci ut 141. Hungary
(Address of principal executive offices)

+36-1-8897000	+36-1-8897100
Issuer's telephone number	Issuer's facsimile number

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

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

Common Stock, $.001 par value	5,342,533
(Class)	(Outstanding at June 30, 2004)

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

EUROWEB INTERNATIONAL CORP.

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EUROWEB INTERNATIONAL CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2004 (Unaudited)
ASSETS	
Current Assets	
Cash and cash equivalents	$ 5,335,210
Investment in securities	-
Trade accounts receivable, net	3,235,831
Related party receivables	1,052,927
Current portion of note receivable	73,502
Prepaid and other current assets	2,597,188
Total current assets	12,294,658
Property and equipment, net	6,757,324
Assets under construction	42,122
Intangibles - customer contracts	2,368,115
Goodwill	6,274,022
Total assets	$27,736,241
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Trade accounts payable	$ 3,732,013
Related party payables	915,708
Related party loan payable - short term portion	469,438
Overdrafts and current portion of bank loans	826,350
Current portion of notes payable	1,047,289
Other current liabilities	1,130,111
Accrued expenses	1,565,061
Deferred IRU revenue	46,000
Deferred other revenue	1,014,068
Total current liabilities	10,746,038

Non-current portion of deferred IRU revenue	820,334
Non-current portion of related party loan payable	704,157
Non-current portion of bank loans	683,042
Non-current portion of notes payable	349,094
Non-current portion of lease obligations	177,752
Total liabilities	13,480,417
Stockholders' Equity	
Preferred stock, $.001 par value - Authorized 5,000,000 shares; no shares issued or outstanding	-
Common stock, $.001 par value - Authorized 35,000,000 shares; Issued and outstanding 5,342,533 and 4,665,332 shares respectively	24,807
Additional paid-in capital	50,742,486
Accumulated deficit	(35,348,024)
Accumulated other comprehensive losses:	(48,033)
Treasury stock - 175,490 common shares, at cost	(1,115,412)
Total stockholders' equity	14,255,824
Commitments and contingencies	
Total liabilities and stockholders' equity	$27,736,241

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30 2004	2003
Revenues		
Third party revenues	6,059,519	4,188,393
Related party revenues	1,946,661	1,526,811
Total Revenues	8,006,180	5,715,204
Cost of revenues		
Third party cost of revenues	3,851,287	2,317,232
Related party cost of revenues	1,417,931	1,202,488
Total Cost of revenues	5,269,218	3,519,720
Gross profit	2,736,962	2,195,484
Operating expenses		
Compensation and related costs	1,113,457	1,014,247
Consulting and professional fees	526,714	498,491
Other selling, general and administrative expenses	857,668	371,066
Depreciation and amortization	342,844	450,134
Total operating expenses	2,840,683	2,333,938

Loss from operations	(103,721)	(138,454)
Net interest expense	(48,259)	73,281
Gain from sale of subsidiaries	28,751	109,421
Income (Loss) before income taxes	(123,229)	44,248
Provision for income taxes	(14,436)	55,578
Net loss	(137,665)	(11,330)
Other comprehensive loss	1,116	57,377
Comprehensive loss	(138,781)	(68,707)
Net loss per share, basic and diluted	(.03)	(.01)
Weighted average number of shares outstanding, basic and diluted	4,815,821	4,665,332

See accompanying notes to consolidated financial statements

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumul Othe Comprehe Gains(Lo
Balances, December 31, 2002	4,665,332	$24,129	$48,227,764	$(31,314,687)	$236,1
Foreign currency translation loss	-	-	-	-	(45,2
Unrealized loss on securities available for sale	-	-	-	-	(216,4
Net loss for the period	-	-	-	(1,791,029)	
Balances, December 31, 2003	4,665,332	$24,129	$48,227,764	$(33,105,716)	$(25,5
Foreign currency translation loss	-	-	-	-	6,2
Realized gain on securities	-	-	-	-	(28,8
Deemed distribution (Note 8)	-	-	-	(2,145,503)	
Compensation charge on share options issued to consultants			28,048		
Issuance of shares (Elender acquisition)	677,201	678	2,486,674		
Net loss for the period	-	-	-	(96,805)	
Balances, June 30, 2004	5,342,533	$ 24,807	$ 50,742,486	$ (35,348,024)	$ (48,0

