EMVELCO CORP.
Form 10QSB
August 14, 2007

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-QSB

(Mark One)

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

|_| TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commissions file number 00**1-12000**

EMVELCO 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.)

468 N. Camden Drive, Suite 315, Beverly Hills, CA 90210
(Address of principal executive offices)

+1 (310) 285-5350	**+1 (310) 285-5353**
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 [_]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Exchange Act). Yes [_] No [**X**]

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

Common Stock, $.001 par value	**4,609,181**
(Class)	(Outstanding at July 31, 2007)

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

EMVELCO CORP.

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EMVELCO CORP.
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

		June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$	70,968
Related party receivable (Note 12)		450,000
Prepaid and other current assets		331,672
Total current assets		852,640
Restricted cash - certificate of deposit (Note 3)		8,301,935
Investment in Micrologic, Inc (Note 4)		-
Loan to Affiliate - Emvelco RE Corp (Note 5)		9,440,740
Loan to Affiliate - Verge Living Corporation (Note 5)		10,158,222
Intangible asset, Patents		10,857
Total assets	$	28,764,394
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Other current liabilities		22,261
Accrued expenses		409,261
Total current liabilities		431,522
Secured Bank loan (Note 6)		5,811,261
Total liabilities		6,242,783
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock, $.001 par value - Authorized 35,000,000 shares;		
5,889,074 shares issued of which 4,609,181 shares are outstanding		4,609
Additional paid-in capital		52,224,829
Accumulated deficit		(27,595,655)
Accumulated other comprehensive income		5,539
Treasury stock - 1,279,893 Common shares, at cost		(2,117,711)
Total stockholders' equity		22,521,611
Total liabilities and stockholders' equity	$	28,764,394

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Six months ended June 30		Three months ended June 30	
	2007	**2006*)**	**2007**	**2006*)**
Revenues	-	-	-	-
Cost of revenues (Exclusive of depreciation and amortization shown separately below)	-	-	-	-
Operating expenses				
Compensation and related costs	238,546	1,469,412	157,358	707,646
Severance to officer	-	750,000	-	750,000
Consulting, director and professional fees	430,684	898,030	221,613	476,354
Other selling, general and administrative expenses	203,430	701,164	128,268	421,731
Software development expense	98,900	-	98,900	-
Total operating expenses	971,560	3,818,606	606,139	2,355,731
Operating loss	(971,560)	(3,818,606)	(606,139)	(2,355,731)
Interest income	889,175	-	270,770	-
Interest expense	(137,329)	-	(80,478)	-
Net interest income	751,846	-	190,292	-
Other income	13,899	-	7,521	-
Loss from continuing operations	(205,815)	(3,818,606)	(408,326)	(2,355,731)
Income from discontinued operations, net of tax (Note 7)	-	9,749,298	-	9,315,995
Net income (Loss)	(205,815)	5,930,692	(408,326)	6,960,264
Other comprehensive (loss) income	-	(86,164)	-	(379,384)
Comprehensive income (Loss)	(205,815)	$ 5,844,528	(408,326)	$ 6,580,880
Loss per share, from continuing operations, basic and diluted	$ (0.04)	$ (0.65)	$ (0.09)	$ (0.40)
Income per share from discontinued operations, basic and diluted		$ 1.67		$ 1.59
Net income (Loss) per share, basic and diluted	$ (0.04)	$ 1.02	$ (0.09)	$ 1.19
Weighted average number of shares outstanding, basic and	4,862,553	5,840,606	4,646,023	5,842,059

diluted

*) - Reclassified

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock Number of shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balances, January 1, 2005	**5,342,533**	**$ 5,343**	**$ 50,799,548**	**$ (35,982,726)**	**$ 108,266**	**$ (1,115,412)**	**$ 13,815,019**
Foreign currency translation loss	-	-	-	-	(8,585)	-	(8,585)
Compensation charge on share options and warrants issued to consultants	-	-	192,294				192,294
Issuance of shares (Navigator acquisition)	441,566	441	1,681,693	-	-	-	1,682,134
Cancellation of treasury stock	-	-	(1,115,412)	-	-	1,115,412	-
Net income for the year	-	-	-	1,680,295	-	-	1,680,295
Balances, December 31, 2005	**5,784,099**	**$ 5,784**	**$ 51,558,123**	**$ (34,302,431)**	**$ 99,681**	**-**	**$ 17,361,157**
Foreign currency translation loss	-	-	-	-	(94,142)	-	(94,142)
Compensation charge on share options and warrants issued to employees, directors and consultants	-	-	341,206				341,206
Issuance of shares to the President	104,975	105	325,500	-	-	-	325,605
Treasury stock	(476,804)	(476)	-	-	-	(994,884)	(995,360)
Net income for the year	-	-	-	6,912,591	-	-	6,912,591
Balances, December 31, 2006	**5,412,270**	**$ 5,413**	**$ 52,224,829**	**$ (27,389,840)**	**$ 5,539**	**$ (994,884)**	**$ 23,851,057**
Treasury stock - Open Market	(180,558)	(181)	**-**	**-**	**-**	(288,636)	(288,817)
Treasury stock - Navigator Sale	(622,531)	(623)	**-**	**-**	**-**	(834,191)	(834,814)
Net loss for the period	**-**	**-**	**-**	(205,815)	**-**	**-**	(205,815)

Balances, June 30, 2007	**4,609,181**	**$**	**4,609**	**$**	**52,224,829**	**$**	**(27,595,655)**	**$**	**5,539**	**$**	**(2,117,711)**	**$**	**22,521,611**

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2007	2006*)
Operating activities from continuing operations	(1,113,019)	(2,272,490)
Net cash provided by (used in) operating activities	(1,113,019)	(2,272,490)
Cash flows from investing activities:		
Purchase of property and equipment	-	(250,284)
Cash from sale of discontinued operations - Euroweb Hungary and Romania	-	21,496,533
Cash received from sale of discontinued operations - Navigator	3,200,000	-
Loan advances to ERC	(7,360,021)	(2,767,500)
Purchase of patents	(4,347)	-
Net cash used in investing activities	(4,164,368)	18,478,749
Cash flows from financing activities:		
Proceeds from secured bank loans	5,811,261	-
Repayment of bank loans	(3,000,000)	(136,905)
Utilization of bank overdraft	-	49,414
Principal payments under capital lease obligations	-	(28,522)
Payments to acquire treasury stock	(289,439)	(66,044)
Net cash used in financing activities	2,521,822	(182,057)
Effect of exchange rate changes on cash and cash equivalents		216
Net decrease in cash and cash equivalents	(2,755,565)	16,024,418
Cash and cash equivalents, beginning of period	2,826,533	1,568,690
Cash and cash equivalents, end of period	70,968	17,593,108
Supplemental disclosure:		
Cash paid for interest	(137,329)	49,839
Cash received for interest	889,175	-
Summary of non-cash transactions:		
Shares issued to the President	-	177,083
Treasury shares acquired in sale of subsidiary	834,191	-

*) - Reclassified

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Business

Emvelco Corp. (“Emvelco”), formerly known as Euroweb International Corp., is a Delaware Corporation, which was incorporated on November 9, 1992. Emvelco and its consolidated subsidiaries are collectively referred to herein as the “Company”. The Company's authorized capital stock consists of 35,000,000 shares with a par value of $0.001 per share. As of June 30, 2007, 5,889,074 shares are issued and 4,609,181 shares are outstanding.

The Company is a holding company and it invests in real estate development, financing and investment business in the United States of America (“US”). The Company commenced operations in the investment real estate industry through the acquisition of an empty, non-operational, wholly-owned subsidiary, Emvelco RE Corp., a Nevada corporation (“ERC”), which was acquired in June 2006. Primary activity of ERC includes investment, development and subsequent sale of real estate, as well as investment in the form of loans provided to, or ownership acquired in, property development companies, directly or via majority or minority owned affiliates. The Company also has an investment in Micrologic, Inc., a Nevada corporation (“Micrologic”), a software development company. The Company’s headquarters are located in Beverly Hills, California.

On December 15, 2005, the Board of Directors decided to sell 100% of Euroweb Internet Szolgaltato Rt. ("Euroweb Hungary") and Euroweb Romania S.A. ("Euroweb Romania"). On December 19, 2005, the Company entered into a share purchase agreement to sell 100% of the Company’s interest in Euroweb Hungary and Euroweb Romania. The closing of the sale of Euroweb Hungary and Euroweb Romania occurred on May 23, 2006. For the period ended June 30, 2006, the Euroweb Hungary and Euroweb Romania operations have been presented as discontinued operations in the Company’s consolidated financial statements.

In September 2006, ERC formed Lorraine Properties, LLC (“Lorraine”), a Nevada limited liability company. In October 2006, ERC acquired majority ownership in non-operational asset holding companies as follows: 66.67% of Stanley Hills LLC (“Stanley”), a Nevada limited liability company and 51% of AR 846 Huntley, LLC (“Huntley, a California limited liability company.

Emvelco and its wholly-owned subsidiary ERC entered into an Agreement and Plan of Exchange (“Exchange Agreement”) dated December 31, 2006 with Verge Living Corporation (“Verge”), a Nevada corporation, and Verge’s sole shareholder, The International Holdings Group Ltd. (“TIHG”) a corporation formed and registered in the Marshall Islands and controlled by a third party. The Exchange Agreement closed on December 31, 2006. Pursuant to the Exchange Agreement, ERC issued shares to TIHG in exchange for 100% of the outstanding securities of Verge. Subsequent to the exchange, Emvelco’s ownership in ERC was diluted to 43.33%, while TIHG owned the remaining 56.67%. Verge became a wholly-owned subsidiary of ERC. ERC directly owns 33.33% of AP Holdings Limited (“AP Holdings”), a Jersey Island non operating holding company. Such interest was acquired prior to any affiliation with the Company. AP Holdings owns 100% of Atia Projekt d.o.o, a Croatian Company (“Atia project”), a real estate development company. AP Holdings is controlled by Mr. Shalom Atia, the brother of the Company’s CEO.

On February 16, 2007, the Company entered into a Sale and Purchase Agreement (the “Navigator Agreement”) to sell 100% of Navigator Informatika Rt. (“Navigator”), a wholly-owned subsidiary of the Company. For the period ended June 30, 2006, the operations of Navigator have been presented as discontinued operations in the Company’s consolidated financial statements.

On May 14, 2007, the Company entered into a Stock Transfer and Assignment of Contract Rights Agreement (the "Stock Transfer Agreement") between ERC, ERC's principal shareholder TIHG and ERC's wholly owned subsidiary Verge. Pursuant to the Stock Transfer Agreement, the Company transferred and conveyed its 1,000 Shares (representing a 43.33% interest) (the "Shares") in ERC to TIHG to submit to ERC for cancellation and return to Treasury. Pursuant to this Agreement, the Company retains its original option to acquire Verge (see Notes 7, 12).

On June 5, 2007, the Company, the Company's chief executive officer Yossi Attia, and Darren Dunckel - CEO of ERC (collectively, the "Investors") entered into an Agreement (the "Upswing Agreement") with a third party, Upswing, Ltd. (also known as Appswing Ltd., hereinafter referred to as "Upswing"). Pursuant to the Upswing Agreement, the Investors intend to invest in an entity listed on the Tel Aviv Stock Exchange (the "Investment Target"). In addition, the Investors intend to transfer rights and control of various real estate projects to the Investment Target. Upswing has agreed to locate the Investment Target. The Investors and the Investment Target will then effect a transaction, pursuant to which the Investors and/or the Investors' affiliates will acquire 76% of the Investment Target in consideration of the transfer of the rights to the various real estate projects to the Investment Target (the "Transaction"). Upswing, among other items, will advise the Investors on the steps necessary to effectuate the contemplated transfer of real estate project rights to the Investment Target.

On July 16, 2007, the Company delivered Notice of Exercise of Options ("Notice") to ERC, The TIHG, Verge and Darren C. Dunckel, individual, President of ERC and/or representative of the foregoing parties.

The closing of the acquisitions set forth in the Notice is contingent upon the closing of that Upswing Agreement.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, intends to exercise its option (the "Verge Option") to purchase a multi-use condominium and commercial property in Las Vegas, Nevada, via the purchase and acquisition of all outstanding shares of common stock of Verge. The Company initially acquired the Verge Option pursuant to the Investment Agreement, dated as of June 19, 2006 (the "Investment Agreement"), between Verge, which was then known as AO Bonanza Las Vegas, Inc. and the Company. The Verge Option is exercisable in the amount of $15,000,000, payable by combination of the outstanding loan amount owing to the Company under the Investment Agreement, up to $10,000,000, and Company common stock valued at $5,000,000. The terms of the Verge Option exercise are different than the original terms set forth in the Investment Agreement.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, further intends to exercise its option (the "Sitnica Option") to purchase ERC's derivative rights and interest in Sitnica d.o.o. through ERC's holdings (one-third (1/3) interest) in AP Holdings Limited ("AP Holdings"), a company organized under the Companies (Jersey) Law 1991, which equates to a one-third interest in Sitnica d.o.o. (excluding ERC's interest in AP Holdings). The Sitnica Option is exercisable in the amount of $4,000,000, payable by reducing the outstanding loan amount owing to the Company under the Investment Agreement by $3,550,000 and reducing the Company's deposit with Shalom Atia, Trustee of AP Holdings, by $450,000.

On July 23, 2007, the Company finalized its second agreement with Upswing (the "Second Upswing Agreement"). The Upswing Agreement effects certain of the terms and provisions set forth in the Upswing Agreement") with Upswing. The Upswing Agreement was entered into on June 5, 2007 and reported on the Company's Form 8-K filed June 11, 2007. The Upswing Agreement was entered into by and between the Company and Darren Dunckel (chief executive officer of ERC), and Upswing. The Upswing Agreement was entered into by and between AP Holdings Ltd. ("AP Holdings") and the Company (collectively, AP Holdings and the Company are referred to as the "Kidron Investors") and Upswing. The brother of the chief executive officer of the Company is an equity owner in AP Holdings.

