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EUROWEB INTERNATIONAL CORP
Form 8-K
December 17, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the Securities and Exchange Act of 1934

Date of Report (Date of earliest reported): December 16, 2004

EUROWEB INTERNATIONAL CORP.
(Exact name of registrant as specified in charter)

| | | |
|---|---------------------------------------|--|
| Delaware (State or other jurisdiction of incorporation) | 1-1200 (Commission File Number) | 13-3696015 (IRS Employer Identification No.) |
|---|---------------------------------------|--|

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

Registrant's telephone number, including area code: +36-1-8897000

Registrant's telephone number, including area code: (604) 685-8355

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry Into a Material Definitive Agreement
Item 2.01 Completion of Acquisition or Disposition of Assets

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On November 29, 2004, Euroweb International Corp. (the "Company") entered into a Shareholding Interest Sale and Purchase and Loan Assignment Agreement (the "Agreement") with Globix Communications Limited, a company registered under the laws of the Isle of Man ("Globix"). Pursuant to the Agreement, the Company sold and, Globix purchased, 100% of the Company's interest in Euroweb Czech Republic, spol ("Euroweb Czech"), a wholly-owned subsidiary of the Company. In addition, the Company assigned to Globix two loans payable by Euroweb Czech to the Company in the aggregate principal amount of US\$400,000. The purchase price paid to the Company is US\$500,000 in cash. The closing of the sale of Euroweb Czech occurred on December 16, 2004. The Company accounted over US\$400,000 profit on the sale of Euroweb Czech. No material relationship exists between the Globix and the Company and/or its affiliates, directors, officers or any associate of an officer or director.

Euroweb Czech provides communications solutions using Internet technologies to business located on the Czech Republic.

Item 9.01 Financial Statements and Exhibits

(a) Financial Information of Business Acquired

Not applicable.

(b) Proforma Financial Information

Unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2004 (attached hereto following the signature page)

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Nine Months ended September 30, 2004 (attached hereto following the signature page)

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Nine Months ended September 30, 2003 (attached hereto following the signature page)

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Year ended December 31, 2003 (attached hereto following the signature page)

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Year ended December 31, 2002 (attached hereto following the signature page)

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(c) Exhibits

| Exhibit No. | Description |
|-------------|--|
| 10.1 | Shareholding Interest Sale and Purchase and Loan Assignment Agreement by and between Euroweb International Corp. and ETEL Group Limited (incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on December 3, 2003) |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EUROWEB INTERNATIONAL CORPORATION

By: /s/ CSABA TORO

Name: Csaba Toro
Title: Chief Executive Officer

Date: December 17, 2004
Budapest, Hungary

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Unaudited Pro Forma Financial Information

The unaudited pro forma condensed consolidated financial information is filed as part of this Current Report on Form 8-K to reflect the disposition by Euroweb International Corporation (the "Company") of its Czech subsidiary Euroweb Czech Republic s.r.o ("Euroweb Czech"). On December 16, 2004, the Company closed the sale of 100% of the outstanding stock of its subsidiary in Czech Republic for \$500,000 in cash to Globix Communications Limited (the 'Buyer'). The Company has also effectively forgiven \$400,000 of loans receivable from Euroweb Czech as a part of this transaction.

The unaudited pro forma condensed consolidated financial information reflects the pro forma impact on the Company's financial position and results of operations of the sale of Euroweb Czech for the historical periods presented. The unaudited condensed consolidated balance sheet is presented as of September 30, 2004, reflecting the historical financial position of the Company with pro forma adjustments to reflect the disposition of Euroweb Czech as if the sale was consummated on that date. The unaudited pro forma condensed consolidated statements of operations are presented for the nine months ended September 30, 2004, 2003 and the year ended December 31, 2003, 2002 reflecting the historical results of operations with pro forma adjustments to reflect the disposition of Euroweb Czech as if the sale was consummated at the beginning of each period presented. Certain management assumptions and adjustments are described in the accompanying notes to the unaudited pro forma condensed consolidated financial information.