See accompanying notes to consolidated financial statements

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

	Six Months June 30	
	2004	20
Cash flows from operating activities:		
Net profit (loss)	(96,805)	
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	632,925	
Amortization of discount on acquisition indebtedness	-	
Foreign currency gain	(26,341)	
Compensation expense booked to equity (options issued to consultants)	28,048	
Realized gain on sale of securities	(28,805)	
Unrealized interest income on securities	-	
Changes in operating assets and liabilities net of effects of acquisitions:		
Accounts receivable	39,579	
Prepaid and other assets	(582,236)	
Accounts payable, other current liabilities and accrued expenses	(1,115,909)	
Deferred revenue	(75,396)	
Net cash (used in) provided by operating activities	(60,468)	
Cash flows from investing activities:		
Maturity of securities	11,464,000	
Collection on notes receivable	100,409	
Acquisition of 100% of Elender Rt. net of cash and transaction costs	(6,629,100)	
Acquisition of 51% of Euroweb Rt.	(2,142,000)	
Acquisition of property and equipment	(516,668)	
Net cash provided by (used in) investing activities	2,276,641	
Cash flows from financing activities:		
Overdraft drawdown	141,463	
Repayment of loans	-	
Principal payments under capital lease obligations	(22,577)	
Net cash provided by (used in) financing activities	118,886	
Effect of foreign exchange rate changes on cash	(43,552)	
Net increase (decrease) in cash and cash equivalents	2,291,507	
Cash and cash equivalents, beginning of period	3,043,703	
Cash and cash equivalents, end of period	$5,335,210	
Significant non-cash items:		
Issuance of shares as part of Elender Rt. acquisition	2,487,352	
Assignment of loan to the Company (Elender Rt. acquisition)	1,065,230	

See accompanying notes to consolidated financial statements.

Euroweb International Corp.
Notes to Interim Unaudited Consolidated Financial Statements

1. Organization and Business

EuroWeb International Corp. (the "Company") is a Delaware corporation which was organized on November 9, 1992. The largest shareholder of Euroweb International Corp. as at June 30, 2004 was KPN Telecom B.V., a Netherlands corporation, with a 43.6% shareholding at June 30, 2004.

The Company owns and operates Internet service providers in the Czech Republic, Hungary, Slovakia and Romania. The Company operates in one business segment.

The Hungarian operations conducted through Euroweb Hungary Rt. were accounted for under the equity method in prior years as the Company owned a 49% interest, however, in February 2004, the remaining 51% of Euroweb Hungary Rt. was purchased from Pantel Rt. and is fully consolidated in the current period financial statements. The consideration paid by the Company for the 51% interest comprised EUR 1,650,000 (USD 2,105,000) in cash, guarantees for amounts owed to Pantel Rt., and a guarantee that Euroweb Hungary Rt. will purchase at least HUF 600 million (approximately $3 million) worth of services from Pantel Rt. in each of the three years ending December 31, 2006.

As the acquisition was made from an entity under common control (both Pantel Rt. and the Company were majority owned by KPN Telecom B.V. at the time of acquisition in February 2004), the transaction was accounted in a manner similar to a pooling-of-interest in accordance with generally accepted accounting principles in the United States of America, with all prior periods being restated as if the entities were combined for all periods presented (see note 2 (a) below).

In order to augment the operations of Euroweb Rt., on February 23, 2004, the Company signed a Share Purchase Agreement ("SPA") in connection with its acquisition of all of the outstanding shares of Elender Business Communications Ltd. ("Elender Rt."), an ISP in Hungary. Consideration of USD 9,121,571 consists of USD 6,500,000 in cash and 677,201 of the Company's common shares valued at $2,487,352 net of registration cost, and $134,219 in transaction costs (consisting primarily of professional fees incurred related to attorneys, accountants and valuation advisors). The closing occurred on June 9, 2004 and the results of Elender Rt. for the 20 days ended June 30, 2004 (and the balance sheet as at June 30, 2004) have been consolidated into the financial statements.

In accordance with the purchase method of accounting prescribed by SFAS No. 141 "Business Combinations" ("SFAS 141"), the Company allocated the Consideration to the tangible net assets and liabilities and intangible assets acquired, based on their estimated fair values.

The Consideration has been allocated as follows:

Transferable shareholders loan	1,065,230
Fair value of Elender's recorded assets acquired and liabilities assumed	(64,440)
Identified intangibles - customer contracts	2,412,759
Excess purchase price over allocation to identifiable assets and liabilities (Goodwill)	$ 5,708,022

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Euroweb International Corp.
Notes to Interim Unaudited Consolidated Financial Statements

The purchase price allocation is preliminary and a final determination of the purchase accounting adjustments will be made upon the completion of a final analysis of the total purchase cost. The Company expects to finalize these matters by the end of 2004. The transferable shareholder loan relates to certain loans owed by Elender Rt. to former shareholders, who under the SPA, assigned the loans to the Company at closing.