Pursuant to the Second Upswing Agreement, and as contemplated in the Upswing Agreement, Upswing purchased control of an entity traded on the Tel-Aviv Stock Exchange named Kidron Industrial Holdings Ltd. ("Kidron"). The Kidron Investors and Upswing will effect a transaction (the "Kidron Transaction") pursuant to which the Kidron Investors will acquire 72.11% of Kidron (to be allocated 60% to the Company, and 40% to AP Holdings), in exchange for the transfer of the rights to certain real estate projects in Las Vegas and Croatia. Upswing, will advise the Kidron Investors on the steps necessary to effectuate the Upswing Transaction. Following the closing of the Upswing Transaction (the "Closing"), Kidron will undertake a financing to raise additional capital (the "Financing").

On July 19, 2007, as contemplated in the Upswing Agreement, the Company also entered into an agreement between Kidron and the Investors (the "Kidron Agreement"). The Kidron Agreement provides that the Kidron Investors will transfer certain interests in real estate projects in Las Vegas and Croatia to Kidron in consideration of shares of Kidron, equal to 72.11% of the issued capital stock of Kidron. The shares will be allocated between the Investors 60% to the Company and 40% to AP Holdings. Further, Kidron will issue shares to Appswing, which shall constitute 13.66% of the issued capital stock of Kidron.

2. Summary of Significant Accounting Policies

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

Basis of consolidation

The consolidated financial statements include the accounts of Emvelco, its majority-owned subsidiaries and all variable interest entities for which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated upon consolidation.

The consolidated financial statements include the accounts of Emvelco and the subsidiaries it controls. Control is determined based on ownership rights or, when applicable, whether the Company is considered the primary beneficiary of a variable interest entity. For the period from June 14, 2006 to December 30, 2006, ERC was a wholly owned subsidiary of Emvelco. From January 1 2007, after the exchange with TIHG, ERC is no longer a controlled subsidiary of the Company and is not consolidated. The Company's interest in Micrologic has been consolidated at June 30, 2007 in accordance with FIN46R, "Consolidation of Variable Interest Entities", due to Micrologic's sole reliance on the Company to finance its' ongoing business activities. Emvelco has exposure to a majority of the expected losses and/or expected residual returns of Micrologic.

Unaudited Interim Financial Statements

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principals for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by United States generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there have been no material changes in the information disclosed in the notes to the financial statements for the year ended December 31, 2006 included in the Company's Form 10K filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10K. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

Variable Interest Entities

Under Financial Accounting Standards Board ("FASB") Interpretation No. 46 (revised December 2003) "Consolidation of Variable Interest Entities" ("FIN 46R"), the Company is required to consolidate variable interest entities ("VIE's"), where it is the entity's primary beneficiary. VIE's are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The primary beneficiary is the party that has exposure to a majority of the expected losses and/or expected residual returns of the VIE.

Based on the Company's analysis at the date of acquisition, as well as all other reconsideration events as defined under FIN 46R, management determined that despite the various ownership interests, Emvelco was not the primary beneficiary of ERC and all of its subsidiaries, including Lorraine, Stanley, AP Holdings, and Huntley. Therefore, Emvelco does not consolidate ERC as of June 30, 2007. The primary beneficiary of ERC is TIHG, an unrelated company, which owns 100.00% of ERC, and will therefore consolidate ERC. The Company's interest in Micrologic has been consolidated at June 30, 2007 due to Micrologic's sole reliance on the Company to finance its' ongoing business activities. Emvelco has exposure to a majority of the expected losses and/or expected residual returns of Micrologic. Upon closing the Kidron acquisition, if at all, the Company should consolidate Kidron (which will consolidate Verge and Sitnica).

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Fair value of financial instruments

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

Revenue recognition

The Company applies the provisions of Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements" ("SAB 104"), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 104 outlines the

basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies. The Company recognizes revenue when persuasive evidence of an arrangement exists, the product or service has been delivered, fees are fixed or determinable, collection is probable and all other significant obligations have been fulfilled.

Revenues from property sales are recognized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 66, "Accounting for Sales of Real Estate," when the risks and rewards of ownership are transferred to the buyer, when the consideration received can be reasonably determined and when Emvelco has completed its obligations to perform certain supplementary development activities, if any exist, at the time of the sale. Consideration is reasonably determined and considered likely of collection when Emvelco has signed sales agreements and has determined that the buyer has demonstrated a commitment to pay. The buyer's commitment to pay is supported by the level of their initial investment, Emvelco' assessment of the buyer's credit standing and Emvelco' assessment of whether the buyer's stake in the property is sufficient to motivate the buyer to honor their obligation to it.

Revenue from fixed price contracts is recognized on the percentage of completion method. The percentage of completion method is also used for condominium projects in which the Company is a real estate developer and all units have been sold prior to the completion of the preliminary stage and at least 25% of the project has been carried out. Percentage of completion is measured by the percentage of costs incurred to balance sheet date to estimated total costs. Selling, general, and administrative costs are charged to expense as incurred. Profit incentives are included in revenues, when their realization is reasonably assured. Provisions for estimated losses on uncompleted projects are made in the period in which such losses are first determined, in the amount of the estimated loss of the full contract. Differences between estimates and actual costs and revenues are recognized in the year in which such differences are determined. The provision for warranties is provided at certain percentage of revenues, based on the preliminary calculations and best estimates of the Company's management.

The Company is currently under the initial phase as investor in real estate development and, therefore, no revenue has been recognized from sale of real estate;

Cost of revenues

Cost of revenues includes the cost of real estate sold and rented as well as costs directly attributable to the properties sold such as marketing, selling and depreciation.

Treasury Stock

Treasury stock is recorded at cost. Issuance of treasury shares is accounted for on a first-in, first-out basis. Differences between the cost of treasury shares and the re-issuance proceeds are charged to additional paid-in capital.

Foreign currency translation

The Company considers the United States Dollar ("US Dollar" or "$") to be the functional currency of Emvelco and its subsidiaries, with the exception of Navigator (presented as a discontinued operation) which has the Hungarian Forint as its functional currency. The reporting currency of the Company is the US Dollar and accordingly, all amounts included in the consolidated financial statements have been presented or translated into US Dollars.

For non-US subsidiaries that do not utilize the US Dollar as its functional currency, assets and liabilities are translated to US Dollars at year-end exchange rates, and income and expense items are translated at weighted-average rates of exchange prevailing during the year. Translation adjustments are recorded in "Accumulated other comprehensive income" within stockholders' equity.

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

Cash and cash equivalents

Cash and cash equivalents include cash at bank and money market funds with maturities of three months or less at the date of acquisition by the Company.

Marketable securities

The Company determines the appropriate classification of all marketable securities as held-to-maturity, available-for-sale or trading at the time of purchase, and re-evaluates such classification as of each balance sheet date in accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS 115”). In accordance with Emerging Issues Task Force (“EITF”) No. 03-01, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investment” (“EITF 03-01”), the Company assesses whether temporary or other-than-temporary gains or losses on its marketable securities have occurred due to increases or declines in fair value or other market conditions.

Other than those classified within discontinued operations, the Company did not have any marketable securities within continuing operations for the years ended June 30, 2007, as the consideration received during the period.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. The Company provides for depreciation of property and equipment using the straight-line method over the following estimated useful lives:

Software	3 years
Computer equipment	3-5 years
Other furniture equipment and fixtures	5-7 years

The Company’s policy is to evaluate the appropriateness of the carrying value of long-lived assets. If such evaluation were to indicate an impairment of assets, such impairment would be recognized by a write-down of the applicable assets to the fair value. Based on the evaluation, no impairment was indicated in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (“SFAS 144”).

Equipment purchased under capital leases is stated at the lower of fair value and the present value of minimum lease payments at the inception of the lease, less accumulated depreciation. The Company provides for depreciation of leased equipment using the straight-line method over the shorter of estimated useful life and the lease term. During the periods ended June 30, 2007 and 2006, the Company did not enter into any capital leases.

Recurring maintenance on property and equipment is expensed as incurred.

Any gain or loss on retirements and disposals is included in the results of operations in the period of the retirement or disposal. No retirements and disposals occurred for the periods ended June 30, 2007 and 2006 for the Company's continuing operations.

Goodwill and intangible assets

Goodwill results from business acquisitions and represents the excess of purchase price over the fair value of identifiable net assets acquired at the acquisition date. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management evaluates the recoverability of goodwill by comparing the carrying value of the Company's reporting units to their fair value. Fair value is determined based on discounted future cash flows. There was no goodwill related to the Company's continuing operations for the periods ended June 30 2007 and 2006, respectively - other than Navigator which was presented as discontinued operation.

Intangible assets that have finite useful lives, whether or not acquired in a business combination, are amortized over their estimated useful lives, and also reviewed for impairment in accordance with SFAS 144. The Company's consolidated VIE, Micrologic, holds software patents at June 30, 2007 for $10,857.

Earnings (loss) per share

Basic earnings (loss) per share are computed by dividing income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share reflect the effect of dilutive potential common shares issuable upon exercise of stock options and warrants. There were no dilutive options and warrants for the periods ended June 30, 2007 and 2006. Stock options and warrants convertible into 690,125 and 779,067 shares of common stock, respectively, were excluded from the computation of diluted earnings per share since such options and warrants have an exercise price in excess of the average market value of the Company's common stock during the periods.

Comprehensive income

Comprehensive income includes all changes in equity except those resulting from investments by and distributions to owners.

Business segment reporting

The Company manages its continuing operations on a geographic basis, and accordingly had concluded that it has one operating segment, the US.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Deferred tax assets and liabilities, are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company adopted the provisions of FIN 48 on January 1, 2007. The Company did not make any adjustment to opening retained earnings as a result of the implementation. The Company recognizes interest accrued related to unrecognized tax benefits along with penalties in operating expenses. During the quarters ended June 30, 2007 and 2006, the Company did not recognize any interest and penalties relating to income taxes. The Company did not have any accrual for the payment of interest and penalties at June 30, 2007.

Software development

The Company's consolidated VIE, Micrologic, is engaged in the design and production of Electronic Design Automation ("EDA") applications and Integrated Circuit ("IC") design processes; specifically, the development and production of the NanoToolBox™ tools suite, which is a smart platform designed to accelerate IC's design time and shrink time to market factor. Micrologic expenses software development costs during the early stages of product development as the likelihood of earning future revenues is uncertain.

Stock-based compensation

Effective January 1, 2006, the Company adopted SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under SFAS 123R, the Company is required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The measured cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award. Additionally, if an award of an equity instrument involves a performance condition, the related compensation cost is recognized only if it is probable that the performance condition will be achieved.

Prior to the adoption of SFAS 123R , the Company accounted for stock-based employee compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, and chose to adopt the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" ("SFAS 148"). Under APB 25, the Company did not recognize expense related to employee stock options because the exercise price of such options was equal to the quoted market price of the underlying stock at the grant date.

The Company adopted SFAS 123R using the modified prospective method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. Under this method, compensation cost recognized during the year ended December 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and amortized on an straight-line basis over the requisite service period, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R amortized on a straight-line basis over the requisite service period. Results for prior periods have not been restated.

As a result of adopting SFAS 123R on January 1, 2006, the Company's loss from continuing operations before income taxes and loss from continuing operations are $270,695 higher and net income is $270,695 lower than if it continued to account for share-based compensation under APB 25. Basic and diluted earnings per share are $0.05 lower than if the Company continued to account for share-based compensation under APB 25. The adoption of SFAS 123R had no impact on cash flows.

See further discussion on stock-based compensation plans.

The Company estimates the fair value of each option award on the date of the grant using the Black-Scholes option valuation model. Expected volatilities are based on the historical volatility of the Company's common stock over a period commensurate with the options' expected term. The expected term represents the period of time that options granted are expected to be outstanding and is calculated in accordance with SEC guidance provided in the SAB 107, using a "simplified" method. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the Company's stock options

The Company did not grant any share-based payments during the period ended June 30, 2007. The following table shows total non-cash stock-based employee compensation expense included in the consolidated statement of operations for the year ended December 31, 2006:

Categories of cost and expenses		Year ended December 31, 2006
Compensation and related costs	$	21,241
Consulting, professional and directors fees		249,454
Total stock-based compensation expense	$	270,695

In addition to stock-based compensation expense for employees and directors, the Company recognized in 2006 compensation expense of $70,511 related to options and warrants granted to consultants.

3. Line of Credit and Restricted Cash

On August 28, 2006, the Company entered into a $4,000,000 Revolving Line of Credit ("line of credit") with a commercial bank. As security for this credit facility, the Company deposited $4,000,000 into a certificate of deposit ("CD") as collateral for a two year period. The CD earns interest at a rate of 5.25% annually, and any interest earned on the CD is restricted from withdrawal and must remain in the account for the entire term. The interest rate on the line of credit is 6% annually.

On November 21, 2006, the Company deposited an additional $4,000,000 into another CD with the same restrictions on withdrawal. This CD matures on November 21, 2008 and the deposit bears an interest rate of 5.12% annually.

The outstanding balance on the line of credit was $5,811,261 as of June 30, 2007 (see note 6).

4. Investment in Micrologic, Inc.

On October 11, 2006, the Company committed itself in the financing of Micrologic, Inc. ("Micrologic"), a Nevada corporation, engaged in the design and production of Electronic Design Automation ("EDA") applications and Integrated Circuit ("IC") design processes; specifically, the development and production of the NanoToolBox™ tools suite, which is a smart platform designed to accelerate IC's design time and shrink time to market factor. The agreement provides for an initial investment by the Company of up to $1,000,000, with warrants to purchase additional equity for additional investment. The Company owns 25.10% of Micrologic; however such equity positions might be revised contingent upon the exercise of the warrants. As of June 30, 2007, $300,000 was transferred as part of this commitment, and no warrants were issued.

The Company's interest in Micrologic has been consolidated at June 30, 2007 in accordance with FIN46R, "Consolidation of Variable Interest Entities". The Company is the primary beneficiary of Micrologic due to the VIE's reliance on Emvelco to finance its' ongoing business and software development activities.