The unaudited pro forma condensed consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have actually occurred if the disposition had been consummated as of the dates indicated, nor are they necessarily indicative of future operating results or financial position.

Euroweb Czech was a wholly owned subsidiary of the Company. The company believes that the sale of Euroweb Czech meets the criteria for presentation as a discontinued operation under the provisions of Financial Accounting Standards

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Board No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Therefore, the historical results of Euroweb Czech will be reported in the Company's consolidated financial statements as a discontinued operation.

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Euroweb International Corporation
Unaudited Pro Forma Condensed Consolidated Balance Sheet
September 30, 2004

| | Historical | Pro Forma adjustment |
|---|--------------|-------------------------|
| | ----- | ----- |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 4,607,608 | 449,159 (1) |
| Trade accounts receivable, net | 3,166,749 | (109,642) (2) |
| Related party receivables | 1,439,565 | |
| Current portion of note receivable | 21,771 | |
| Prepaid and other current assets | 2,315,421 | (30,848) (2) |
| | ----- | ----- |
| Total current assets | 11,551,114 | 308,669 |
| Property and equipment, net | 7,057,793 | (32,181) (2) |
| Assets under construction | 435,023 | - |
| Intangibles - customer contracts | 2,167,015 | - |
| Goodwill | 5,943,821 | - |
| | ----- | ----- |
| Total assets | \$27,154,766 | 276,488 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Trade accounts payable | \$4,079,193 | (70,638) (2) |
| Related party payables | 928,955 | - |
| Related party loan payable - short term portion | 488,729 | - |
| Overdrafts and current portion of bank loans | 435,637 | - |
| Current portion of notes payable | 1,053,975 | - |
| Other current liabilities | 715,039 | (87,535) (2) |
| Accrued expenses | 2,157,728 | 4,591 (2) |
| | | (3) |
| Deferred IRU revenue | 46,000 | |
| Deferred other revenue | 1,116,985 | (11,995) (2) |
| | ----- | ----- |
| Total current liabilities | 11,022,241 | (165,577) |
| | ----- | ----- |
| Non-current portion of deferred IRU revenue | 808,834 | - |
| Non-current portion of related party loan payable | 733,093 | - |
| Non-current portion of bank loans | 711,111 | - |
| Non-current portion of notes payable | 181,712 | - |
| Non-current portion of lease obligations | 144,605 | - |
| | ----- | ----- |

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| | | |
|--|--------------|-------------|
| Total liabilities | 13,601,596 | (165,577) |
| 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 | 50,755,993 | - |
| Accumulated deficit | (36,066,607) | 405,410 (4) |
| Accumulated other comprehensive losses: | (45,611) | 36,655 |
| Treasury stock - 175,490 common shares, at cost | (1,115,412) | - |
| | ----- | ----- |
| Total stockholders' equity | 13,553,170 | 442,065 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$27,154,766 | \$276,488 |
| | ===== | ===== |

See notes to unaudited pro forma condensed consolidated balance sheet

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Euroweb International Corporation
Notes to Unaudited Pro Forma Condensed Consolidated Balance Sheet

- 1) Adjustment to reflect the cash proceeds received upon the sale of Euroweb Czech of \$ 500,001 and the elimination of \$ 50,842 of cash at Euroweb Czech
- 2) Adjustment to eliminate assets sold and liabilities assumed upon the sale of Euroweb Czech
- 3) Pro forma adjustment to reflect the accrual of the estimated direct transaction costs of \$10,000 to be paid in connection with the sale of Euroweb Czech
- 4) Adjustment reflects the estimated pro forma gain on the sale of the Euroweb Czech net of the estimated tax liability (expected to be zero). The gain is net of \$400,000 in forgiven loans and release of accumulated deficit. The actual gain may differ as a result of operating results of the Euroweb Czech through the measurement date, disposal and other costs.