In performing this preliminary 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 Elender's services, among other factors. Acquired identifiable intangible assets obtained in the Company's acquisition of Elender relate to customer contracts which are being amortized over the useful life of 3 years.

The Company determined the fair values of the identified intangibles - customer contracts using the "income" valuation approach and discount rates ranging from 16% to 18%. The discount rates selected were based in part on the Company's weighted average cost of capital and determined after consideration of the Company's rate of return on debt and equity, and the risk associated with achieving forecasted cash flows.

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. The operating results of Elender have been included in the Company's consolidated financial statements from the date of acquisition.

Although the selling parties will also receive Euroweb International shares during the acquisition of Elender Rt., each of them will have less than 10% of ownership in Euroweb International Corporation, so they are not categorized as related parties and those transactions are shown as third party transactions in the interim consolidated financial statements of the Company.

The following table presents unaudited summarized combined results of operations of the Company and Elender Rt., on a pro forma basis, as though the companies had been combined as of January 1, 2003:

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months end 30, 2004
Revenues	$ 12,437,951	$ 10,752,157	$ 24,
Net loss	$ (370,470)	$ (231,132)	$ (
Net loss per share	$ (0.07)	$ (0.04)	$

The above unaudited pro forma summarized results of operations are intended for informational purposes only and, in the opinion of management, are neither indicative of the financial position or results of operations of the Company had the acquisition actually taken place as of January 1, 2003, nor indicative of the Company's future results of operations. In addition, the above unaudited pro forma summarized results of operations do not include potential cost savings from operating efficiencies or synergies that may result from the Company's acquisition of Elender Rt.

Euroweb International Corp.
Notes to Interim Unaudited Consolidated Financial Statements

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and basis of presentation

The consolidated financial statements comprise the accounts of the Company and its controlled subsidiaries. All material inter-company balances and transactions have been eliminated upon consolidation. The purchase of the remaining 51% of Euroweb Hungary Rt. has been accounted in a manner similar to a pooling-of-interest with prior periods being restated (See Note 8).

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

(b) Use of estimates

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

(c) Fair value of financial instruments

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

(d) Revenue recognition

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

In 2002, the Company entered into an agreement to provide transmission capacity to a customer pursuant to an indefeasible rights-of-use agreement ("IRU") that management believes qualifies as an operating lease under Financial Accounting Standards Board Interpretation No. 13, "Accounting for Leases" ("FAS 13"), since the IRU agreement provides rights to use a specific subject asset for a defined period. Revenue attributable to the lease is recognized on a straight-line basis over the term of the 20-year lease agreement.

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

Euroweb International Corp.
Notes to Interim Unaudited Consolidated Financial Statements

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

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

(e) Cost of revenues

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

(f) Foreign currency translation

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

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

The Company conducts business and maintains its accounts for Euroweb Romania in the Romanian Lei ("ROL"). In Romania, the U.S. dollar is used as the functional currency as Romania has a hyper-inflationary economy. The Company's financial statements presented in ROL are remeasured into U.S. dollars using the following policies:

- Monetary assets and liabilities are remeasured into the functional currency using the exchange rate at the balance sheet date.

- Non-monetary assets and liabilities are remeasured into the functional currency using historical exchange rates.

- Revenues, expenses, gains and losses are remeasured into the functional currency using the average exchange rate for the period except for revenues and expenses related to non-monetary items that are remeasured using historical exchange rates.

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

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

(g) Property and equipment

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

Recurring maintenance on property and equipment is expensed as incurred.

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

(h) Goodwill and Other Intangibles

Goodwill and intangible assets that have indefinite useful lives are tested at least annually for impairment. Intangible assets that have finite useful lives (whether or not acquired in a business combination) are amortized over their estimated useful lives. During 2002 and 2003, the Company performed the required impairment test, with respect to goodwill. The first step of this test requires the Company to compare the carrying value of any reporting unit that has goodwill to the estimated fair value of the reporting unit. When the current fair value is less than the carrying value, the Company performs the second step of the impairment test. This second step requires the Company to measure the excess of the recorded goodwill over the current value of the goodwill by performing an exercise similar to a purchase price allocation, and to record any excess as an impairment.

The Company has assigned approximately $2.4 million to customer contract intangible assets during the acquisition of Elender, and these assets are being amortized over a period of three years. The Company has assigned a preliminary value of $5.7 million to Goodwill related to the acquisition of Elender.