5. Loans to Affiliates - Emvelco RE Corp and Verge Living Corporation

On June 14, 2006, Emvelco issued a $10 million line of credit to ERC. Outstanding balances bear interest at an annual rate of 12% and the line of credit has a maximum borrowing limit of $10 million. Initially on October 26, 2006 and then again ratified on December 29, 2006, the Board of Directors of Emvelco approved an increase in the borrowing limit of the line of credit to $20 million. The Board also restricted use of the funds to real estate development. On May 14, 2007, the Company entered into a Stock Transfer and Assignment of Contract Rights Agreement (the "Stock Transfer Agreement") with ERC, ERC's principal shareholder TIHG and ERC's wholly owned subsidiary Verge. The effective date of the Stock Transfer Agreement is January 1, 2007 (the "Effective Date"). All rights assigned to the Company under the Investment Agreement will be considered to be assigned as of the Effective Date. Accordingly, as of the Effective Date, the Company shall be the sole secured and primary beneficiary under the Investment Agreement (See Note 7).

On July 16, 2007, the Company delivered a Notice of Exercise of Options ("Notice") to ERC, TIHG, Verge and Darren C. Dunckel, individual, President of ERC and/or representative of the foregoing parties. Pursuant to the Notice, Emvelco, subject to performance under the Upswing Agreement, intends to exercise its option (the "Verge Option") to purchase a multi-use condominium and commercial property in Las Vegas, Nevada, via the purchase and acquisition of all outstanding shares of common stock of Verge. The Verge Option is exercisable in the amount of $15,000,000, payable by combination of the outstanding loan amount owing to the Company under the Investment Agreement, up to $10,000,000, and Company common stock valued at $5,000,000. The terms of the Verge Option exercise are different than the original terms set forth in the Investment Agreement. Upon exercise of said Option, the Company will issue new 925,925 preferred shares as consideration for 75,000 shares of Verge.

At June 30, 2007, the outstanding loan balances were as follows:

Emvelco RE Corp		
Capital of loans provided:	$	8,307,417
Accrued interest on loan		1,133,323
Sub -Total	$	9,440,740
Verge Living Corporation*)		
Capital of loans provided:	$	9,451,378
Accrued interest on loan		706,844
Sub -Total	$	10,158,222

*) Pursuant to exercise of said option, the sum of $10,000,000 from the above loan proceeds will be capitalized into additional paid in capital of the Company.

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6. Secured Bank Loans

The Company's real estate investment operations require substantial up-front expenditures for land development contracts and construction. Accordingly, the Company requires a substantial amount of cash on hand, as well as funds accessible through lines of credit with banks or third parties, to conduct its business. The Company has financed its working capital needs on a project-by-project basis, primarily with secured loans from banks (see note 3) and debt via the All Inclusive Trust Deed Agreement (AITDA), and with the existing cash of the Company.

At June 30, 2007, the outstanding secured loan balances were as follows:

Project name		Principal Amount	Annual Interest Rate	Expiration
General financing (line of credit)	$	5,811,261	5.87%	2008
Total principal amounts of loans	$	5,811,261		
Less current portion		-		
Long term portion of loans	$	5,811,261		

7. Dispositions

Completed sale of Euroweb Hungary and Euroweb Romania
On December 15, 2005, the Board of Directors of the Company decided to sell its wholly-owned subsidiaries Euroweb Hungary and Euroweb Romania. On December 19, 2005, the Company entered into a share purchase agreement with Invitel Tavkozlesi Szolgaltato Rt., a Hungarian joint stock company, to sell Euroweb Hungary and Euroweb Romania, subject to various conditions including, but not limited to, shareholders' approval. The closing of the sale of Euroweb Hungary and Euroweb Romania occurred on May 23, 2006 upon the Company's receipt of the first part of the purchase price in the amount of $29,400,000. The remaining part of the purchase price of $613,474 was fully paid in two installments: $232,536 in June 2006 and $380,938 in the beginning of July 2006. The purchase price was partly utilized for the repayment of $6,044,870 Commerzbank loan in order to ensure debt free status of the subsidiaries, and partly for settlement of $2,130,466 of transaction costs.

Completed sale of Navigator

On February 16, 2007, the Company entered into a Sale and Purchase Agreement (the "Sale and Purchase Agreement") with Marivaux Investments Limited ("MIL") and Fleminghouse Investments Limited ("FIL" and collectively with MIL, the "Buyers"). Pursuant to the Sale and Purchase Agreement, the Company sold 100% of the Company's interest in Navigator (a wholly-owned subsidiary of the Company) for $4,034,191 consisting of $3,200,000 in cash and 622,531 shares of the Company's common stock, excluding estimated transaction costs and success fees. The Company shares were valued at $1.34 per share, representing the closing price of the Company on the NASDAQ Capital Market on February 16, 2007, the closing of the sale. The Company intends to cancel the Emvelco common stock acquired during the disposition.

The sale of Euroweb Slovakia, Euroweb Hungary, Euroweb Romania, and Navigator all met the criteria for presentation as a discontinued operation under the provisions of SFAS 144, and therefore amounts relating to Euroweb Slovakia, Euroweb Hungary, Euroweb Romania and Navigator have been reclassified as discontinued operations for all periods presented.

Completed sale of ERC

On May 14, 2007, the Company entered into a Stock Transfer and Assignment of Contract Rights Agreement (the "Stock Transfer Agreement") with ERC, ERC's principal shareholder TIHG and ERC's wholly owned subsidiary Verge. Pursuant to the Stock Transfer Agreement, the Company transferred and conveyed its 1,000 Shares (representing a 43.33% interest) (the "Shares") in ERC to TIHG to submit to ERC for cancellation and return to Treasury. ERC, TIHG and Verge agreed to assign (the "Assignment") to the Company all rights in and to that certain Investment Agreement, dated as June 19, 2006, and all Amendments thereto (collectively, the "Investment Agreement") wherein ERC (from funds available to ERC pursuant to the line of credit provided by the Company) agreed to provide secured loans to Verge for the construction of a multi-use condominium and commercial property in Las Vegas, Nevada (the "Verge Property") and for other projects and properties as provided therein. The Investment Agreement was disclosed by the Company in its Form 8-K filed on June 23, 2006.

The consideration payable to the Company under the Stock Transfer Agreement is $500,000, which in TIHG's discretion, may be added to the outstanding loan amount owing to the Company by ERC (the "Loan Amount"). As of May 14, 2007, the current outstanding Loan Amount owing to the Company is approximately $12 million. Under the Stock Transfer Agreement, in no event shall the Loan Amount exceed eighty percent (80%) of the fair market value of the Verge Property. Pursuant to the Stock Transfer Agreement, a current appraisal of the Verge Property was presented to the Company on May 22, 2007, valuing the Verge Property at $14,800,000.

The effective date of the Stock Transfer Agreement is January 1, 2007 (the "Effective Date"). All rights assigned to the Company under the Investment Agreement will be considered to be assigned as of the Effective Date. Accordingly, as of the Effective Date, the Company shall be the sole secured and primary beneficiary under the Investment Agreement.

As of the Effective Date, under the Investment Agreement, each loan made to Verge is due on demand or upon maturity on January 14, 2008. If the Company requests that the funds be paid on demand prior to maturity, then Verge shall be entitled to reduce the amount requested to be prepaid by 10%. The 10% discount will be paid in the form of shares of common stock of the Company, which will be computed by dividing the dollar amount of the 10% discount by the market price of the Company's shares of common stock. The terms of the loans require that the Company, be paid-off the greater of (i) the principal including 12% interest per annum or (ii) 33% of all gross profits derived from the Verge Property. In addition, the Company has the right to acquire the Verge Property for a purchase price of $15,000,000 through January 1, 2015. The purchase is payable $10,000,000 in cash and $5,000,000 in shares of common stock of the Company.

Result of Discontinued Operation

The following table shows the details of result of discontinued operation per reporting units for the three and six months ended June 30, 2006 as follows:

Country / Three and Six months ended June 30, 2006	**3 months**	**6 months**
Income from discontinued Navigator operations	$ 755,839	$ 1,434,028
Loss from discontinued Hungarian operations	(292,621)	(928,122)
Income from discontinued Romanian operations	197,951	588,566
Gain on disposal of the Hungarian and Romanian operations, net of tax	15,939,858	15,939,858
Impairment of Goodwill, Navigator	(7,285,032)	(7,285,032)
Income from discontinued operations	$ 9,315,995	$ 9,749,298

8. Commitments and Contingencies

(a) Employment Agreements

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

On May 24, 2006, the Company entered into a Severance Agreement with Mr. Toro. In consideration for Mr. Toro agreeing to relinquish and release all rights and claims under the employment agreement, including the payment of his annual salary, the Company agreed to pay Mr. Toro a one-time settlement fee of $750,000. Mr. Toro submitted his resignation as Chief Executive Officer and Director of the Company effective June 1, 2006. The severance was paid in full in May 2006.

The Company entered into a two-year employment agreement with Moshe Schnapp as President and Director of the Company, which commenced on April 15, 2005 and provided for annual compensation in the amount of of $250,000 to be paid in the form of the Company's shares of common stock. The number of shares to be received by Mr. Schnapp was calculated based on the average closing price 10 days prior to the commencement of each employment year. At April 14, 2006, Mr. Schnapp received 82,781 Emvelco shares of common stock of which 58,968 were issued in January 2006. In July 2006, the Company issued the remaining 46,007 shares of common stock for services from January 1, 2006 through July 30, 2006. Mr. Schnapp resigned as President and Director in August 2006. Mr. Schnapp waived his rights to any further compensation, and commited to assist the Company until it will file the financials of 2006.

On October 11, 2006, the Company committed itself in the financing of Micrologic. The agreement provides for an initial investment by the Company of up to $1,000,000, with warrants to purchase additional equity for additional investment. To date the Company has invested $300,000 leaving a future commitment of $700,000.

Effective July 1, 2006, the Company entered into a five-year employment agreement with Yossi Attia as the President of ERC which commenced on July 1, 2006 and provides for annual compensation in the amount of $240,000, an annual bonus not less than $120,000 per year, and an annual car allowance. At December 31, 2006, the car allowance expense amounted to $19,220. Mr. Attia is also entitled to a special bonus equal to 10% of the earnings before income tax, depreciation and amortization ("EBITDA") of ERC, which such bonus is payable in shares of common stock of the Company; provided, however, the special bonus is only payable in the event that Mr. Attia remains continuously employed by ERC, and Mr. Attia shall not have sold shares of common stock of the Company on or before the payment date of the special bonus, unless such shares were received in connection with the exercise of an option that was scheduled to expire within one year of the date of exercise.

In addition, on August 14, 2006, the Company amended the agreement to provide that Mr. Attia shall serve as the Chief Executive Officer of the Company for a term of two years commencing August 14, 2006 and granting annual compensation of $250,000 to be paid in the form of Company shares of common stock. The number of shares to be received by Mr. Attia is calculated based on the average closing price 10 days prior to the commencement of each employment year. Mr. Attia will receive 111,458 Emvelco shares of common stock for his first year service. Mr. Attia also agreed to not directly or indirectly compete with the business of the Company or ERC during his employment and for a period of two years following termination of employment. No shares were issued to Mr. Attia in 2006.

On May 31, 2007 the Company, ERC and Mr. Attia entered into a Memorandum of Understanding, pursuant to which, the August 14, 2006 amendment to Mr. Attia's employment agreement was terminated, and effective as of January 1, 2007, all of ERC's rights and obligations under Mr. Attia's employment agreement were transferred to the Company.

(b) Lease Agreements

In 2007, the Company entered into a one year agreement for office space. The rent expense related to such leases is $19,200 in 2007 and $0 in 2006, respectively.

(c) Legal Proceedings

Except as set forth below, there are no known significant legal procedures that have been filed and are outstanding against the Company.

On April 26, 2006, a lawsuit was filed in the Delaware Court of Chancery (the "Court") by a stockholder of the Company against the Company, each of the Company's Directors and CORCYRA d.o.o., a stockholder of the Company that beneficially owned 39.81% of the Company's outstanding common stock at the date of the lawsuit. The Complaint is titled Laurence Paskowitz v. Csaba Toro et al., C.A. No. 2110-N (the "Complaint") and was brought individually, and as a class action on behalf of certain of the Company's common stockholders, excluding defendants and their affiliates. The plaintiff alleged that the proposed sale of 100% of the Company's interest in the Company's two Internet and telecom related operating subsidiaries (the "Subsidiaries") constitutes a sale of substantially all of the Company's assets and required approval by a majority of the voting power of the Company's outstanding common stock under Section 271 of the Delaware General Corporation Law. The plaintiff also alleged the defendants breached their fiduciary duties in connection with the sale of the Subsidiaries, as well as the disclosures contained in the proxy statement filed on April 24, 2006. The plaintiff applied for a temporary restraining order seeking to enjoin the special meeting on May 15, 2006.

The Company denied any and all allegations of wrongdoing; however, in the interests of conserving resources, on April 28, 2006, the parties to the litigation entered into a Memorandum of Understanding ("MOU") providing for, subject to confirmatory discovery by plaintiff, the negotiation of a formal stipulation of a settlement of the litigation. Pursuant to the MOU, the Board of Directors of the Company agreed to: (i) increase the vote required to approve the sale of 100% of the Company's interest in the Subsidiaries, (ii) revise the disclosure within the Proxy Statement to eliminate the bonus of up to US $400,000, which the Compensation Committee of the Company had the option to pay to select members of management, as the Board of Directors had previously elected to terminate the ability to pay such bonus and (iii) provide supplemental disclosure as contained in the Supplemental Proxy Statement to be mailed to stockholders and filed with the SEC on May 3, 2006.

The parties entered into a stipulation of settlement on April 3, 2007. The settlement provided for dismissal of the litigation with prejudice and was subject to Court approval. As part of the settlement, the Company agreed to attorneys' fees and expenses to plaintiff's counsel in the amount of $150,000. Pursuant to the stipulation of settlement, the Company sent out notices to the members of the class on May 3, 2007. A fairness hearing took place on June 8, 2007, where the Delaware Court of Chancery (the "Court") entered an Order and Final Judgment (the "Order"), approving the settlement of the Complaint, authorizing the parties to consummate the settlement in accordance with its terms, certifying the class and dismissing the litigation with prejudice. Pursuant to the settlement, the Company also sent out notices to the members of the class on May 3, 2007. A fairness hearing took place on June 8, 2007, and, as stated above, the Order was entered on June 8, 2007.