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Euroweb International Corporation
Unaudited Pro Forma Condensed Consolidated Statement of Operations
Nine months ended September 30, 2004

| | | |
|--|------------|-----------------------|
| | Historical | Pro Forma Adjustments |
|--|------------|-----------------------|

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| | ----- | ----- | |
|--|--------------|-----------|-----|
| Revenues | | | |
| Third party revenues | \$19,631,983 | (736,844) | (2) |
| Related party revenues | 5,533,618 | - | |
| | ----- | ----- | |
| Total Revenues | 25,165,601 | (736,844) | |
| Cost of revenues | | | |
| Third party cost of revenues | 11,606,917 | (461,368) | (2) |
| Related party cost of revenues | 4,454,898 | - | |
| | ----- | ----- | |
| Total Cost of revenues | 16,061,815 | (461,368) | |
| | ----- | ----- | |
| Gross profit | 9,103,786 | (275,476) | |
| Operating expenses | | | |
| Compensation and related costs | 3,306,058 | (181,216) | (3) |
| Consulting and professional fees | 2,158,069 | (13,573) | (4) |
| Other selling, general and administrative expenses | 2,836,855 | (97,219) | (5) |
| Depreciation and amortization | 1,466,329 | (23,726) | (7) |
| | ----- | ----- | |
| Total operating expenses | 9,767,311 | (315,734) | |
| Loss from operations | (663,525) | 40,258 | |
| Net loss per share, basic and diluted | (.13) | | |
| Weighted average number of shares outstanding, basic and diluted | 4,948,753 | | (8) |

See notes to unaudited pro forma condensed consolidated statements of operations

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Euroweb International Corporation
Unaudited Pro Forma Condensed Consolidated Statement of Operations
Nine months ended September 30, 2003

| | Historical Restated 1) | Pro Forma Adjustments | |
|------------------------|------------------------------|--------------------------|-----|
| | ----- | ----- | |
| Revenues | | | |
| Third party revenues | \$13,191,279 | (894,315) | (2) |
| Related party revenues | 3,990,294 | - | |
| | ----- | ----- | |
| Total Revenues | 17,181,573 | (894,315) | |
| Cost of revenues | | | |

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| | | | |
|--|------------|-----------|-----|
| Third party cost of revenues | 6,764,310 | (513,473) | (2) |
| Related party cost of revenues | 4,126,802 | - | |
| | ----- | ----- | |
| Total Cost of revenues | 10,891,112 | (513,473) | |
| | ----- | ----- | |
| Gross profit | 6,290,461 | (380,842) | |
| Operating expenses | | | |
| Compensation and related costs | 2,418,226 | (264,877) | (3) |
| Consulting and professional fees | 1,299,616 | (19,473) | (4) |
| Other selling, general and administrative expenses | 1,963,853 | (182,098) | (5) |
| Depreciation and amortization | 1,301,017 | (62,210) | (7) |
| | ----- | ----- | |
| Total operating expenses | 6,982,712 | (528,658) | |
| Loss from operations | (692,251) | 147,816 | |
| Loss from operations per share, basic and diluted | (.15) | | |
| Weighted average number of shares outstanding, basic and diluted | 4,665,332 | | (8) |

See notes to unaudited pro forma condensed consolidated statements of operations

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Euroweb International Corporation
Unaudited Pro Forma Condensed Consolidated Statement of Operations
Year ended December 31, 2003

| | Historical Restated (Note 1) | Pro Forma Adjustment | |
|--------------------------------|------------------------------------|-------------------------|-----|
| | ----- | ----- | |
| Revenues | | | |
| Third party revenues | \$ 17,540,011 | (1,163,662) | (2) |
| Related party revenues | 5,740,709 | - | |
| | ----- | ----- | |
| Total Revenues | 23,280,720 | (1,163,662) | |
| Cost of revenues | | | |
| Third party cost of revenues | 8,827,513 | (671,677) | (2) |
| Related party cost of revenues | 5,796,350 | - | |
| | ----- | ----- | |
| Total Cost of revenues | 14,623,863 | (671,677) | |
| | ----- | ----- | |
| Gross profit | 8,656,857 | (491,985) | |
| Operating expenses | | | |
| Compensation and related costs | 3,173,720 | (358,852) | (3) |
| Severance to officers | - | - | |