(i) Stock-Based compensation

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

Under the accounting provisions of SFAS No. 123, the Company's net loss and net loss per share would have been reduced to the pro forma amounts indicated below:

	Six months ended June 30, 2003	2004
Net loss:		
Net loss as reported	$(96,805)	$(232,997)
Additional FAS 123 compensation expense	(52,586)	-
Pro forma net loss	(149,391)	(232,997)
Basic and diluted loss per share:		
As reported	$ (0.02)	$ (0.05)
Pro forma	(0.03)	(0.05)

3. Related party loan payable

Freestart Kereskedelmi es Szolgaltato Kft. (Freestart), a wholly-owned subsidiary of Euroweb Hungary Rt., has a loan from PanTel of HUF 245 million (approximately $1.174 million) plus 13% annual interest.

Pursuant to the Loan Agreement, Freestart is obligated to repay in full the Loan with interest, paying principal in five equal semi-annual instalments on December 1, 2004, June 30, 2005, December 31, 2005, June 30, 2006 and December 31, 2006 and paying interest semi-annually on June 30, 2004, December 1, 2004, June 30, 2005, December 31, 2005, June 30, 2006 and December 31, 2006

4. Bank loans, overdraft, and notes payable

On June 1, 2004, Elender Rt entered into a bank loan agreement with Commerzbank (Budapest) Rt. The agreement consists of a loan facility of HUF 300 million (approximately $1.5 million) of which approximately $890,000 was outstanding at June 30, 2004. The loan is to be repaid in quarterly installments of HUF 14.5 million (approximately $72,500), commencing November 30, 2004. The interest rate is BUBOR (Budapest Interbank Offered Rate) + 1.35%.

In additional, the bank also provided an overdraft facility of HUF 150 million (approximately $720,000) to Elender, of which approximately $620,000 was drawn down as at June 30, 2004. The interest rate is BUBOR (Budapest Interbank Offered Rate) + 1%.

Notes payable relate to outstanding Elender liabilities towards three previous owners: Vitonas, Certus and Rumed. Half of the outstanding amount (approximately $1.4 million) is payable by the end of 2004, while the remaining half is payable in four equal installments of HUF 36.438 million (approximately $175,000).

5. Stockholders' Equity

On April 28, 2004, the Company granted 125,000 options to the Chief Executive

Officer and an additional 195,000 options to five employees and 45,000 options to two consultants of the Company. All of these

options have an exercise price equal to the market price on day of grant ($4.78), vest over a period of between 3-4 years and relate to future services to be performed. There were no options or warrants exercised during this period. As the Company has opted to follow APB 25 with respect to accounting for grants made to employees, the company will recognize total compensation charges of approximately $162,000 for the grants made to the two consultants, which will be expensed over the vesting period of three years (compensation expense in the second quarter of 2004 is $28,048).

Upon the exercise of an outstanding warrant or option granted prior to August 30, 2001, each warrant/option holder will receive 1/5 of a share, due to the reverse stock split effected on August 30, 2001.

On May 25, 2004, the Company's shareholders approved an amendment to the Company's restated Certificate of Incorporation increasing the number of the Company's authorized shares of common stock from 12,500,000 to 35,000,000.

6. Commitments and Contingencies

(a) Employment Agreements

The Company entered into a six-year agreement with its Chief Executive Officer, Csaba Toro, which commenced January 1, 2000, and provided for an annual compensation of $96,000. The agreement was amended in 2004. The amended agreement provides for an annual salary of $150,000 and a bonus of up to $100,000 (guaranteed minimum of $50,000) in 2004, and an annual salary of $200,000 and a bonus of up to $150,000 in 2005.

(b) Lease agreements

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

(c) 20 years' usage rights

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

(d) Euroweb Hungary Rt. acquisition

In February 2004, the remaining 51% of Euroweb Hungary Rt. was purchased from Pantel Rt. The Consideration paid by the Company for the 51% interest consisted of EUR 1,650,000 (USD 2,105,000) in cash, guarantees for amounts owed to Pantel Rt. by a subsidiary of Euroweb Hungary Rt., and a guarantee that Euroweb Hungary Rt. will purchase at least HUF 600 million (approximately $3 million) worth of services from Pantel Rt. in each of 2004-2006.

(e) Legal Proceedings

The Company is a member of ICANN (Internet Corporation for Assigned Names and

Numbers), which is the association of domain registrations worldwide. The Company, as a representative of ICANN in Slovakia, started to provide registration and administration of second level domains for organizations located in the Slovak Republic in January 2003 (total revenues in 2003 approximately $250,000).