The Company filed a complaint in the Superior Court for the County of Los Angeles, against an attorney. The case was filed on February 14, 2007, and service of process has been done. In the complaint the Company is seeking judgment against this attorney in the amount of approximately 250,000 Euros (approximately $316,000 as of the date of actual transferring the funds), plus interest, costs and fees. Defendant has not yet appeared in the action. The Company believes that it has a meritorious claim for the return of monies deposited with defendant in a trust capacity, and, from the documents in the Company's possession, there is no reason to doubt the validity of the claim. However, management does not have any information on the collectibility of any judgment that might be entered in court. During April 2007 defendant returned $92,694 (70,000 Euros at the relevant time) which netted to $72,694 post legal expenses; the Company has granted him a 15-day extension to file his defense. Post the extension and in lieu of not filing a defense, the Company filed for a default judgment.

(d) Navigator Acquisition

The Company entered into a registration rights agreement dated July 21, 2005, whereby it agreed to file a registration statement registering the 441,566 shares of Company common stock issued in connection with the Navigator acquisition within 75 days of the closing of the transaction. The Company also agreed to have such registration statement declared effective within 150 days from the filing thereof. In the event that Company failed to meet its obligations to register the shares, it may have been required to pay a penalty equal to 1% of the value of the shares per month. The Company obtained a written waiver from the seller stating that the seller would not raise any claims in connection with the filing of registration statement through May 30, 2006. The Company since received another waiver extending the registration deadline through May 30, 2007 without penalty. No provision was made, as Management received a verbal waiver until the end of 2007.

(e) Indemnities Provided Upon Sale of Subsidiaries

On April 15, 2005, the Company sold Euroweb Slovakia. According to the securities purchase contract (the "Contract"); the Company will indemnify the buyer for all damages incurred by the buyer as the result of seller's breach of certain representations, warranties, or obligations as set in the Contract up to an aggregate amount of $540,000. The buyer shall not be entitled to make any claim under the Contract after the fourth anniversary of the date of the Contract. No claims have been made to-date. At June 30, 2007 the Company accrued $35,000 as the estimated fair value of this indemnity.

On May 23, 2006, the Company sold Euroweb Hungary and Euroweb Romania. According to the share purchase agreement (the "SPA"), the Company will indemnify the buyer for all damages incurred by the buyer as the result of seller's breach of certain representations, warranties or obligations as provided for in the SPA. The Company shall not incur any liability with respect to any claim for breach of representation and warranty or indemnity, and any such claim shall be wholly barred and unenforceable unless notice of such claim is served upon Emvelco by buyer no later than 60 days after the buyer's approval of Euroweb Hungary and Euroweb Romania's statutory financial reports for the fiscal year 2006, but in any event no later than June 1, 2007. In the case of Clause 8.1.6 (Taxes) or Clause 9.2.4 of SPA, the time period is five years from the last day of the calendar year in which the closing date occurs. No claims have been made to date. At June 30, 2007, the Company has accrued $201,020 as the estimated fair value of this indemnity.

9. Stockholders' Equity

The Company entered into a two-year employment agreement with Moshe Schnapp as President and Director of the Company beginning on April 15, 2005, which provided for annual compensation in the amount of $250,000 to be paid in the form of the Company shares of common stock. The number of shares to be received by Mr. Schnapp was calculated based on the average closing price 10 days prior to the commencement of each employment year. On August 14, 2006, Moshe Schnapp resigned as President of the Company. In January 2006, the Company issued 58,968 shares of common stock out of the total 82,781 covering the service period from April 15, 2005 to December 31, 2005. In July 2006, the Company issued the remaining 46,007 shares of common stock for services from January 1, 2006 through July 31, 2006. Mr. Schnapp waived his rights to any further compensation.

Effective August 14, 2006, the Company entered into a two-year employment agreement with Yossi Attia as the Chief Executive Officer of the Company, which provided for annual compensation in the amount of $250,000 to be paid in the form of Company shares of common stock. The number of shares to be received by Mr. Attia was calculated based on the average closing price 10 days prior to the commencement of each employment year. Mr. Attia will receive 111,458 Emvelco shares of common stock for his first year service. No shares have been issued in connection with his services in 2006.

On May 31, 2007, the Company, ERC and Mr. Attia entered into a MOU, which resulted in the termination of Mr. Attia's employment with ERC, cancelling the Amendment of August 14, 2006 and effective January 1, 2007 assuming all of the terms of employment of Mr. Attia with the Company instead of ERC. The negation of the Amendment effectively cancels Mr. Attia's rights to share compensation from January 1, 2007, and will instead entitle Mr. Attia to a pro-ration number of shares from August 14, 2006 until December 31, 2006. The Company made the provision of $72,324 for Mr. Attia's shareholder equity entitlement in its financial statements.

Through its share repurchase program and Navigator sale, the Company acquired 1,279,893 shares of its common stock at a cost of $2,117,711 as of June 30, 2007.

There were no options or warrants exercised in the years ended June 30, 2007.

Pursuant to the Sale and Purchase Agreement of Navigator, the Company received 622,531 shares of the Company's common stock as partial consideration on February 16, 2007 (the Closing Date). The Company shares were valued at $1.34 per share, representing the closing price of the Company on the NASDAQ Capital Market on February 16, 2007. The Company intends to cancel the Emvelco common stock acquired during the disposition in the amount of $834,192.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, intends to exercise its option (the "Verge Option") to purchase a multi-use condominium and commercial property in Las Vegas, Nevada, via the purchase and acquisition of all outstanding shares of common stock of Verge. The Company initially acquired the Verge Option pursuant to the Investment Agreement, dated as of June 19, 2006 (the "Investment Agreement"), between Verge, which was then known as AO Bonanza Las Vegas, Inc. and the Company. The Verge Option is exercisable in the amount of $15,000,000, payable by combination of the outstanding loan amount owing to the Company under the Investment Agreement, up to $10,000,000, and Company common stock valued at $5,000,000. The terms of the Verge Option exercise are different than the original terms set forth in the Investment Agreement.

Pursuant to the Notice and upon actual exercise, the Company will issue 925,925 new Emvelco preferred shares to TIHG for all Verge outstanding shares. The number of preferred shares in consideration for $5,000,000 was calculated at $5.40 per share based on the Company share book value in the recent 10QSB/A filing -that was filed on June 5, 2007, plus 10% premium to the Company - as agreed between the parties under the June Investment Agreement. After issuance, TIHG will hold approximately 16.46% of all outstanding shares of the Company assuming the full conversion of the preferred stock.

10. Stock Option Plan and Employee Options

a) Stock option plans

In 2004, the Board of Directors established the “2004 Incentive Plan” (“the Plan”), with an aggregate of 800,000 shares of common stock authorized for issuance under the Plan. The Plan was approved by the Company’s Annual Meeting of Stockholders in May 2004. In 2005, the Plan was adjusted to increase the number of shares of common stock issuable under such plan from 800,000 shares to 1,200,000 shares. The adjustment was approved at the Company’s Annual Meeting of Stockholders in June 2005. The Plan provides that incentive and nonqualified options may be granted to key employees, officers, directors and consultants of the Company for the purpose of providing an incentive to those persons. The Plan may be administered by either the Board of Directors or a committee of two directors appointed by the Board of Directors (the "Committee"). The Board of Directors or Committee determines, among other things, the persons to whom stock options are granted, the number of shares subject to each option, the date or dates upon which each option may be exercised and the exercise price per share.

Options granted under the Plan are generally exercisable for a period of up to ten years from the date of grant. Incentive options granted to stockholders that hold in excess of 10% of the total combined voting power or value of all classes of stock of the Company must have an exercise price of not less than 110% of the fair market value of the underlying stock on the date of the grant. The Company will not grant a nonqualified option with an exercise price less than 85% of the fair market value of the underlying common stock on the date of the grant.

The Company has granted the following options under the Plan:

On April 26, 2004, the Company granted 125,000 options to its Chief Executive Officer, an aggregate of 195,000 options to five employees and an aggregate of 45,000 options to two consultants of the Company (which do not qualify as employees). The stock options granted to the Chief Executive Officer vest at the rate of 31,250 options on November 1, 2004, October 1, 2005, October 1, 2006 and October 1, 2007. The stock options granted to the other employees and consultants vest at the rate of 80,000 options on November 1, 2004, October 1, 2005 and October 1, 2006. The exercise price of the options ($4.78) was equal to the market price on the date of grant. The options granted to the Chief Executive Officer were forfeited/ cancelled in August 2006 due to the termination of his employment. Of the 195,000 options originally granted to employees, 60,000 options were forfeited or cancelled during 2005, while the remaining 135,000 options were forfeited or cancelled in August 2006 due to termination of the five employee contracts. 15,000 options granted to one of the consultants were also forfeited or cancelled in April 2006 due to the termination of the consultant’s contract.

Through December 31, 2005, the Company did not recognize compensation expense under APB 25 for the options granted to the Chief Executive Officer and the five employees as the options had a zero intrinsic value at the date of grant. The adoption of SFAS 123R on January 1, 2006 resulted in a compensation charge of $21,241 for the year ended December 31, 2006.

In accordance with SFAS 123, as amended by SFAS 123R, and EITF Issue No. 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services”, the Company computed total compensation charges of $162,000 for the grants made to the two consultants.

Such compensation charges are recognized over the vesting period of three years. Compensation expense for the year ended December 31, 2006 was $9,921 (2005: $50,884).

On March 22, 2005, the Company granted an aggregate of 200,000 options to two of the Company's Directors. These stock options vest at the rate of 50,000 options on each September 22 of 2005, 2006, 2007 and 2008, respectively. The exercise price of the options ($3.40) was equal to the market price on the date the options were granted. Through December 31, 2005, the Company did not recognize compensation expense under APB 25 as the options had a zero intrinsic value at the date of grant. The adoption of SFAS 123R on January 1, 2006 resulted in a compensation charge of $128,284 for the year ended December 31, 2006. One of the directors was elected as Chief Executive Officer commencing on August 14, 2006, and is not entitled to participate in the plan.

On June 2, 2005, the Company granted 100,000 options to a director of the Company, which vest at the rate of 25,000 options on December 2 of 2005, 2006, 2007, and 2008, respectively. Through December 31, 2005, the Company did not recognize compensation expense under APB 25 as the options had a zero intrinsic value at the date of grant. The adoption of SFAS 123R on January 1, 2006 resulted in a compensation charge of $89,346 for the year ended December 31, 2006. On November 13, 2006, the Director filed his resignation. His options were vested unexercised in February 2007.

(b) Other Options

On October 13, 2003, the Company granted two Directors 100,000 options each, at an exercise price (equal to the market price on that day) of $4.21 per share, with 25,000 options vesting on each April 13, 2004, 2005, 2006 and 2007. There were 100,000 options outstanding as of December 31, 2006. The adoption of SFAS 123R on January 1, 2006 resulted in a compensation charge of $31,824 during the year ended December 31, 2006.

The following table summarizes the total number of shares for which options have been issued (Stock Option Plan, 2004 Incentive Plan, Employment Agreements and grants to Directors) and are outstanding:

	2006			2005		
		Weighted average			Weighted average	
	Options	exercise price		Options	exercise price	
Outstanding, January 1,	705,000	$	4.20	654,000	$	5.33
Granted	-		-	300,000		3.62
Exercised	-		-	-		-
Forfeited or expired	(275,000)		4.78	(249,000)		6.47
Outstanding, December 31	430,000	$	3.84	705,000	$	4.20

The weighted average grant date fair value of the 300,000 options granted during the year ended December 31, 2005 was $3.62.

No options were granted during the year December 31, 2006, and no options were exercised during the years ended December 31, 2006 and 2005.
The following table summarizes information about shares subject to outstanding options as of December 31, 2006, which was issued to current or former employees, consultants or directors pursuant to the 2004 Incentive Plan and grants to Directors:

Options Outstanding				**Options Exercisable**	
Number Outstanding	**Range of Exercise Prices**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Life in Years**	**Number Exercisable**	**Weighted-Average Exercise Price**
100,000	$4.21	$4.21	3.76	75,000	$4.21
30,000	$4.78	$4.78	4.31	30,000	$4.78
200,000	$3.40	$3.40	5.22	100,000	$3.40
100,000	$4.05	$4.05	5.42	50,000	$4.05
430,000	$3.40-$4.78	$3.84	4.46	255,000	$3.93

(c) Warrants

On June 7, 2005, the Company granted 100,000 warrants to a consulting company as compensation for investor relations services at exercise prices as follows: 40,000 warrants at $3.50 per share, 20,000 warrants at $4.25 per share, 20,000 warrants at $4.75 per share and 20,000 warrants at $5 per share. The warrants have a term of five years and tranches vest proportionately at a rate of a total 8,333 warrants per month over a one year period. The warrants are being expensed over the performance period of one year. In February 2006, the Company terminated its contract with the consultant company providing investor relation services. The warrants granted under the contract were reduced time-proportionally to 83,330, based on the time in service by the consultant company.

11. Treasury Stock

In June 2006, the Company's Board of Directors approved a program to repurchase, from time to time, at management's discretion, up to 700,000 shares of the Company's common stock in the open market or in private transactions commencing on June 20, 2006 and continuing through December 15, 2006 at prevailing market prices. Repurchases will be made under the program using our own cash resources and will be in accordance with Rule 10b-18 under the Securities Exchange Act of 1934 and other applicable laws, rules and regulations. The Shemano

Group is acting as agent for the Company stock repurchase program. As of June 30, 2007, the Company acquired 1,279,893 shares of its common stock at a cost of $2,117,711.

Pursuant to the unanimous consent of the Board of Directors in September 2006, the number of shares that may be purchased under the Repurchase Program was increased from 700,000 to 1,500,000 shares of common stock and the Repurchase Program was extended until October 1, 2007, or until the increased amount of shares is purchased.

Pursuant to the Sale and Purchase Agreement of Navigator, the Company received 622,531 shares of the Company's common stock as partial consideration on February 16, 2007 (the Closing Date). The Company shares were valued at $1.34 per share, representing the closing price of the Company on the NASDAQ Capital Market on February 16, 2007. The Company intends to cancel the Emvelco common stock acquired during the disposition in the amount of $834,192.