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| | | | |
|--|-------------|-----------|-----|
| Consulting, professional and directors fees | 2,135,056 | (60,491) | (4) |
| Other selling, general and administrative expenses | 2,723,011 | (194,330) | (5) |
| Goodwill impairment | 980,538 | (92,581) | (6) |
| Impairment of intangibles | 100,364 | - | |
| Depreciation and amortization | 1,727,796 | (91,663) | (7) |
| | ----- | | |
| Total operating expenses | 10,840,485 | (797,917) | |
| | ----- | ----- | |
| Loss from operations | (2,183,628) | 305,932 | |
| Loss from operations per share, basic | (0.47) | | |
| Weighted average number of shares outstanding | 4,665,332 | | (8) |

See notes to unaudited pro forma condensed consolidated statements of operations

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Euroweb International Corporation
 Unaudited Pro Forma Condensed Consolidated Statement of Operations
 Year ended December 31, 2002

| | Historical Restated (Note 1) | Pro Forma Adjustment | |
|--|------------------------------------|-------------------------|-----|
| | ----- | ----- | |
| Revenues | | | |
| Third party revenues | \$ 14,495,646 | (1,415,541) | (2) |
| Related party revenues | 4,981,774 | | |
| | ----- | ----- | |
| Total Revenues | 19,477,420 | (1,415,541) | |
| Cost of revenues | | | |
| Third party cost of revenues | 7,490,713 | (713,422) | (2) |
| Related party cost of revenues | 4,226,778 | | |
| | ----- | ----- | |
| Total Cost of revenues | 11,717,491 | (713,422) | |
| | ----- | ----- | |
| Gross profit | 7,759,929 | (702,119) | |
| Operating expenses | | | |
| Compensation and related costs | 3,309,788 | (325,450) | (3) |
| Severance to officers | 2,020,832 | - | |
| Consulting, professional and directors fees | 1,558,864 | (79,431) | (4) |
| Other selling, general and administrative expenses | 2,846,094 | (169,171) | (5) |
| Goodwill impairment | 2,930,271 | (746,000) | (6) |

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| | | | |
|---|-----------------|-------------|-----|
| Impairment of intangibles | 448,500 | - | |
| Depreciation and amortization | 1,702,239 | (88,312) | (7) |
| | ----- | ----- | |
| Total operating expenses | 14,816,588 | (1,408,364) | |
| | ----- | ----- | |
| Loss from operations | (7,056,659) | 706,245 | |
| Loss from operations per share, basic | (1.51) | | |
| Weighted average number of shares outstanding | 4,665,332 | | (8) |

See notes to unaudited pro forma condensed consolidated statements of operations

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Euroweb International Corporation

Notes to Unaudited Pro Forma Condensed Consolidated Statements of Operations

- 1) On February 12, 2004, the Company entered into a Share Purchase Agreement with a related party, PanTel Rt. ("Pantel") to acquire the remaining 51% of Euroweb Hungary. shares that the Company did not already own. Pantel's majority shareholder is also KPN. As this was a transaction between entities under common control, the transaction was recorded in a manner similar to a pooling-of-interest, and accordingly the historical consolidated financial statements have been restated to include results of operations of Euroweb Hungary for all periods presented.
- 2) Adjustment to reflect the elimination of the Euroweb Czech revenues and costs of goods sold,
- 3) Adjustment to reflect the elimination of salary and related costs related to the Euroweb Czech operation.
- 4) Adjustment to reflect the elimination of consulting, professional and directors fees costs related to the Euroweb Czech operation.
- 5) Adjustment to reflect the elimination of selling, general and administrative costs related to the Euroweb Czech operation.
- 6) Adjustment to reflect the elimination of goodwill impairment attributed to Euroweb Czech
- 7) Adjustment to reflect the elimination of depreciation charge attributed to Euroweb Czech
- 8) The change in the weighted average number of shares outstanding from December 31, 2003 to September 30, 8) 2004 relates to the issuance of 677,201 common shares in connection with the acquisition of Elender Rt. in June 2004.

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