Due to the fact that the Company is the only provider of such services in Slovakia, the Association of Internet

Providers in Slovakia ("API") and the Association of Webhosting Providers claim that the Company has a monopoly and is abusing this dominant position and started legal proceedings against the Company with the Slovak Antimonopoly Office. The Antimonopoly office agreed that certain parts of the "General terms of domain registrations" can be considered as abusing the dominant position and requested the Company to change certain items in the registration system, and imposed two minor penalties. The initial decision of the Anti-Monopoly Office was upheld upon appeal.

However, API started a new legal procedure relating to the deadline for registering in order to migrate to the new domain registration system. Initially Euroweb Slovakia set a deadline of early 2003 for registration, but extended this deadline to November 2003 due to the lack of registrants. API claims that this was unfair to early registrants as they had to pay six or seven months of additional fees than the registrants who registered in November 2003. Management believes that it acted in accordance with the requirements of the API and the whole internet community and does not believe that any penalties will arise in respect of this claim.

There are no other known significant legal procedures that have been filed and are outstanding against the Company.

7. Related Party Transactions

The provision of international/domestic leased line and VOIP services are being provided in conjunction with Pantel Telecommunication Rt., an entity which is majority owned and controlled by KPN Telecom B.V. (which is also the largest shareholder of the Company as at June 30, 2004 with 43.6% ownership). In the first half of 2004 and fiscal 2003, Pantel Telecommunication Rt. was the most significant trading partner of the Company with approximately 58% of the 2004 revenues of Euroweb Romania (translating into 23% of the consolidated revenues of the Company) were derived from providing services to Pantel.

8. Restatement of consolidated financial statements

Under accounting principles generally accepted in the United States of America ("US GAAP"), FASB Statement No. 141, Business Combinations, require's transfers of net assets or exchanges of shares between entities under common control to be accounted for by the receiving entity at carryover or the predecessor basis of the transferring entity. Any excess of purchase consideration over book value is recorded as a capital transaction or deemed distribution resulting in a deduction from retained earnings.

Pantel, Euroweb International Corp., and KPN (as majority shareholder of both Pantel and Euroweb International Corp.at the time of the acquisition) took the following steps to ensure the transaction was concluded at arm's length:

Euroweb International Corp.
Notes to Interim Unaudited Consolidated Financial Statements

- the two KPN Board members that are common to Euroweb were not involved in the transaction as they stepped back from the decision making process: the transaction was reviewed and approved by an independent committee consisting solely of the two independent Board members with the assistance of Csaba Toro, CEO and former Chairman of the Board, as instructed by this committee.

- an independent accounting firm was commissioned to prepare a valuation of the 51% shareholding which formed the basis of the transaction price.

- legal advice was sought throughout the process on measures to ensure that KPN or its appointed Board members were not involved in the transaction from the Company's side.

Nonetheless, both Pantel and Euroweb are entities under the common control of KPN for accounting purposes and therefore the transaction is required to be booked in the manner described above.

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

Operations

Overview

The Company owns and operates Internet Service Providers in the Czech Republic, Hungary, Romania and Slovakia through its subsidiaries Euroweb Czech Republic spol. s.r.o. ("Euroweb Czech"), Euroweb Hungary Rt. and Elender Rt. ("Euroweb Hungary"), Euroweb Slovakia a.s. ("Euroweb Slovakia") and Euroweb Romania S.A. ("Euroweb Romania"). The Company operates in one industry segment, providing Internet access and additional value added services to business customers.

The revenues come from the following four sources:

(1) Internet Service Provider (Internet access, content and web services, other services);
(2) International/domestic leased line and Internet Protocol data services;
(3) Voice over Internet Protocol services; and
(4) Facilities (sale, rent and maintenance of dark fiber between the Hungarian border and the Romanian City of Timisoara).

For the services in point (2) and (3) in Romania, the main customer of the Company in 2004 and 2003 was Pantel Telecommunication Rt, a related party.

Related party transactions - Pantel Telecommunications Rt. (or "Pantel")

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

Due to the fact that the significant revenue of the Company derives from the iinternational/domestic leased line and Voice over Internet Protocol services, a few of the Company's representatives have moved to the premises of Pantel in order to improve co-operation on international projects.

After the acquisition of Euroweb Hungary and Elender Rt. in 2004, the balance and volume of transactions with Pantel has changed significantly. First, the net receivable position in the past (related party receivable less related party liabilities) has changed to a net liability position through the large trade and loan liability position of Euroweb Hungary to Pantel. Second, sales dependency on Pantel (i.e. percent of consolidated sales derived from Pantel) will decrease as Euroweb Hungary and Elender Rt. have insignificant sales to Pantel. Third, dependency on Pantel as the main supplier of the Company will increase as Pantel is also the main supplier of Euroweb Hungary.