12. Subsequent events

On July 11, 2007, the Company finalized an Agreement dated as of July 5, 2007 (the "Agreement") with ERC. Pursuant to the Agreement, ERC sold and conveyed to the Company, three (3) real estate properties (collectively, the "Properties") presently under construction as follows: a) certain property which has the address of 347 N. Laurel Avenue, Los Angeles, California 90048 (the "Laurel Property"); b) certain property which has the address of 360 N. Harper Avenue, Los Angeles, California 90048 (the "Harper Property"); and (c) certain property which has the address of 435 N. Edinburgh Avenue, Los Angeles, California 90048 (the "Edinburgh Property").

The Properties were acquired by the Company "as is, where is", pursuant to All-Inclusive Purchase Money Deeds of Trust with Assignment of Rents for the total consideration of $5.6 million as follows: (i) the Laurel Property in consideration of securing indebtedness in the principal amount of $1,850,000, (ii) the Harper Property in consideration of securing indebtedness in the principal amount of $1,900,000, and (iii) the Edinburgh Property in consideration of securing indebtedness in the principal amount of $1,850,000.

Each of the All-Inclusive Purchase Money Deeds of Trust ("AIDT") encompasses the existing encumbrances on each of the Properties; therefore, the Company is not required to fund cash upon closing. Each of the AIDTs provides for repayment of the indebtedness evidenced by ERC's All Inclusive Promissory Notes which shall be due and payable on August 5, 2010 or upon sale of the Properties (whichever occurs first). In addition, the All-Inclusive Deeds of Trust as set forth above are subject and subordinate to those certain Deeds of Trust recorded in the name of East West Bank.

The Company agreed to complete construction on all three Properties.The Harper property development was completed, the Company received Certificate of Occupancy on July 17, 2007, and on July 20, 2007 the Company closed the sale of Harper property for $2,300,000 as gross proceeds. The two remaining properties are under development and the Company estimates they will be complete during the third quarter. Both remaining properties are in escrows with third parties for sale upon completion in cumulative amount of $6,650,000.

On July 16, 2007, the Company delivered a Notice of Exercise of Options ("Notice") to ERC, TIHG, Verge and Darren C. Dunckel, individual, President of ERC and/or representative of the foregoing parties.

The closing of the acquisitions set forth in the Notice is contingent upon the closing of that certain Agreement, dated as of June 5, 2007, by and between the Company, the Company's chief executive officer Yossi Attia, and Darren C. Dunckel (collectively, the "Investors"), and a third party, Upswing, Ltd., (the "Upswing Agreement"). Pursuant to the Upswing Agreement, the Investors intend to invest in an entity listed on the Tel Aviv Stock Exchange (the "Investment Target"). In addition, the Investors intend to transfer rights and control of various real estate projects to the Investment Target.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, intends to exercise its option (the "Verge Option") to purchase a multi-use condominium and commercial property in Las Vegas, Nevada, via the purchase and acquisition of all outstanding shares of common stock of Verge. The Company initially acquired the Verge Option pursuant to the Investment Agreement, dated as of June 19, 2006 (the "Investment Agreement"), between Verge, which was then known as AO Bonanza Las Vegas, Inc. and the Company. The Verge Option is exercisable in the amount of $15,000,000, payable by combination of the outstanding loan amount owing to the Company under the Investment Agreement, up to $10,000,000, and Company common stock valued at $5,000,000. The terms of the Verge Option exercise are different than the original terms set forth in the Investment Agreement.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, further intends to exercise its option (the "Sitnica Option") to purchase ERC's derivative rights and interest in Sitnica d.o.o. through ERC's holdings (one-third (1/3) interest) in AP Holdings Limited ("AP Holdings"), a company organized under the Companies (Jersey) Law 1991, which equates to a one-third interest in Sitnica d.o.o. (excluding ERC's interest in AP Holdings). The Sitnica Option is exercisable in the amount of $4,000,000, payable by reducing the outstanding loan amount owing to the Company under the Investment Agreement by $3,550,000 and reducing the Company's deposit with Shalom Atia, Trustee of AP Holdings, by $450,000.

On July 23, 2007, the Company finalized its second agreement with Appswing Ltd. (the "Appswing Agreement"). The Appswing Agreement effectuates certain of the terms and provisions set forth in the first agreement (the "First Agreement") with Upswing Ltd. The First Agreement was entered into on June 5, 2007 and reported on the Company's Form 8-K filed June 11, 2007. The First Agreement was entered into by and between the Company and Darren Dunckel (chief executive officer of ERC), and Appswing (translated as Upswing). The Appswing Agreement was entered into by and between AP Holdings Ltd. ("AP Holdings") and the Company (the "Investors") and Appswing Ltd. ("Appswing"). The brother of the chief executive officer of the Company is an equity owner in AP Holdings.

Pursuant to the Appswing Agreement, and as contemplated in the First Agreement, Appswing purchased control of an entity traded on the Tel-Aviv Stock Exchange named Kidron Industrial Holdings Ltd. ("Kidron"). The Investors and Appswing will effectuate a transaction (the "Transaction") pursuant to which the Investors will acquire 72.11% of Kidron (to be allocated 60% to the Company, and 40% to AP Holdings), in exchange for the transfer of the rights to certain real estate projects in Las Vegas and Croatia. Appswing will advise the Investors on the steps necessary to effectuate the Transaction. Following the closing of the Transaction (the "Closing"), Kidron will undertake a financing to raise additional capital (the "Financing").

Appswing will receive up to $1,000,000 (plus value added tax as applicable) in consideration from the Investors, payable as follows: (a) $250,000 paid to Appswing in June 2007 under the First Agreement (all of which was paid by the Company) (which shall be repayable with 12% interest if the Transaction does not close by September 2007 as a result of a breach by Appswing) and (b) $750,000 at the completion of the Financing.

In addition, upon the Closing, the Investors will purchase additional shares of Kidron, equal to approximately 4% of the outstanding shares of Kidron (to be allocated 60% to the Company and 40% to AP Holdings) from Appswing, for $3,250,000, payable as follows: (a) $1,250,000.00 upon Closing, and (b) $2,000,000.00 within 30 days of Closing.

If the Investors elect not to effect the Transaction, the Appswing Agreement will be terminated, and the Company's $250,000 initial payment made in June 2007 will be forfeited.

On July 19, 2007, as contemplated in the Appswing Agreement, the Company also entered into an agreement by and between Kidron and the Investors (the "Kidron Agreement"). The Kidron Agreement provides that the Investors will transfer certain interests in real estate projects in Las Vegas and Croatia to Kidron in consideration for shares equal to 72.11% of the issued capital stock of Kidron. The shares will be allocated 60% to the Company and 40% to AP Holdings. Further, Kidron will issue shares to Appswing, constituting 13.66% of the issued capital stock of Kidron.

The closing of the Kidron Agreement is subject to the completion of due diligence by the Investors and other conditions.

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

Overview

Emvelco operates in the US. For the period from June 11, 2006 through December 30, 2006, ERC was a wholly owned subsidiary of Emvelco. On December 31, 2006, the Company entered into an Exchange Agreement with TIHG, whereby TIHG became the primary beneficiary of ERC. Thus, the Company is not required to consolidate ERC, but rather report the Company’s interest in ERC by using the equity method. On May 14, 2007, the Company entered into a Stock Transfer and Assignment of Contract Rights Agreement (the "ERC Agreement") with ERC, ERC's principal shareholder TIHG and ERC's wholly owned subsidiary Verge. Pursuant to the Agreement, the Company transferred and conveyed its 1,000 Shares (representing a 43.33% interest) (the "ERC Shares") in ERC to TIHG to submit to ERC for cancellation and return to Treasury. ERC, TIHG and Verge agreed to assign (the "Assignment") to the Company all rights in and to that certain Investment Agreement, dated as June 19, 2006, and all Amendments thereto (collectively, the "Investment Agreement") wherein ERC (from funds available to ERC from the Company) agreed to provide secured loans to Verge for the construction of a multi-use condominium and commercial property in Las Vegas, Nevada (the "Verge Property").

The Company’s position is based on a detailed analysis conducted by management of FASB Interpretation No. 46R: Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (“FIN 46R”), the accounting pronouncements governing consolidation.

Under its FIN 46R analysis, the Company determined that ERC is a variable interest entity. This in turn required a determination as to which enterprise is the primary beneficiary. The Company determined that TIHG, rather than Emvelco, is the primary beneficiary. The Company performed an analysis of the calculated expected losses of ERC. Of these amounts 56.67% was allocated to TIHG. Because Emvelco is not the primary beneficiary of ERC, Emvelco should not consolidate ERC under FIN 46R, but should report the 43.33% interest in ERC using the equity method. Accordingly, TIHG should consolidate ERC.

As a result of the Company’s analysis set forth above, the Company determined that, under FIN 46R, the Company will not consolidate ERC for the year ended December 31, 2006.

On October 11, 2006, the Company committed itself in the financing of Micrologic, Inc. (“Micrologic”), a Nevada corporation, engaged in the design and production of Electronic Design Automation (“EDA”) applications and Integrated Circuit (“IC”) design processes; specifically, the development and production of the NanoToolBox™ tools suite, which is a smart platform designed to accelerate IC's design time and shrink time to market factor. The agreement provides for an initial investment by the Company of up to $1,000,000, with warrants to purchase additional equity for additional investment. The Company owns 25.10% of Micrologic; however such equity positions might be revised contingent upon the exercise of the warrants. As of June 30, 2007, $300,000 was transferred as part of this commitment, and no warrants were issued.

The Company’s interest in Micrologic has been consolidated at June 30, 2007 in accordance with FIN46R, “Consolidation of Variable Interest Entities”. The Company is the primary beneficiary of Micrologic due to the VIE’s reliance on Emvelco to finance its’ ongoing business and software development activities.

On December 15, 2005, our Board of Directors decided to sell 100% of Euroweb Internet Szolgaltato Rt. ("Euroweb Hungary") and Euroweb Romania S.A. ("Euroweb Romania"). On December 19, 2005, the Company entered into a share purchase agreement with third party - Invitel Tavkozlesi Szolgaltato Rt. ("Invitel"), a Hungarian joint stock company, to sell 100% of the Company’s interest in Euroweb Hungary and Euroweb Romania. The closing of the sale of Euroweb Hungary and Euroweb Romania occurred on May 23, 2006 upon our receipt of the first part of the purchase price of $29,400,000. The remaining part of the purchase price of $613,474 was fully paid in two

installments: $232,536 in June and $380,938 in the beginning of July 2006. The purchase price was partly utilized for the repayment of $6,044,870 Commerzbank loan in order to ensure debt free status of the subsidiaries, and partly for settlement of $2,130,466 of transaction costs.

On February 16, 2007, the Company completed the sale of Navigator for $3,200,000 in cash and the transfer to the Company of 622,531 shares of the Company. The closing of the sale of Navigator occurred on February 16, 2007. On May 3, 2007 the Company surrendered said 622,531 stock certificates together with stock powers to American Stock Transfer & Trust Company the Company's transfer agent for return to Treasury and cancellation.

The sale of Euroweb Slovakia, Euroweb Hungary, Euroweb Romania and Navigator met the criteria for presentation as discontinued operations under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). Therefore, Euroweb Slovakia, Euroweb Hungary, Euroweb Romania and Navigator are reclassified as discontinued operations in the financial statements of the Company in 2006.

The Company operates in financial investment in real estate development for subsequent sales, investment and financing activities, directly or through affiliates currently in the USA.

In June 2006, the Company commenced operations in financial investments in the real estate industry through ERC and its subsidiaries. ERC has commenced developments in the real estate industry, which must satisfy the parameters set by the Board of Directors as follows:

- Any investment in the real estate opportunity (the "Proposed RE Investment"), including loans, shall not exceed a planned period of three years;
- The expected return on investment on the Proposed RE Investment will be at minimum 15% per year;
- The Proposed RE Investment will not be leveraged in excess of $1.50 for each $1.00 invested in equity; and
- Each Proposed RE Investment will have a clear exit strategy (i.e. purchase, development and sale) and no Proposed RE Investment intent will be to acquire income producing real estate.

As stated above, on May 14, 2007, the Company entered into the ERC Agreement pursuant to which the Company transferred and conveyed the ERC Shares to TIHG to submit to ERC for cancellation and return to treasury. ERC, TIHG and Verge agreed to assign the Assignment.

The consideration payable to the Company under the Stock Transfer Agreement is $500,000, which in TIHG's discretion, may be added to the outstanding loan amount owing to the Company by ERC (the "Loan Amount"). As of May 14, 2007, the current outstanding Loan Amount owing to the Company is approximately $12 million. Under the Stock Transfer Agreement, in no event shall the Loan Amount exceed eighty percent (80%) of the fair market value of the Verge Property. Pursuant to the Stock Transfer Agreement, a current appraisal of the Verge Property was presented to the Company on May 22, 2007, valuing the Verge Property at $14,800,000. The effective date of the Stock Transfer Agreement is January 1, 2007 (the "Effective Date"). All rights assigned to the Company under the Investment Agreement will be considered to be assigned as of the Effective Date. Accordingly, as of the Effective Date, the Company shall be the sole secured and primary beneficiary under the Investment Agreement.

As of the Effective Date, under the Investment Agreement, each loan made to Verge is due on demand or upon maturity on January 14, 2008. If the Company requests that the funds be paid on demand prior to maturity, then Verge shall be entitled to reduce the amount requested to be prepaid by 10%. The 10% discount will be paid in the form of shares of common stock of the Company, which will be computed by dividing the dollar amount of the 10% discount by the market price of the Company's shares of common stock. The terms of the loans require that the Company, be paid-off the greater of (i) the principal including 12% interest per annum or (ii) 33% of all gross profits derived from the Verge Property. In addition, the Company has the right to acquire the Verge Property for a purchase price of $15,000,000 through January 1, 2015. The purchase is payable in $10,000,000 in cash and $5,000,000 in shares of common stock of the Company or all cash per the Company’s discretion.

On July 16, 2007, the Company delivered Notice of Exercise of Options ("Notice") to Emvelco RE Corp., a Nevada corporation ("ERC"), The International Holdings Group Ltd., a Marshall Islands corporation, Verge Living Corporation, a Nevada corporation ("Verge") and Darren C. Dunckel, individual, President of ERC and/or representative of the foregoing parties.

