HUNGARIAN TELEPHONE & CABLE CORP Form 10-Q August 13, 2004 Table of Contents

## **UNITED STATES**

## SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

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

For the quarterly period ended June 30, 2004

Commission file number 1-11484

## HUNGARIAN TELEPHONE AND CABLE CORP.

 $(Exact\ name\ of\ registrant\ as\ specified\ in\ its\ charter)$ 

Delaware (State or other jurisdiction of

13-3652685 (I.R.S. Employer

incorporation or organization)

Identification No.)

1201 Third Avenue, Suite 3400 Seattle, WA 98101-3034

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(Address of principal executive offices)

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(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. Yes x No "

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes "No x

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock as of the latest possible date:

Common Stock, \$.001 par value (Class)

**12,430,417 Shares** (Outstanding at August 9, 2004)

## HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARY

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### Part I. Financial Information

## HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARY

## Item 1. Financial Statements

## Consolidated Condensed Balance Sheets

(In thousands, except share data)

| Current assets   S   19,049   21,191     Restricted cash   qquivalents   S   19,049   21,191     Restricted cash   S   19,049   21,191     Accounts receivable, net   S,717   6,474     Other current assets   1,480   2,714     Other current assets   31,293   34,013     Property, plant and equipment, net   117,055   120,258     Goodwill   S   8,685   8,727     Other intangibles, less accumulated amortization   4,251   4,407     Deferred cas sect   3,228   3,291     Other assets   3,228   3,291     Other assets   3,228   3,291     Other assets   5   169,061   176,556     Current installments of long-term debt   S   22,857   21,929     Excess cash amounts due under long-term debt agreement   3,820     Accounts payable   1,834   2,263     Accounts paya |   | June 30,<br>2004 | December 31,<br>2003 |  |
|--|---|------------------|----------------------|--|
| Current assets   Security   Sec |   | 2004             |                      |  |
| Current assets:         \$ 19,049         21,191           Cash and cash equivalents         12           Accounts receivable, net         5,717         6,474           Current defred lax asset         1,480         2,714           Other current assets         5,047         3,622           Total current assets         31,293         34,013           Property, plant and equipment, net         117,055         120,258           Goodwill         4,251         4,407           Deferred costs         8,685         8,727           Other intangibles, less accumulated amortization         4,251         4,407           Deferred costs         3,228         3,221           Deferred tax asset         3,228         3,291           Other assets         1,972         2,262           Total assets         \$ 169,061         176,556           Eurent installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         \$ 2,329         2,280           Accounts payable         1,834         2,262           Accounts payable         1,834         2,262           Due to related parties         2,139         2,93           Due to related par   |   | (unaudited)      |                      |  |
| Cash and cash equivalents         \$19,049         21,191           Restricted cash         12         12           Accounts receivable, net         5,717         6,474           Current deferred tax asset         1,480         2,714           Other current assets         5,047         3,622           Total current assets         31,293         34,013           Property, plant and equipment, net         117,055         120,258           Goodwill         8,685         8,727           Other intangibles, less accumulated amortization         4,251         4,407           Deferred costs         2,577         3,598           Deferred tax asset         3,228         3,291           Other assets         \$169,061         176,556           Total assets         \$169,061         176,556           Current liabilities         \$2,857         21,929           Exess cash amounts due under long-term debt         \$2,857         21,929           Exess cash amounts due under long-term debt agreement         3,820           Accruals         2,722         2,803           Accruals         2,139         2,280           Other current liabilities         3,045         33,588  |   |                  |                      |  |
| Restricted cash  |   |                  |                      |  |
| Accounts receivable, net         5,717         6,474           Current deferred tax asset         1,480         2,714           Other current assets         5,047         3,622           Total current assets         31,293         34,013           Property, plant and equipment, net         117,055         120,258           Goodwill         8,685         8,727           Other intangibles, less accumulated amortization         4,251         4,407           Deferred costs         2,577         3,598           Deferred tax asset         3,228         3,291           Other assets         1,972         2,262           Total assets         \$169,061         176,556           Liabilities and Stockholders Equity           Current liabilities         2,857         21,929           Excess cash amounts due under long-term debt         \$2,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,263           Accounts payable         1,834         2,263           Accounts payable         2,139         2,280           Due to related parties         30,045         33,588           Long-term debt, excluding cur   | 1   | \$ 19,049        | , -                  |  |