Transactions: Both Euroweb Hungary and Euroweb Romania have engaged in transactions with Pantel as follows:

(a) Pantel receives revenue from the provision of the following services to subsidiaries of the Company:

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- Internet and related services;
- National and international leased and telephone lines;
- VOIP services;
- Consulting services; and
- Interest on a loan to the Company.

The total amount of these services were USD $2,768,689 (2003: $2,745,464) during the six month period ended June 30, 2004 of which $99,404 is interest expense and consulting fees, while the remaining balance is telecom related.

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

- Cost of international leased lines and local telephone lines in Slovakia and Romania;
- International/national data and voice over internet protocol services for Pantel;
- Internet and related services;
- Consulting services; and
- Commission.

Total value of these services were approximately USD $3,437,428 ($2,745,464) in the six months period ended June 30, 2004.

During the six months ended June 30, 2004, direct sales to Pantel were 23% of total consolidated revenue, but Euroweb Romania's dependency on Pantel is even greater than this figure suggests. Some third party sales involve Pantel as the subcontractor/service provider for the international/domestic lines (hence the revenues from Pantel are lower than the amounts paid to Pantel), and some third party customers are also clients of Pantel outside of Romania (i.e. their relationship with Pantel is stronger than their relationship with Euroweb Romania).

Effective dependency on Pantel - taking into account direct and Pantel-related sales - represents approximately 34% of total consolidated revenues of the Company and approximately 80-90% of total sales of Euroweb Romania. There is no such dependency in the case of Euroweb Czech, Euroweb Hungary or Euroweb Slovakia.

With respect to pricing, agreements are made at market prices or a split of the margin based on the financial investment into the specific services by each of the parties. Euroweb International Corporation always considers alternative suppliers for each individual project.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). This preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. US GAAP provides the framework from which to make these estimates, assumption and disclosures. The Company chooses accounting policies within US GAAP that management believes are appropriate to accurately and fairly report the Company's operating results and financial position in a consistent manner. Management regularly assesses these policies in light of current and forecasted economic conditions.

Acquisitions

On February 12, 2004, the Company entered into a Share Purchase Agreement with Pantel to acquire Pantel's 51% interest in Euroweb Hungary, a provider of Internet service and is based in Budapest, Hungary. The Company previously owned 49% of Euroweb Hungary and, as a result of this acquisition, Euroweb Hungary became a wholly-owned subsidiary of the Company. The purchase price paid by the Company for Pantel's interest in Euroweb Hungary was EURO 1,650,000 (USD 2,105,000) in cash.

On February 23, the Company signed a Share Purchase Agreement in connection with its acquisition of all of the outstanding shares of Elender Business Communications Ltd., a leading ISP in Hungary. The consideration of $ 9,121,571 consisted of USD 6,500,000 in cash and 677,201 of the Company's common shares valued at $2,487,352 and $ 134,219 in transaction costs. The closing of this acquisition was on 9 June 2004, which is the starting date of consolidation.

Results of Operations

Six-month Period Ended June 30, 2004 Compared to Six-month Period Ended June 30, 2003

The Company has reduced losses from operation as compared to last year mainly due to the increased profitability in Slovakia in connection with domain name sales, successful sale of fiber and other non-recurring items in Romania as well as profit generated by the Hungarian operation.

Revenues

Six months ended June 30,	2004	2003
Total Revenues	14,419,534	11,436,198

The Company experienced a 26% revenue growth, or an increase of $2,983,336, for the six months ended June 30, 2004 compared to the six months ended June 30, 2003.

The following table summarizes the main changes in revenue for each of the Company's business segments compared to the previous year with respect to the revenue structure:

Revenue / services	2004	2003	% change
ISP activity	$8,132,074	$5,994,591	+36%
Int./dom. leased line *(a)	$2,601,432	$3,057,443	-15%
VOIP (b)	$3,611,195	$2,192,201	+65%
Facilities (a)	$74,833	191,963	-61%
Total	$14,419,534	$11,436,198	26%

* - primarily Pantel or Pantel related sales,

(a) substantially all generated by the Romanian subsidiary

(b) generated by the Hungarian and Romanian subsidiary. 100% of Romania sales is Pantel direct sales ($852,000 in 2004)

ISP revenue has increased in all countries expect the Czech Republic, while VOIP revenue has increased significantly in Romania. In Romania, international/domestic leased lines revenue has fallen due to higher competition and price pressure, while facilities consist of mainly non-recurring sale of fiber optic cable in 2003, while there was much less revenue from this source in 2004.