The closing of the acquisitions set forth in the Notice is contingent upon the closing of the Agreement, dated as of June 5, 2007, by and between the Company, the Company's chief executive officer Yossi Attia, and Darren C. Dunckel (collectively, the "Investors"), and a third party, Upswing, Ltd., (the "Upswing Agreement"). Pursuant to the Upswing Agreement, the Investors intend to invest in an entity listed on the Tel Aviv Stock Exchange (the "Investment Target"). In addition, the Investors intend to transfer rights and control of various real estate projects to the Investment Target.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, intends to exercise its option (the "Verge Option") to purchase a multi-use condominium and commercial property in Las Vegas, Nevada, via the purchase and acquisition of all outstanding shares of common stock of Verge. The Company initially acquired the Verge Option pursuant to that certain Investment Agreement, dated as of June 19, 2006 (the "Investment Agreement"), between AO Bonanza Las Vegas, Inc. (currently known as Verge Living Corporation) and the Company. The Verge Option is exercisable in the amount of $15,000,000, payable by combination of the outstanding loan amount owing to the Company under the Investment Agreement, up to $10,000,000, and Company common stock valued at $5,000,000. The terms of the Verge Option exercise are different than the original terms set forth in the Investment Agreement.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, further intends to exercise its option (the "Sitnica Option") to purchase ERC's derivative rights and interest in Sitnica d.o.o. through ERC's holdings (one-third (1/3) interest) in AP Holdings Limited ("AP Holdings"), a company organized under the Companies (Jersey) Law 1991, which equates to a one-third interest in Sitnica d.o.o. (excluding ERC's interest in AP Holdings). The Sitnica Option is exercisable in the amount of $4,000,000, payable by reducing the outstanding loan amount owing to the Company under the Investment Agreement by $3,550,000 and reducing the Company's deposit with Shalom Atia, Trustee of AP Holdings, by $450,000.

The Board of Directors of the Company has approved the Notice and ratified the transactions thereunder pursuant to Consent of the Board of Directors dated July 16, 2007; except that Yossi Attia abstained with respect to the vote and ratification of the Sitnica Option as his brother is an equity owner in AP Holdings.

On July 23, 2007, the Company finalized its second agreement with Appswing Ltd. (the "Appswing Agreement"). The Appswing Agreement effectuates certain of the terms and provisions set forth in the first agreement (the "First Agreement") with Upswing Ltd.. The First Agreement was entered into on June 5, 2007 and reported on the Company's Form 8-K filed June 11, 2007. The First Agreement was entered into by and between the Company and Darren Dunckel (chief executive officer of ERC), and Appswing (translated as Upswing). The Appswing Agreement was entered into by and between AP Holdings Ltd. ("AP Holdings") and the Company (the "Investors") and Appswing Ltd. ("Appswing"). The brother of the chief executive officer of the Company is an equity owner in AP Holdings.

Pursuant to the Appswing Agreement, and as contemplated in the First Agreement, Appswing purchased control of an entity traded on the Tel-Aviv Stock Exchange named Kidron Industrial Holdings Ltd. ("Kidron"). The Investors and Appswing will effectuate a transaction (the "Transaction") pursuant to which the Investors will acquire 72.11% of Kidron (to be allocated 60% to the Company, and 40% to AP Holdings), in exchange for the transfer of the rights to certain real estate projects in Las Vegas and Croatia. Appswing will advise the Investors on the steps necessary to effectuate the Transaction. Following the closing of the Transaction (the "Closing"), Kidron will undertake a financing to raise additional capital (the "Financing").

Appswing will receive up to $1,000,000 (plus value added tax as applicable) in consideration from the Investors, payable as follows: (a) $250,000 paid to Appswing in June 2007 under the First Agreement (all of which was paid by the Company) which shall be repayable with 12% interest if the Transaction does not close by September 2007 as a result of a breach by Appswing, and (b) $750,000 at the completion of the Financing.

In addition, upon the Closing, the Investors will purchase additional shares of Kidron, equal to approximately 4% of the outstanding shares of Kidron (to be allocated 60% to the Company and 40% to AP Holdings) from Appswing, for $3,250,000, payable as follows: (a) $1,250,000.00 upon Closing, and (b) $2,000,000.00 within 30 days of Closing.

If the Investors elect not to effect the Transaction, the Appswing Agreement will be terminated, and the Company's $250,000 initial payment made in June 2007 will be forfeited.

On July 19, 2007, as contemplated in the Appswing Agreement, the Company also entered into an agreement by and between Kidron and the Investors (the "Kidron Agreement"). The Kidron Agreement provides that the Investors will transfer certain interests in real estate projects in Las Vegas and Croatia in consideration of shares equal to 72.11% of the issued capital stock of Kidron. The shares will be allocated 60% to the Company and 40% to AP Holdings. Further, Kidron will issue shares to Appswing constituting 13.66% of the issued capital stock of Kidron.

The closing of the Kidron Agreement is subject to the completion of due diligence by the Investors and other conditions, including the approval of an agreement pursuant to which Mr. Yossi Attia, chief executive officer of the Company, will serve as chief executive officer of Kidron, and the approval of an agreement pursuant to which Mr. Shalom Attia, Mr. Yossi Attia's brother, will serve as Vice President to Kidron's operations in Europe. Mr. Yossi Attia will continue to serve as the chief executive officer of the Company.

The Board of Directors of the Company have approved the Appswing Agreement and the Kidron Agreement and ratified the transactions thereunder. Yossi Attia abstained with respect to the votes.

In June 2006, the Company's Board of Directors approved a program to repurchase, from time to time, at management's discretion, up to 700,000 shares of Euroweb's common stock in the open market or in private transactions commencing on June 20, 2006 and continuing through December 15, 2006 at prevailing market prices. Repurchases will be made under the program using our own cash resources and will be in accordance with Rule 10b-18 under the Securities Exchange Act of 1934 and other applicable laws, rules and regulations. The Shemano Group act as agent for our stock repurchase program.

Pursuant to the unanimous consent of the Board of Directors in September 2006, the number of shares that may be purchased under the Repurchase Program was increased from 700,000 to 1,500,000 shares of common stock and the Repurchase Program was extended until October 1, 2007 or until the increased amount of shares is purchased.

As of June 30, 2007, the Company held 1,279,893 treasury shares at a cost of $2,117,711.

Acquisitions and disposals

(a) On December 31, 2006, the Company and its subsidiary ERC entered into an Agreement and Plan of Exchange with Verge and its sole shareholder, TIHG. Pursuant to the Exchange Agreement, ERC issued shares to TIHG in exchange for 100% of the outstanding securities of Verge. After the exchange, the Company owned 43.33% of ERC, TIHG owned 56.67% and Verge became a wholly-owned subsidiary of ERC.

In accordance with FAS141, *Business Combinations*, the transaction was valued based on the fair value of Verge, the acquired company, which was supported by a current appraisal at the time of the transaction.

(b) Disposal of Euroweb Hungary, Euroweb Romania, Navigator and ERC

On May 23, 2006, the closing of the sale of Euroweb Hungary and Euroweb Romania occurred upon our receipt of the first part of the purchase price of $29,400,000. The remaining part of the purchase price of $613,474 was fully paid in two installments: $232,536 in June and $380,938 in the beginning of July 2006. The purchase price was partly utilized for the repayment of $6,044,870 Commerzbank loan in order to ensure debt free status of the subsidiaries, and partly for settlement of $2,130,466 of transaction costs.

On February 16, 2007, the Company completed the sale of Navigator for $3,200,000 in cash and the transfer to the Company of 622,531 shares of the Company for cancellation. The closing of the sale of Navigator occurred on February 16, 2007. On May 3, 2007 the Company surrendered said 622,531 stock certificates together with stock powers to American Stock Transfer & Trust Company the Company's transfer agent for cancellation and return to Treasury.

On May 14, 2007, pursuant to the Stock Transfer Agreement, the Company transferred and conveyed its 1,000 Shares (representing a 43.33% interest) in ERC to TIHG to submit to ERC for cancellation and return to Treasury. ERC, TIHG and Verge agreed to assign to the Company all rights in and to the Investment Agreement.

(c) Acquisition of three assets under development

On July 11, 2007, the Company finalized an Agreement dated as of July 5, 2007 (the "Agreement") with Emvelco RE Corp., a Nevada corporation ("ERC"). Pursuant to the Agreement, ERC sold and conveyed to the Company, three (3) real estate properties (collectively, the "Properties") presently under construction as follows: a) That certain property which has the address of 347 N. Laurel Avenue, Los Angeles, California 90048 (the "Laurel Property"); b) That certain property which has the address of 360 N. Harper Avenue, Los Angeles, California 90048 (the "Harper Property"); and (c) That certain property which has the address of 435 N. Edinburgh Avenue, Los Angeles, California 90048 (the "Edinburgh Property").

The Properties were acquired by the Company "as is, where is", pursuant to All-Inclusive Purchase Money Deeds of Trust with Assignment of Rents for the total consideration of $5.6 million as follows: (i) the Laurel Property in consideration of securing indebtedness in the principal amount of $1,850,000, (ii) the Harper Property in consideration of securing indebtedness in the principal amount of $1,900,000, and (iii) the Edinburgh Property in consideration of securing indebtedness in the principal amount of $1,850,000.

Each of the All-Inclusive Purchase Money Deeds of Trust ("AIDT") encompasses the existing encumbrances on each of the Properties; therefore, the Company is not required to fund cash upon closing. Each of the AIDTs provides for repayment of the indebtedness evidenced by ERC's All Inclusive Promissory Notes which shall be due and payable on August 5, 2010 or upon sale of the Properties (whichever occurs first). In addition, the All-Inclusive Deeds of Trust as set forth above are subject and subordinate to those certain Deeds of Trust recorded in the name of East West Bank.

The Company has agreed to complete construction on all three Properties. The Harper property development was completed, the Company received Certificate of Occupancy on July 17, 2007, and on July 20, 2007 the Company closed the sale of Harper property for $2,300,000 as gross proceeds. The two remaining properties are under development and the Company estimates they will be complete during the third quarter. Both remaining properties are in escrows with third parties for sale upon completion in cumulative amount of $6,650,000.

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(d) Notice of Exercise of Options

On July 16, 2007, the Company delivered Notice of Exercise of Options ("Notice") to Emvelco RE Corp., a Nevada corporation ("ERC"), The International Holdings Group Ltd., a Marshall Islands corporation, Verge Living Corporation, a Nevada corporation ("Verge") and Darren C. Dunckel, individual, President of ERC and/or representative of the foregoing parties.

The closing of the acquisitions set forth in the Notice is contingent upon the closing of the Agreement, dated as of June 5, 2007, by and between the Company, the Company's chief executive officer Yossi Attia, and Darren C. Dunckel (collectively, the "Investors"), and a third party, Upswing, Ltd., (the "Upswing Agreement"). Pursuant to the Upswing Agreement, the Investors intend to invest in an entity listed on the Tel Aviv Stock Exchange (the "Investment Target"). In addition, the Investors intend to transfer rights and control of various real estate projects to the Investment Target.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, intends to exercise its option (the "Verge Option") to purchase a multi-use condominium and commercial property in Las Vegas, Nevada, via the purchase and acquisition of all outstanding shares of common stock of Verge. The Company initially acquired the Verge Option pursuant to that certain Investment Agreement, dated as of June 19, 2006 (the "Investment Agreement"), between AO Bonanza Las Vegas, Inc. (currently known as Verge Living Corporation) and the Company. The Verge Option is exercisable in the amount of $15,000,000, payable by combination of the outstanding loan amount owing to the Company under the Investment Agreement, up to $10,000,000, and Company common stock valued at $5,000,000. The terms of the Verge Option exercise are different than the original terms set forth in

the Investment Agreement.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, further intends to exercise its option (the "Sitnica Option") to purchase ERC's derivative rights and interest in Sitnica d.o.o. through ERC's holdings (one-third (1/3) interest) in AP Holdings Limited ("AP Holdings"), a company organized under the Companies (Jersey) Law 1991, which equates to a one-third interest in Sitnica d.o.o. (excluding ERC's interest in AP Holdings). The Sitnica Option is exercisable in the amount of $4,000,000, payable by reducing the outstanding loan amount owing to the Company under the Investment Agreement by $3,550,000 and reducing the Company's deposit with Shalom Atia, Trustee of AP Holdings, by $450,000.

The Board of Directors of the Company has approved the Notice and ratified the transactions thereunder pursuant to Consent of the Board of Directors dated July 16, 2007; except that Yossi Attia abstained with respect to the vote and ratification of the Sitnica Option as his brother is an equity owner in AP Holdings.

On July 23, 2007, the Company finalized its second agreement with Appswing Ltd. (the "Appswing Agreement"). The Appswing Agreement effectuates certain of the terms and provisions set forth in the first agreement (the "First Agreement") with Upswing Ltd... The First Agreement was entered into on June 5, 2007 and reported on the Company's Form 8-K filed June 11, 2007. The First Agreement was entered into by and between the Company and Darren Dunckel (chief executive officer of ERC), and Appswing (translated as Upswing). The Appswing Agreement was entered into by and between AP Holdings Ltd. ("AP Holdings") and the Company (the "Investors") and Appswing Ltd. ("Appswing"). The brother of the chief executive officer of the Company is an equity owner in AP Holdings.

Pursuant to the Appswing Agreement, and as contemplated in the First Agreement, Appswing purchased control of an entity traded on the Tel-Aviv Stock Exchange named Kidron Industrial Holdings Ltd. ("Kidron"). The Investors and Appswing will effectuate a transaction (the "Transaction") pursuant to which the Investors will acquire 72.11% of Kidron (to be allocated 60% to the Company, and 40% to AP Holdings), in exchange for the transfer of the rights to certain real estate projects in Las Vegas and Croatia. Appswing will advise the Investors on the steps necessary to effectuate the Transaction. Following the closing of the Transaction (the "Closing"), Kidron will undertake a financing to raise additional capital (the "Financing").

Appswing will receive up to $1,000,000 (plus value added tax as applicable) in consideration from the Investors, payable as follows: (a) $250,000 paid to Appswing in June 2007 under the First Agreement (all of which was paid by the Company) which shall be repayable with 12% interest if the Transaction does not close by September 2007 as a result of a breach by Appswing, and (b) $750,000 at the completion of the Financing.