| Current deferred tax asset         1,480         2,714           Other current assets         5,047         3,622           Total current assets         31,293         34,013           Property, plant and equipment, net         117,055         120,258           Goodwill         8,688         8,727           Other intangibles, less accumulated amortization         4,251         4,407           Deferred costs         2,577         3,598           Deferred tax asset         1,972         2,262           Other assets         1,972         2,262           Total assets         \$ 169,061         176,556           Current liabilities         \$         2,727           Current installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820         3,820           Accounts payable         1,834         2,263           Other current liabilities         2,722         2,803           Other current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         30,045         35,780           Commitments and Conttingencies   |   |                  |                      |  |
| Other current assets         5,047         3,622           Total current assets         31,293         34,013           Property, plant and equipment, net         117,055         120,258           Goodwill         8,685         8,727           Other intangibles, less accumulated amortization         4,251         4,407           Deferred costs         2,577         3,598           Deferred tax asset         3,228         3,291           Other assets         1,972         2,262           Total assets         \$ 169,061         176,556           Current liabilities           Current mistallments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820         2,722         2,803           Accruals         2,722         2,803         2,139         2,280           Other current liabilities         2,139         2,280           Due to related parties         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Total liabilities         4,691         5,770           Commitmen   | ,   |                  |                      |  |
| Total current assets   31,293   34,013   17,055   120,258   36,004   117,055   120,258   36,004   117,055   120,258   36,004   36,685   8,727   36,908   34,013   3 |   |                  |                      |  |
| Property, plant and equipment, net         117,055         120,258           Goodwill         8,685         8,727           Other intangibles, less accumulated amortization         4,251         4,407           Deferred costs         2,577         3,598           Deferred tax asset         3,228         3,291           Other assets         1,972         2,262           Total assets         \$ 169,061         176,556           Liabilities and Stockholders Equity           Current liabilities:         2         2,857         21,929           Excess cash amounts due under long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820         4,263         4,263           Accruals         2,722         2,803         4,263         4,272         2,803           Other current liabilities         2,139         2,280         4,93         4,93         4,93           Total current liabilities         30,045         33,588         4,091         5,770           Total current liabilities         30,045         33,588         4,691         5,770           Total liabilities         4,691         5,770         7,737         90,839         7,737  | Other current assets  | 5,047            | 3,622                |  |
| Property, plant and equipment, net         117,055         120,258           Goodwill         8,685         8,727           Other intangibles, less accumulated amortization         4,251         4,407           Deferred costs         2,577         3,598           Deferred tax asset         3,228         3,291           Other assets         1,972         2,262           Total assets         \$ 169,061         176,556           Liabilities and Stockholders Equity           Current liabilities:         2         2,857         21,929           Excess cash amounts due under long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820         4,263         4,263           Accruals         2,722         2,803         4,263         4,272         2,803           Other current liabilities         2,139         2,280         4,93         4,93         4,93           Total current liabilities         30,045         33,588         4,091         5,770           Total current liabilities         30,045         33,588         4,691         5,770           Total liabilities         4,691         5,770         7,737         90,839         7,737  |   |                  |                      |  |
| Goodwill         8,685         8,727           Other intangibles, less accumulated amortization         4,251         4,407           Deferred costs         2,577         3,598           Deferred tax asset         3,228         3,291           Other assets         1,972         2,262           Total assets         \$ 169,061         176,556           Current liabilities:           Current installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,263           Accruals         2,722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Commitments and Contingencies         5         112,113         130,197           Commitments and Contingencies         5         112,113         130,197    Commitments and Contingencies and outstanding 30,000 shares in 2004 and 2003  | Total current assets  | 31,293           | 34,013               |  |
| Goodwill         8,685         8,727           Other intangibles, less accumulated amortization         4,251         4,407           Deferred costs         2,577         3,598           Deferred tax asset         3,228         3,291           Other assets         1,972         2,262           Total assets         \$ 169,061         176,556           Current liabilities:           Current installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,263           Accruals         2,722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Commitments and Contingencies         5         112,113         130,197           Commitments and Contingencies         5         112,113         130,197    Commitments and Contingencies and outstanding 30,000 shares in 2004 and 2003  | Property, plant and equipment, net                            | 117,055          | 120,258              |  |