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The following table summarize the main changes in revenue compared to the previous year with respect to the geographical source of revenue:

Revenue/country	Revenues in 2004	Revenues in 2003	Change in %
Czech Republic	$498,409	$626,990	(20%)
Slovakia	$1,992,462	$1,616,214	23%
Hungary	6,104,716	4,181,581	46%
Romania	$5,823,947	$5,011,413	16%
Total	$14,419,534	$11,436,198	26%

ISP business has decreased 20% in Czech Republic due to the smaller customer base compared to previous years, while the increase in Slovakia of 23% is due exclusively to domain name registration revenue. Overall ISP revenue improved due to the weakness of the US Dollar relative to the Czech Koruna and Slovak Koruna.

Elender Rt is consolidated from 9 June 2004 and represents approximately 20% of the 2004 revenues of Hungary in the above table. The remaining increase of Hungary is due mainly to increased sales on ADSL lines and higher VOIP revenues.

Revenue from international leased lines and IP data services (mostly Euroweb Romania) has decreased due to higher competition, falling margins and price pressure. However, the largest increase in VOIP business was produced in Romania explaining the increase of 16% in overall country revenues. Revenue generated in the six months ended June 30, 2004 was $2,384,000 compared to $1,282,570 in the six months ended June 30, 2003. Within the same period, the margin on this service has fallen.

Cost of revenues

The following table summarizes the Company's cost of revenues for the six months ended June 30, 2004 and 2003:

Three months ended June 30,	2004	2003
Total cost of revenues	9,324,279	7,152,291

Cost of revenues comprise mostly telecommunication expenses. Gross margin has decreased from 38% in 2003 to 34% in 2004, which was mainly due to the significant increase of low margin voice revenue.

Operating expenses (excluding depreciation and amortization)

The following table summarizes the Company's operating expenses for the six months ended June 30, 2004 and 2003:

Six months ended June 30,	2004	2003
Operating expenses (excluding depreciation and amortization)	4,501,449	3,831,836

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Overall operating expenses (excluding depreciation, amortization) increased by 18% mostly due to the consolidation of Elender from 9 June 2004 (approximately 7% of the increase) and the exchange rate movement of USD in Slovakia, Czech and Hungary (approximately 6% of the increase).

Depreciation and amortization

The following table summarizes the Company's depreciation and amortization for the six months ended June 30, 2004 and 2003:

Six months ended June 30,	2004	2003
Depreciation	588,281	845,790
Amortization of intangibles	44,644	33,454
Total depreciation and amortization	632,925	879,244

Depreciation has decreased by $257,509 in the six months ended June 30, 2004 compared to the same period in 2003 due to the strict control of capital expenditures on equipment in 2003 and the first half of 2004. Amortization of intangibles of $44,644 related to certain customer contracts of Elender which were recognized as intangible assets upon acquisition of Elender. In 2003, amortization of intangibles related to the customer lists of Euroweb Romania, which are now fully amortized.

Net interest income

The following table summarizes the Company's net interest income for the six months ended June 30, 2004 and 2003:

Six months ended June 30,	2004	2003

Interest income	132,451	231,893
Interest expenses	172,869	91,560
Net interest expense	(40,418)	140,333

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, (ii) the effective interest rate on these investments has decreased over the periods in question (iii) securities expired on February 15, 2004, and there was no other investment made due to cash needs of further acquisitions in 2004 (iv) consolidation of Elender Rt. has increased interest expense, and therefore reduced net interest income.

Liquidity and Capital Resources

The Company's cash, cash equivalents and marketable securities were approximately $5,335,210 as of June 30, 2004, a decrease of approximately $9.1 million from the end of fiscal year 2003. The decrease was primarily due to the acquisition of Euroweb Rt. (approximately $ 2.1 million) and the acquisition of Elender Rt. (approximately $ 6.6 million).

After the acquisitions, the consolidated working capital (excluding deferred revenue) is still more than $2,000,000 and management believes that the Company will be able to meet its financial obligations and capital expenditure needs over the next twelve months. The Company's financial situation is stable, as current assets cover all current trade, loan and other liabilities of the company.

Management believes, that the synergy effects and potential business opportunities of the merged Hungarian entities will significantly improve cash generating ability and will reduce the loans and trade liabilities of the Company in the coming few years. Management also believes that with its existing

cash, cash equivalents, marketable securities and internally generated funds, there will be sufficient funds to meet the Company's currently projected working capital requirements and other cash requirements until at least the next 12 months taking into account the new acquisitions.