In addition, upon the Closing, the Investors will purchase additional shares of Kidron, equal to approximately 4% of the outstanding shares of Kidron (to be allocated 60% to the Company and 40% to AP Holdings) from Appswing, for $3,250,000, payable as follows: (a) $1,250,000.00 upon Closing, and (b) $2,000,000.00 within 30 days of Closing.

If the Investors elect not to effect the Transaction, the Appswing Agreement will be terminated, and the Company's $250,000 initial payment made in June 2007 will be forfeited.

On July 19, 2007, as contemplated in the Appswing Agreement, the Company also entered into an agreement by and between Kidron and the Investors (the "Kidron Agreement"). The Kidron Agreement provides that the Investors will transfer certain interests in real estate projects in Las Vegas and Croatia in consideration of shares equal to 72.11% of the issued capital stock of Kidron. The shares will be allocated 60% to the Company and 40% to AP Holdings. Further, Kidron will issue shares to Appswing constituting 13.66% of the issued capital stock of Kidron.

The closing of the Kidron Agreement is subject to the completion of due diligence by the Investors and other conditions, including the approval of an agreement pursuant to which Mr. Yossi Attia, chief executive officer of the Company, will serve as chief executive officer of Kidron, and the approval of an agreement pursuant to which Mr. Shalom Attia, Mr. Yossi Attia's brother, will serve as Vice President to Kidron's operations in Europe. Mr. Yossi Attia will continue to serve as the chief executive officer of the Company.

The Board of Directors of the Company have approved the Appswing Agreement and the Kidron Agreement and ratified the transactions thereunder. Yossi Attia abstained with respect to the votes.

Plan of operation

The Company’s plan of operation for the next 12 months will include the following components:

We plan to finance and invest in development of ERC existing projects (Stanley, Huntley, Lorraine and Verge), including obtaining financing of Verge Living for the purpose of commencing or continuing the project in 2007. Our plan is to proceed with financial investment in real estate developments in the US. This phase of development will include the following elements:

(a) Attempting to take a financing role in raising bond or debt financing through Verge and AP Holdings if possible. Any cash receipt from financing will be utilized partly by the Company’s financial investment in real estate developments in the US. In connection with Verge and AP Holdings’ financing, the Company anticipates spending approximately $300,000 on professional fees over the next 12 months in order to pursue these attempts.

(b) Verge Project - Verge is pursuing construction loan and mezzanine financing for the Verge Property. The Company is seeking to participate in financing of a construction loan through a commercial bank and/or private investors potentially as equity holder via exercise of the Company option.

(c) The Company completed the sale of the Company’s ownership interest in ERC, pursuant to which all rights in and to the Investment Agreement were assigned to the Company. The Board of Directors wishes to maintain cash liquidity, and, therefore has instructed management to limit the line of credit provided to Verge as a percentage of the fair value of the Verge Property.

(d) The Company anticipates spending approximately $150,000 on professional fees over the next 12 months on the filing of a registration statement on Form SB-2 under the Securities Act of 1933, as amended.

(e) Subject to obtaining adequate financing, the Company anticipates that it will be spending approximately $5,000,000 over the next 12 month period pursuing its stated plan of investment operation. The Company’s present cash reserves are not sufficient for it to carry out its plan of operation without substantial additional financing. The Company is currently attempting to arrange for financing through financial arrangements that would enable it to proceed with its plan of investment operation.

(f) The Company will continue the treasury share repurchase program. Based on the stock price as of June 30, 2007, approximately $300,000 cash is needed for the completion of the program. The repurhase program however is contingent on the financial ability of the Company as well as available shares and share prices on the open market.

(g) The Company’s investment in Micrologic is expected to mature during 2007. The outstanding amount of commitment is $700,000. Micrologic believes it will have developed products in 2007 of which there is no guarantee. The Company owns 25.1% of Micrologic along with an option to acquire additional 24.9%. Upon actual sales or final tools development, if any, the Company will revaluate its option.

The Company's actual expenditures and business plan may differ from the one stated above. Its board of directors may decide not to pursue this plan as a whole or part of it. In addition, the Company may modify the plan based on available financing.

The US real estate market trends are toward a soft market in the last year. Management believes that the "softer market" is due to the Federal Reserve Bank Policy of raising interest rates (in order to depress inflation trends). Rising interest rates make financing more expensive, and more difficult to get. The Company anticipates that it will be spending approximately $5,000,000 over the next 12 month period pursuing its stated plan of investment operation. The Company believes that its liquidity will be enough for implementing its plan, and the Company anticipates that subject to actual pre-sales, it will obtain financing to complete its projects in the short-term as well as in the long-term. If actual sales are inadequate, the Company will not continue spending its existing cash, and therefore anticipates that it can avoid liquidity problems.

The Company's primary source of liquidity comes from divesting its ISP business in Central Eastern Europe, which was concluded on May 2006, when it completed the disposal of Euroweb Hungary and Euroweb Romania to Invitel. In February 2007, the Company closed the disposal of Navigator, which added approximately $3.2 million net of cash to its internal source of liquidity.

Our external source of liquidity is based on a project by project basis. The Company intends to obtain financial investment in land and construction loans from commercial lenders for its development activities.

The residential real estate markets in Southern California, Nevada and Croatia are more active during spring and summer. It is the Company's desire to complete its financial development during the summer, to increase the potential for a fast sale. In some jurisdictions, such as Nevada, regulations allow selling of units off-plans. The Company anticipates that these seasonal factors should not affect the Company's financial condition or results of operation, though they may moderately affect the liquidity position of the Company.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements that have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). This preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. US GAAP provides the framework from which to make these estimates, assumptions and disclosures. We choose accounting policies within US GAAP that management believes are appropriate to accurately and fairly report our operating results and financial position in a consistent manner. Management regularly assesses these policies in light of current and forecasted economic conditions. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions for a number of reasons. Our accounting policies are stated in Note 2 to the 2006 Consolidated Financial Statements. We identified the following accounting policies as critical to understanding the results of operations and representative of the more significant judgments and estimates used in the preparation of the consolidated financial statements: impairment of goodwill, allowance for doubtful accounts, acquisition related assets and liabilities, accounting of income taxes and analysis of FIN46R as well as FASB 67.

· Investment in Real Estate and Commercial Leasing Assets. Real estate held for sale and construction in progress is stated at the lower of cost or fair value less costs to sell and includes acreage, development, construction and carrying costs and other related costs through the development stage. Commercial leasing assets, which are held for use, are stated at cost. When events or circumstances indicate than an asset's carrying amount may not be recoverable, an impairment test is performed in accordance with the provisions of SFAS 144. For properties held for sale, if estimated fair value less costs to sell is less than the related carrying amount, then a reduction of the assets carrying value to fair value less costs to sell is required. For properties held for use, if the projected undiscounted cash flow from the asset is less than the related carrying amount, then a reduction of the carrying amount of the asset to fair value is required. Measurement of the impairment loss is based on the fair value of the asset. Generally, we determine fair value using valuation techniques such as discounted expected future cash flows.

Our expected future cash flows are affected by many factors including:

a) The economic condition of the Las Vegas, Nevada and Los Angeles, California market;

b) The performance of the real estate industry in the markets where our properties are located;

c) Our financial condition, which may influence our ability to develop our real estate; and

d) Governmental regulations.

Because any one of these factors could substantially affect our estimate of future cash flows, this is a critical accounting policy because these estimates could result in us either recording or not recording an impairment loss based on different assumptions. Impairment losses are generally substantial charges. We are currently in the beginning state of development of real estates, therefore no impairment is required. Any impairment charge would more likely than not have a material effect on our results of operations.

The estimate of our future revenues is also important because it is the basis of our development plans and also a factor in our ability to obtain the financing necessary to complete our development plans. If our estimates of future cash flows from our properties differ from expectations, then our financial and liquidity position may be compromised, which could result in our default under certain debt instruments or result in our suspending some or all of our development activities.

· Allocation of Overhead Costs. We periodically capitalize a portion of our overhead costs and also allocate a portion of these overhead costs to cost of sales based on the activities of our employees that are directly engaged in these activities. In order to accomplish this procedure, we periodically evaluate our "corporate" personnel activities to see what, if any, time is associated with activities that would normally be capitalized or considered part of cost of sales. After determining the appropriate aggregate allocation rates, we apply these factors to our overhead costs to determine the appropriate allocations. This is a critical accounting policy because it affects our net results of operations for that portion which is capitalized. In accordance with paragraph 7 of SFAS No. 67, we only capitalize direct and indirect project costs associated with the acquisition, development and construction of a real estate project. Indirect costs include allocated costs associated with certain pooled resources (such as office supplies, telephone and postage) which are used to support our development projects, as well as general and administrative functions. Allocations of pooled resources are based only on those employees directly responsible for development (i.e. project manager and subordinates). We charge to expense indirect costs that do not clearly relate to a real estate project such as salaries and allocated expenses related to the Chief Executive Officer and Chief Financial Officer.

· Revenue Recognition. In accordance with SFAS No. 66, “Accounting for Sales of Real Estate,” we recognize revenues from property sales when the risks and rewards of ownership are transferred to the buyer, when the consideration received can be reasonably determined and when we have completed our obligations to perform certain supplementary development activities, if any exist, at the time of the sale. Consideration is reasonably determined and considered likely of collection when we have signed sales agreements and have determined that the buyer has demonstrated a commitment to pay. The buyer’s commitment to pay is supported by the level of their initial investment, our assessment of the buyer’s credit standing and our assessment of whether the buyer’s stake in the property is sufficient to motivate the buyer to honor its obligation to us. This is a critical accounting policy because for certain sales, we use our judgment to determine the buyer’s commitment to pay us and thus determine when it is proper to recognize revenues.

We recognize our rental income based on the terms of our signed leases with tenants on a straight-line basis. We recognize sales commissions and management and development fees when earned, as lots or acreages are sold or when the services are performed.

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

Commitments and contingencies

Effective July 1, 2006, the Company entered into a five-year employment agreement with Yossi Attia as the President of ERC which commenced on July 1, 2006 and provides for annual compensation of $240,000 and an annual bonus of not less than $120,000 per year, as well as an annual car allowance for the same period. Mr. Attia will be entitled to a special bonus equal to 10% of the earnings before interest, depreciation and amortization (“EBITDA”) of ERC, which such bonus is payable in shares of common stock of the Company; provided, however, the special bonus is only payable in the event that Mr. Attia remains continuously employed by ERC and Mr. Attia shall not have sold shares of common stock of the Company on or before the payment date of the Special Bonus unless such shares were received in connection with the exercise of an option that was scheduled to expire within one year of the date of exercise. In addition, on August 14, 2006, the Company amended the Agreement to provide that Mr. Attia shall serve as the Chief Executive Officer of the Company for a term of two years commencing August 14, 2006 and granting annual compensation of $250,000 to be paid in the form of Company shares of common stock. The number of shares to be received by Mr. Attia was calculated based on the average closing price 10 days prior to the commencement of each employment year. Mr. Attia will receive 111,458 shares of the Company’s common stock for his first year service. No shares have been issued to date. The financial statements accrued the liability toward Mr. Attia employment agreements.

On May 31, 2007 the Company, ERC and Mr. Attia entered into a Memorandum of Understanding, pursuant to which, the August 14, 2006 amendment to Mr. Attia's employment agreement was terminated, and effective as of January 1, 2007, ERC's rights and obligations under Mr. Attia's employment agreement were transferred to the Company.

According to the Term Sheet that will be formally documented in an Agreement with associated exhibits, License Agreement and Warrants by and between the Company and Dr. Danny Rittman in connection with the formation and initial funding of Micrologic for the design and production of EDA applications and Integrated Circuit ("IC") design processes. The Term Sheet provides for an initial investment by the Company of up to $1,000,000, with warrants to purchase additional equity for additional investment. Initially, the Company owns 25.1% and Dr. Rittman owns 74.9% of Micrologic, Inc. but such equity positions would be revised depending upon the exercise of the warrants as follows: (1) Warrant A - the Company shall be granted a two year option to acquire an additional 10% of Micrologic for $1 million (2) Warrant B - the Company shall be granted a three year option to acquire an additional 15% of Micrologic for $3 million. The consideration of warrants A and B can be paid at the discretion of the Company, 50% in cash and 50% in the Company's shares. No warrants have been issued. The outstanding amount of the Company's investment in Micrologic is $300,000 as of June 30, 2007.

Off Balance Sheet Arrangements

There are no materials off balance sheet arrangements.

Results of Operations

Six Months Period Ended June 30, 2007 Compared to Six Months Period Ended June 30, 2006

Due to the new financial investment in real estate activity, which commenced in June 2006, discontinued operation presentation of Euroweb Hungary, Euroweb Romania, Euroweb Slovakia and Navigator, disposal of the Company's interest in ERC, and consolidation of Micrologic, the consolidated statements of operations for the periods ended June 30, 2007 and 2006 are not comparable. The financial figures for 2007 only include the corporate expenses of the Company's legal entity registered in the State of Delaware, as the Company commenced its financial investment in real estate related activity with related revenues and costs in June 2006.

Six months ended June 30,		2007		2006
Total revenues	$	0	$	0

Emvelco is not the primary beneficiary of ERC. As such Emvelco will not be required to consolidate ERC under FIN 46R. ERC Profit and Loss activities for the period ended on June 30, 2006 were fully consolidated into the Company's profit and loss statement as ERC was wholly owned subsidiary of the Company.

Cost of revenues (excluding depreciation and amortization)

The following table summarizes cost of revenues (excluding depreciation and amortization) for the six months ended June 30, 2007 and 2006:

Six months ended June 30,		2007		2006
Total cost of revenues	$	0	$	0

The Company is currently in the beginning phase of financial investment in real estate development; therefore no cost of revenues occurred.

Compensation and related costs

The following table summarizes compensation and related costs for the six months ended June 30, 2007 and 2006:

Six months ended June 30,		**2007**		**2006**
Compensation and related costs	$	238,546	$	1,469,412

Overall compensation and related costs decreased by 84%, or $1,230,866 primarily due to changes in the treatment of stock options to the CEO in accordance with SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), as well as the sales of our European activities decrease materially our compensation and related costs.