| Deferred costs         2,577         3,598           Deferred tax asset         3,228         3,291           Other assets         1,972         2,262           Total assets         \$ 169,061         176,556           Liabilities and Stockholders Equity           Current liabilities:           Current installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,263           Accruals         2,722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Total liabilities         112,113         130,197           Commitments and Contingencies         Stockholders equity:         Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000         shares; issued and outstanding 30,000 shares in 2004 and 2003  |   | 8,685            | 8,727                |  |
| Deferred tax asset         3,228         3,291           Other assets         1,972         2,262           Total assets         \$ 169,061         176,556           Liabilities and Stockholders Equity           Current liabilities:           Current installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         \$ 3,820           Accounts payable         1,834         2,263           Accruals         2,7722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Commitments and Contingencies           Stockholders equity:         Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000         shares; issued and outstanding 30,000 shares in 2004 and 2003   | Other intangibles, less accumulated amortization              | 4,251            | 4,407                |  |
| Other assets         1,972         2,262           Total assets         169,061         176,556           Liabilities and Stockholders Equity           Current liabilities:           Current installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,63           Accruals         2,722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Total liabilities         112,113         130,197           Commitments and Contingencies           Stockholders equity:           Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000           Authorized 200,000           Stockholders equity:           Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000   | Deferred costs  | 2,577            | 3,598                |  |
| Total assets         \$ 169,061         176,556           Liabilities and Stockholders Equity           Current liabilities:           Current installments of long-term debt         \$ 21,929           Excess cash amounts due under long-term debt agreement         \$ 3,820           Accounts payable         \$ 1,834         \$ 2,063           Accruals         \$ 2,722         \$ 2,800           Other current liabilities         \$ 2,139         \$ 2,280           Due to related parties         \$ 493         493           Total current liabilities         \$ 30,045         \$ 33,588           Long-term debt, excluding current installments         \$ 77,377         90,839           Deferred credits and other liabilities         \$ 4,691         \$ 5,770           Total liabilities         \$ 112,113         \$ 130,197           Commitments and Contingencies           \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000   | Deferred tax asset  | 3,228            | 3,291                |  |
| Total assets         \$ 169,061         176,556           Liabilities and Stockholders Equity           Current liabilities:           Current installments of long-term debt         \$ 21,929           Excess cash amounts due under long-term debt agreement         \$ 3,820           Accounts payable         \$ 1,834         \$ 2,063           Accruals         \$ 2,722         \$ 2,800           Other current liabilities         \$ 2,139         \$ 2,280           Due to related parties         \$ 493         493           Total current liabilities         \$ 30,045         \$ 33,588           Long-term debt, excluding current installments         \$ 77,377         90,839           Deferred credits and other liabilities         \$ 4,691         \$ 5,770           Total liabilities         \$ 112,113         \$ 130,197           Commitments and Contingencies           \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000         \$ 50,000   | Other assets  | 1,972            | 2,262                |  |
| Liabilities and Stockholders Equity           Current liabilities:           Current installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,263           Accruals         2,722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Total liabilities         112,113         130,197           Commitments and Contingencies         Stockholders equity:         Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003         Authorized 200,000  |   |                  |                      |  |
| Liabilities and Stockholders Equity           Current liabilities:           Current installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,263           Accruals         2,722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Total liabilities         112,113         130,197           Commitments and Contingencies         Stockholders equity:         Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003         Authorized 200,000  | Total assets  | \$ 169.061       | 176 556              |  |
| Current liabilities:         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,263           Accruals         2,722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Total liabilities         112,113         130,197           Commitments and Contingencies         Stockholders equity:           Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003  | Total assets  | Ψ 102,001        | 170,550              |  |
| Current liabilities:         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,263           Accruals         2,722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Total liabilities         112,113         130,197           Commitments and Contingencies         Stockholders equity:           Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003  | 1:122 10:11 1 E 2   |                  |                      |  |