Inflation and Foreign Currency

The Company maintains its books in local currencies, including the Czech Koruna for Euroweb Czech Republic, the Hungarian Forint for Euroweb Hungary, and the Slovak Koruna for Euroweb Slovakia. However, the U.S. Dollar is the functional currency of Euroweb Romania as it operates in an hyper-inflationary economy.

The Slovakian Koruna has strengthened by 13%, the Czech Korona has strengthened against the U.S. dollar by approximately 7%, while the Hungarian Forint has strengthened against U.S. dollar by approximately 8% using the average rates for the six month periods ended June 30, 2003 and 2004.

Effect of Recent Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board ("FASB") announced that it would mandate the fair value method of accounting for all stock-based awards. The FASB issued an Exposure Draft of a proposed statement on March 31, 2004, which is subject to a comment period. If enacted, the change in accounting is not expected to be effective for the Company until fiscal 2005. Until a final statement is issued, the Company cannot estimate the effect that this change in accounting would have on its consolidated statement of operations.

Forward-Looking Statements

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

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

Unless otherwise required by applicable law, the Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement. The Company advises you to review any additional disclosures made in its 10-QSB, 8-K, and 10-KSB reports filed with the Commission

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Item 3. Controls and Procedures

As of June 30, 2004, 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 June 30, 2004. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2004.

PART II

Item 1. Legal Proceedings

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

The Company is a member of ICANN (Internet Corporation for Assigned Names and Numbers), which is the association of domain registrations worldwide. The Company, as a representative of ICANN in Slovakia, started to provide registration and administration of second level domains for organizations located in the Slovak Republic in January 2003 (total revenues in 2003 approximately $250,000).

Due to the fact that the Company is the only provider of such services in Slovakia, the Association of Internet

Providers in Slovakia ("API") and the Association of Webhosting Providers claim that the Company has a monopoly and is abusing this dominant position and started legal proceedings against the Company with the Slovak Antimonopoly Office. The Antimonopoly office agreed that certain parts of the "General terms of domain registrations" can be considered as abusing the dominant position and requested the Company to change certain items in the registration system, and imposed two minor penalties. The initial decision of the Anti-Monopoly Office was upheld upon appeal.

However, API started a new legal procedure relating to the deadline for registering in order to migrate to the new domain registration system. Initially Euroweb Slovakia set a deadline of early 2003 for registration, but extended this deadline to November 2003 due to the lack of registrants. API claims that this was unfair to early registrants as they had to pay six or seven months of additional fees than the registrants who registered in November 2003. Management believes that it acted in accordance with the requirements of the API and the whole internet community and does not believe that any penalties will arise in respect of this claim.

Item 2. Changes in Securities

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 the 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.

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On June 9, 2004, the Company issued 677,201 shares of common stock to the shareholders of Elender Rt., an ISP in Hungary, a partial consideration of all of the outstanding shares of Elender.

The Company issued such securities in reliance on the safe harbor and exemptions from registration provided under Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales or issuances were made to a limited number of persons, all of whom were accredited investors, business associates of the Company or executive officers of the Company, and transfer was restricted by the Company in accordance with the requirements of such act. In addition to representations by the above-referenced persons, the Company has made independent determinations that all of the investors were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, these investors were provided with access to our Securities and Exchange Commission filings.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

On May 25, 2004, the Company held its annual meeting of shareholders in Budapest, Hungary. The Company's shareholders voted on, and approved, the following three items:

- The Company's shareholders elected Csaba Toro, Daniel Kwantes, Stewart Reich, Howard Cooper and Hans Lipman as directors to hold office until their successors are elected and qualified

- The Company's shareholders approved an amendment to the Company's restated Certificate of Incorporation increasing the number of the Company's authorized shares of common stock from 12,500,000 to 35,000,000.

- The adoption of the Company's 2004 Stock Incentive Plan.

- The Company's shareholders approved the Board of Directors' selection of KPMG Hungaria Kft. as the Company's independent auditors for the fiscal year ending December 31, 2004.

ITEM 5. OTHER INFORMATION

None

item 6. EXHIBITS AND REPORTS ON FORM 8-K

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

(3) (a) Certificate of Incorporation filed November 9, 1992(1)
(b) Amendment to Certificate of Incorporation filed July 9, 19972

(c) Restated Certificate of Incorporation filed May 29, 2003

(d) By-laws(2)

(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 Section 906 of the Sarbanes-Oxley Act of 2002.
(32) (b) Certification of the Chief Accounting Officer of Euroweb International Corp. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 12th day of August 2004.

EUROWEB INTERNATIONAL CORP.

By /s/Csaba Toro

Csaba Toro
Chairman of the Board