| Current installments of long-term debt         \$ 22,857         21,929           Excess cash amounts due under long-term debt agreement         3,820           Accounts payable         1,834         2,263           Accruals         2,722         2,803           Other current liabilities         2,139         2,280           Due to related parties         493         493           Total current liabilities         30,045         33,588           Long-term debt, excluding current installments         77,377         90,839           Deferred credits and other liabilities         4,691         5,770           Total liabilities         112,113         130,197           Commitments and Contingencies         Stockholders equity:         Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003         Authorized 200,000   |   |                  |                      |  |
| Excess cash amounts due under long-term debt agreement       3,820         Accounts payable       1,834       2,263         Accruals       2,722       2,803         Other current liabilities       2,139       2,280         Due to related parties       493       493         Total current liabilities       30,045       33,588         Long-term debt, excluding current installments       77,377       90,839         Deferred credits and other liabilities       4,691       5,770         Total liabilities       112,113       130,197         Commitments and Contingencies       Stockholders equity:         Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003  |   | ¢ 22.057         | 21.020               |  |
| Accounts payable       1,834       2,263         Accruals       2,722       2,803         Other current liabilities       2,139       2,280         Due to related parties       493       493         Total current liabilities       30,045       33,588         Long-term debt, excluding current installments       77,377       90,839         Deferred credits and other liabilities       4,691       5,770         Total liabilities       112,113       130,197         Commitments and Contingencies       Stockholders equity:         Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000       shares; issued and outstanding 30,000 shares in 2004 and 2003   |   | \$ 22,857        | ,                    |  |
| Accruals Other current liabilities Due to related parties  Total current liabilities  Long-term debt, excluding current installments Deferred credits and other liabilities  Total liabilities  |   | 1.024            |                      |  |
| Other current liabilities2,1392,280Due to related parties493493Total current liabilities30,04533,588Long-term debt, excluding current installments77,37790,839Deferred credits and other liabilities4,6915,770Total liabilities112,113130,197Commitments and ContingenciesStockholders equity:<br>Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000<br>shares; issued and outstanding 30,000 shares in 2004 and 2003  | * ·   |                  | ,                    |  |
| Due to related parties  493 493  Total current liabilities 30,045 33,588 Long-term debt, excluding current installments 77,377 90,839 Deferred credits and other liabilities 4,691 5,770  Total liabilities 112,113 130,197  Commitments and Contingencies Stockholders equity: Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003   |   |                  |                      |  |
| Total current liabilities  Long-term debt, excluding current installments  Total credits and other liabilities  Total liabilities  Total liabilities  Total liabilities  112,113  130,197  Commitments and Contingencies  Stockholders equity:  Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003   |   |                  |                      |  |
| Long-term debt, excluding current installments  Deferred credits and other liabilities  77,377 90,839 4,691 5,770  Total liabilities  112,113 130,197  Commitments and Contingencies Stockholders equity: Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003   | Due to related parties  | 493              | 493                  |  |
| Long-term debt, excluding current installments 77,377 90,839  Deferred credits and other liabilities 4,691 5,770  Total liabilities 112,113 130,197  Commitments and Contingencies  Stockholders equity:  Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003   |   |                  |                      |  |
| Deferred credits and other liabilities 4,691 5,770  Total liabilities 112,113 130,197  Commitments and Contingencies Stockholders equity: Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003   |   |                  | ,                    |  |
| Total liabilities  112,113  130,197  Commitments and Contingencies Stockholders equity: Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003   |   |                  |                      |  |
| Commitments and Contingencies Stockholders equity: Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003  | Deferred credits and other liabilities                        | 4,691            | 5,770                |  |
| Commitments and Contingencies Stockholders equity: Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003  |   |                  |                      |  |
| Commitments and Contingencies Stockholders equity: Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003  | Total liabilities   | 112,113          | 130,197              |  |
| Stockholders equity: Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003  |   |                  |                      |  |
| Stockholders equity: Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003  | Commitments and Contingencies                                 |                  |                      |  |
| Cumulative Convertible Preferred stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2004 and 2003   |   |                  |                      |  |
| shares; issued and outstanding 30,000 shares in 2004 and 2003  |   |                  |                      |  |
|  |   |                  |                      |  |
|  | shares, issued and odistanding 30,000 shares in 2007 and 2003 | 12               | 12                   |  |

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Common stock, \$.001 par value. Authorized 25,000,000 shares; issued and outstanding 12,418,417 shares in 2004 and 12,230,670 in 2003

| Shares in 2004 and 12,230,070 in 2003     |            |           |
|---|------------|-----------|
| Additional paid-in capital                | 146,305    | 145,616   |
| Accumulated deficit                       | (109,480)  | (119,548) |
| Accumulated other comprehensive income    | 20,111     | 20,279    |
|   |            |           |
| Total stockholders equity                 | 56,948     | 46,359    |
|   |            |           |
| Total liabilities and stockholders equity | \$ 169,061 | 176,556   |
|   |            |           |

See accompanying notes to consolidated financial statements.

#### Part I. Financial Information

## HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARY

Consolidated Condensed Statements of Operations and Comprehensive Income (Loss)

For the Three and Six Month Periods Ended June 30, 2004 and 2003

(In thousands, except share and per share data)

(unaudited)

|  | Three Months Ended June 30, |         |    |         | Six Months Ended |         |    |         |  |
|--|-----------------------------|---------|----|---------|------------------|---------|----|---------|--|
|  |                             |         |    |         | June 30,         |         |    |         |  |
|  |                             | 2004    |    | 2003    |                  | 2004    |    | 2003    |  |
| Telephone service revenues, net                  | \$                          | 14,690  | \$ | 14,975  | \$               | 30,151  | \$ | 29,992  |  |
| Operating expenses:                              |                             |         |    |         |                  |         |    |         |  |
| Operating and maintenance expenses               |                             | 5,623   |    | 5,359   |                  | 11,393  |    | 10,680  |  |
| Depreciation and amortization                    |                             | 3,003   |    | 2,886   |                  | 5,970   |    | 5,621   |  |
| Total operating expenses                         |                             | 8,626   |    | 8,245   |                  | 17,363  |    | 16,301  |  |
|  |                             |         |    |         |                  |         |    |         |  |
| Income from operations                           |                             | 6,064   |    | 6,730   |                  | 12,788  |    | 13,691  |  |
| Other income (expenses):                         |                             | 0,001   |    | 0,700   |                  | 12,700  |    | 10,071  |  |
| Foreign exchange (losses) gains, net             |                             | (1,724) |    | (6,305) |                  | 1,974   |    | (9,633) |  |
| Interest expense                                 |                             | (2,302) |    | (2,214) |                  | (4,751) |    | (4,668) |  |
| Interest income                                  |                             | 664     |    | 286     |                  | 1,250   |    | 478     |  |
| Other, net                                       |                             | 66      |    | (205)   |                  | 135     |    | (189)   |  |
| Net income (loss) before income taxes            |                             | 2,768   |    | (1,708) |                  | 11,396  |    | (321)   |  |
| Income tax (expense) benefit                     |                             | (310)   |    | 361     |                  | (1,276) |    | 14      |  |
| Net income (loss)                                | \$                          | 2,458   | \$ | (1,347) | \$               | 10,120  | \$ | (307)   |  |
| Cumulative convertible preferred stock dividends |                             | (26)    |    | (26)    |                  | (52)    |    | (52)    |  |
| Net income (loss) attributable to common         |                             |         |    |         |                  |         |    |         |  |
| stockholders                                     |                             | 2,432   |    | (1,373) |                  | 10,068  |    | (359)   |  |
| Comprehensive income adjustments                 |                             | (1,211) |    | (565)   |                  | (168)   |    | (768)   |  |
| Total comprehensive income (loss)                | \$                          | 1,221   | \$ | (1,938) | \$               | 9,900   | \$ | (1,127) |  |
|  |                             |         |    |         |                  |         |    |         |  |
| Earnings (loss) per common share:                |                             |         |    |         |                  |         |    |         |  |
| Basic  | \$                          | 0.20    | \$ | (0.11)  | \$               | 0.82    | \$ | (0.03)  |  |
| Diluted  | \$                          | 0.19    | \$ | (0.11)  | \$               | 0.79    | \$ | (0.03)  |  |
|  |                             |         |    |         |                  | -       | -  |         |  |

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| Weighted average number of common shares outstanding: |            |            |            |            |
|---|------------|------------|------------|------------|
| Basic   | 12,348,794 | 12,193,966 | 12,323,814 | 12,153,865 |
| Diluted   | 12,882,306 | 12,193,966 | 12,872,001 | 12,153,865 |

See accompanying notes to condensed consolidated financial statements.

### Part I. Financial Information

## HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARY

Consolidated Condensed Statements of Stockholders Equity

(In thousands, except share and per share data)

## (unaudited)

|   |            |    |                              |  |                                  |                        |   |                      | Total  |
|---|------------|----|------------------------------|--|----------------------------------|------------------------|---|----------------------|--------|
|   | Shares     |    | Common Preferred Stock Stock |  | Additional<br>Paid-in<br>Capital | Accumulated<br>deficit | Accumulated<br>Other<br>Comprehensive<br>Income | Stockholders  Equity |        |
| Balances at                             |            |    |                              |  |                                  |                        |   |                      |        |
| December 31, 2003                       | 12,230,670 | \$ | 12                           |  | 145,616                          | (119,548)              | 20,279  | \$                   | 46,359 |
| Proceeds from                           |            |    |                              |  |                                  |                        |   |                      |        |
| exercise of options                     | 172,247    |    |                              |  | 689                              |                        |   |                      | 689    |
| Common stock granted to Employee        | 15,500     |    |                              |  |                                  |                        |   |                      |        |
| Cumulative convertible preferred        |            |    |                              |  |                                  |                        |   |                      |        |
| stock dividends                         |            |    |                              |  |                                  | (52)                   |   |                      | (52)   |
| Net income                              |            |    |                              |  |                                  | 10,120                 |   |                      | 10,120 |
| Foreign currency translation adjustment |            | _  |                              |  |                                  |                        | (168)   | _                    | (168)  |
| Balances at June 30, 2004               | 12,418,417 | \$ | 12                           |  | 146,305                          | (109,480)              | 20,111  | \$                   | 56,948 |

See accompanying notes to consolidated condensed financial statements.

### Part I. Financial Information

## HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARY

Consolidated Condensed Statements of Cash Flows

For the Six Month Periods Ended June 30, 2004 and 2003

(In thousands)

## (unaudited)

|   | 2004      | 2003     |
|---|-----------|----------|
| Net cash provided by operating activities       | \$ 14,762 | 13,705   |
|   | <u> </u>  |          |
| Cash flows from investing activities:           |           |          |
| Construction of telecommunication networks      | (3,216)   | (1,534)  |
| Decrease in construction deposits               |           | 310      |
| Grant funding received for capital expenditures | 214       |          |
| Proceeds from sale of assets                    | 29        | 16       |
|   |           |          |
| Net cash used in investing activities           | (2,973)   | (1,208)  |
|   |           |          |
| Cash flows from financing activities:           |           |          |
| Repayments of long-term debt                    | (14,381)  | (12,540) |
| Dividends paid                                  | (52)      |          |
| Proceeds from exercise of options               | 689       | 664      |
|   |           |          |
| Net cash used in financing activities           | (13,744)  | (11,876) |
|   |           |          |
| Effect of foreign exchange rate changes on cash | (187)     | (816     |