Severance costs

The following table summarizes severance costs for the six months ended June 30, 2007 and 2006:

Six months ended June 30,		**2007**		**2006**
Severance costs	$	0	$	750,000

On May 24, 2006, the Company entered into a Severance Agreement with Mr. Toro. In consideration for Mr. Toro agreeing to relinquish and release all rights and claims under the employment agreement, including the payment of his annual salary, the Company agreed to pay Mr. Toro a one-time settlement fee of $750,000. Mr. Toro submitted his resignation as Chief Executive Officer and Director of the Company effective June 1, 2006. The severance was paid in full in May 2006.

Consulting, director and professional fees

The following table summarizes consulting and professional fees for the six months ended June 30, 2007 and 2006:

Six months ended June 30,		**2007**		**2006**
Consulting, director and professional fees	$	430,684	$	898,030

Overall consulting, professional and director fees decreased by 52%, or $467,346, primarily as the result of the new Director compensation policy, compensation charge on stock option to the Directors in accordance with SFAS 123R and decrease in relation to the cost of several consultants, investment bankers, advisors, accounting and lawyers fee over last period.

Other selling, general and administrative expenses

The following table summarizes other selling, general and administrative expenses for the six months ended June 30, 2007 and 2006:

Six months ended June 30,		**2007**		**2006**
Other selling, general and administrative expenses	$	203,430	$	701,164

Overall, other selling, general and administrative expenses decreased by 71%, or $497,734, primarily attributable to saving on costs in lieu of disposals.

Software development expense

The following table summarizes software development expense for the six months ended June 30, 2007 and 2006:

Six months ended June 30,		**2007**		**2006**
Software development expense	$	98,900	$	0

Software development expense was incurred by Micrologic for the design and development of Electronic Design Automation ("EDA") applications and Integrated Circuit ("IC") design processes; specifically, the development and production of the NanoToolBox™ tools suite.

Interest income and expense

The following table summarizes interest income and expense for the six months ended June 30, 2007 and 2006:

Six months ended June 30,		**2007**		**2006**
Interest income	$	889,175	$	0
Interest expense	$	(137,329)	$	0

The increase in interest income is attributable to the Company investing proceeds on the sale of Euroweb Hungary and Euroweb Romania in money market funds and certificate of deposits pending establishment of the real estate development business. The increase in interest expense is due to the increase line of credit outstanding during the six months ended June 30, 2007.

Three Months Period Ended June 30, 2007 Compared to Three Months Period Ended June 30, 2006

Due to the new financial investment in real estate activity, which commenced in June 2006, discontinued operation presentation of Euroweb Hungary, Euroweb Romania, Euroweb Slovakia and Navigator, disposal of the Company's interest in ERC, and consolidation of Micrologic, the consolidated statements of operations for the periods ended June 30, 2007 and 2006 are not comparable. The financial figures for 2007 only include the corporate expenses of the Company's legal entity registered in the State of Delaware, as the Company commenced its financial investment in real estate related activity with related revenues and costs in June 2006.

Three months ended June 30,		**2007**		**2006**
Total revenues	$	0	$	0

Emvelco is not the primary beneficiary of ERC. As such Emvelco will not be required to consolidate ERC under FIN 46R. ERC Profit and Loss activities for the period ended on June 30, 2006 were fully consolidated into the Company's profit and loss statement as ERC was wholly owned subsidiary of the Company.

Cost of revenues (excluding depreciation and amortization)

The following table summarizes cost of revenues (excluding depreciation and amortization) for the three months ended June 30, 2007 and 2006:

Three months ended June 30,		**2007**		**2006**
Total cost of revenues	$	0	$	0

The Company is currently in the beginning phase of financial investment in real estate development; therefore no cost of revenues occurred.

Compensation and related costs

The following table summarizes compensation and related costs for the three months ended June 30, 2007 and 2006:

Three months ended June 30,		**2007**		**2006**
Compensation and related costs	$	157,358	$	707,646

Overall compensation and related costs decreased by 78%, or $550,208 primarily due to changes in the treatment of stock options to the CEO in accordance with SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), as well as the sales of our European activities decrease materially our compensation and related costs.

Severance costs

The following table summarizes severance costs for the three months ended June 30, 2007 and 2006:

Three months ended June 30,		**2007**		**2006**
Severance costs	$	0	$	750,000

On May 24, 2006, the Company entered into a Severance Agreement with Mr. Toro. In consideration for Mr. Toro agreeing to relinquish and release all rights and claims under the employment agreement, including the payment of his annual salary, the Company agreed to pay Mr. Toro a one-time settlement fee of $750,000. Mr. Toro submitted his resignation as Chief Executive Officer and Director of the Company effective June 1, 2006. The severance was paid in full in May 2006.

Consulting, director and professional fees

The following table summarizes consulting and professional fees for the three months ended June 30, 2007 and 2006:

Three months ended June 30,		**2007**		**2006**
Consulting, director and professional fees	$	221,613	$	476,354

Overall consulting, professional and director fees decreased by 53%, or $254,741, primarily as the result of the new Director compensation policy, compensation charge on stock option to the Directors in accordance with SFAS 123R and decrease in relation to the cost of several consultants, investment bankers, advisors, accounting and lawyers fee over last period.

Other selling, general and administrative expenses

The following table summarizes other selling, general and administrative expenses for the three months ended June 30, 2007 and 2006:

Three months ended June 30,		**2007**		**2006**
Other selling, general and administrative expenses	$	128,268	$	421,731

Overall, other selling, general and administrative expenses decreased by 70%, or $293,463, primarily attributable to saving on costs in lieu of disposals.

Software development expense

The following table summarizes software development expense for the three months ended June 30, 2007 and 2006:

Three months ended June 30,		**2007**		**2006**
Software development expense	$	98,900	$	0

Software development expense was incurred by Micrologic for the design and development of Electronic Design Automation (“EDA”) applications and Integrated Circuit (“IC”) design processes; specifically, the development and production of the NanoToolBox™ tools suite.

Interest income and expense

The following table summarizes interest income and expense for the three months ended June 30, 2007 and 2006:

Three months ended June 30,		**2007**		**2006**
Interest income	$	270,770	$	0
Interest expense	$	(80,478)	$	0

The increase in interest income is attributable to the Company investing proceeds on the sale of Euroweb Hungary and Euroweb Romania in money market funds and certificate of deposits pending establishment of the real estate development business. The increase in interest expense is due to the increase line of credit outstanding during the three months ended June 30, 2007.

Liquidity and Capital Resources

The Company currently anticipates that its available cash resources will be sufficient to meet its presently anticipated working capital requirements for at least the next 12 months

As of June 30, 2007, our cash, cash equivalents and marketable securities were approximately $71,000, a decrease of approximately $2.8 million from the end of fiscal year 2006. The decrease in our cash, cash equivalents and marketable securities is the result of our investment policy.

Cash flow provided by/(used in) operating activities for the six months ended June 30, 2007 was $(1,113,019) and $(2,272,490) for the same period last year. The change is due to disposal of operations of some units incurring losses.

Cash flow provided by/(used in) investing activities for the six months ended June 30, 2007 and 2006 was $(4.2) million and $18.5 million respectively. The change was due to the net proceeds of the sale of Euroweb Hungary and Euroweb Romania being received in the prior year.

Cash provided by/(used in) financing activities was $2.5 million for the six months ended June 30, 2007 and $(182) thousand for the six months ended June 30, 2006. This increase is due to increased funding to establish loans to Verge Living Corp in the current period.

The Company currently anticipates that its available cash resources will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for at least the next 12 months.

The Company holds restricted Certificates of Deposit (CD’s) with the Bank to access a revolving line of credit. These deposits are interest bearing and approximated $8.3 million as of June 30, 2007.

In the event the Company makes future acquisitions or investments, additional bank loans or fund raising may be used to finance such future acquisitions. The Company may consider the sale of non-strategic assets.

Inflation and Foreign Currency

The Company maintains its books in local currency: Hungarian Forint for Navigator and US Dollars for the Parent Company registered in the State of Delaware.

The Company’s operations are primarily in the United States through its wholly owned subsidiary. All the Company’s customers were in Hungary. As a result, fluctuations in currency exchange rates may significantly affect the Company's sales, profitability and financial position when the foreign currencies, primarily the Hungarian Forint, of its international operations are translated into U.S. dollars for financial reporting. In additional, we are also subject to currency fluctuation risk with respect to certain foreign currency denominated receivables and payables. Although the Company cannot predict the extent to which currency fluctuations may or will affect the Company's business and financial position, there is a risk that such fluctuations will have an adverse impact on the Company's sales, profits and financial position. Because differing portions of our revenues and costs are denominated in foreign currency, movements could impact our margins by, for example, decreasing our foreign revenues when the dollar strengthens and not correspondingly decreasing our expenses. The Company does not currently hedge its currency exposure. In the future, we may engage in hedging transactions to mitigate foreign exchange risk.

The translation of the Company’s subsidiaries forint denominated balance sheets into U.S. dollars, as of March 31, 2006, has been affected by the weakening of the Hungarian forit against the U.S. dollar from 213.58 as of December 31, 2005, to 219.20 as of March 31, 2006, an approximate 3% depreciation in value. The average Hungarian forit/U.S. dollar exchange rates used for the translation of the subsidiaries forint denominated statements of operations into U.S.

dollars, for the three months ended March 31, 2006 were 213.52.

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Effect of Recent Accounting Pronouncements

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements" ("SAB 108") which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for companies with fiscal years ending after November 15, 2006 and is required to be adopted by the Company in fiscal 2007. However, early application is encouraged in any report for an interim period of the first fiscal year ending after November 15, 2006, filed after the publication of this guidance. Management is currently assessing the impact of the adoption of SAB 108.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by the Company on July 1, 2008. Management is currently assessing the impact of the adoption of this Statement.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement provides entities the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Management is currently evaluating the impact of adopting this Statement.

Forward-Looking Statements

When used in this Form, 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," " continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

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

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

Item 3. Controls and Procedures

As of June 30, 2007, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer, the Principal Financial Officer and the Audit Committee members, 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 Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2007. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls in the quarter ended March 31, 2007 that materially affected or are reasonably likely to materially affect the Company’s internal controls.
As the Company disclosed in its Form 8-K filed on April 30, 2007, on April 25, 2007, Deloitte Kft. (the "Former Auditor") advised the Company that it has resigned as the Company's independent auditor. The Former Auditor maintained, among other things, that the Company failed to provide adequate records with respect to certain transactions. The Company disputes this contention and maintains that its disclosure controls and procedures were effective as of March 31, 2007. The Former Auditor furnished a letter to the Company, which letter was filed May 14, 2007, as an exhibit to Form 8-K/A.

Notwithstanding the foregoing, on April 19, 2007, the Company received a Nasdaq Staff Determination (the "Determination") indicating that the Company has failed to comply with the requirement for continued listing set forth in Marketplace Rule 4310(c)(14) requiring the Company to file its Form 10-KSB for the year ended December 31, 2006 with the Securities and Exchange Commission and that its securities are, therefore, subject to delisting from the Nasdaq Capital Market. The Company requested and received a hearing before a Nasdaq Listing Qualifications Panel (the "Panel") to review the Determination.

On May 17, 2007, the Company received a Nasdaq Additional Staff Determination (the “Additional Determination”) indicating that the Company has failed to comply with the requirement for continued listing set forth in Marketplace Rule 4310(c)(14) requiring the Company to file its Form 10-QSB for the quarter ended March 31, 2007 with the Securities and Exchange Commission and that that this failure serves as an additional basis for why its securities are subject to delisting from the Nasdaq Capital Market. The Company reviewed the Additional Determination at its Panel hearing, which took place on May 31, 2007.

On June 12, 2007, the Company received a decision letter from The NASDAQ Stock Market LLC ("NASDAQ") informing the Company that it has regained compliance with the filing requirement of The NASDAQ Capital Market. The decision letter noted, among other things, that the Company became current in its filings shortly after the Company's May 31, 2007 hearing before the Panel on June 5, 2007; that the Panel was satisfied with the Company's responses to the Panel's questions related to disclosures by the Company's former auditors; and that the Company's new auditors issued an unqualified opinion on the Company's 2006 financial statements.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

On April 26, 2006, a lawsuit was filed in the Delaware Court of Chancery (the "Court") by a stockholder of the Company against the Company, each of the Company's Directors and CORCYRA d.o.o., a stockholder of the Company that beneficially owned 39.81% of the Company's outstanding common stock at the date of the lawsuit. The Complaint is titled Laurence Paskowitz v. Csaba Toro et al., C.A. No. 2110-N (the "Complaint") and was brought individually, and as a class action on behalf of certain of the Company's common stockholders, excluding defendants and their affiliates. The plaintiff alleged that the proposed sale of 100% of the Company's interest in the Company's two Internet and telecom related operating subsidiaries (the "Subsidiaries") constitutes a sale of substantially all of the Company's assets and required approval by a majority of the voting power of the Company's outstanding common stock under Section 271 of the Delaware General Corporation Law. The plaintiff also alleged the defendants breached their fiduciary duties in connection with the sale of the Subsidiaries, as well as the disclosures contained in the proxy statement filed on April 24, 2006. The plaintiff applied for a temporary restraining order seeking to enjoin the special meeting on May 15, 2006.

The Company denied any and all allegations of wrongdoing; however, in the interests of conserving resources, on April 28, 2006, the parties to the litigation entered into a Memorandum of Understanding ("MOU") providing for, subject to confirmatory discovery by plaintiff, the negotiation of a formal stipulation of a settlement of the litigation. Pursuant to the MOU, the Board of Directors of the Company agreed to: (i) increase the vote required to approve the sale of 100% of the Company's interest in the Subsidiaries, (ii) revise the disclosure within the Proxy Statement to eliminate the bonus of up to US $400,000, which the Compensation Committee of the Company had the option to pay to select members of management, as the Board of Directors had previously elected to terminate the ability to pay such bonus and (iii) provide supplemental disclosure as contained in the Supplemental Proxy Statement to be mailed to stockholders and filed with the SEC on May 3, 2006.

The parties entered into a stipulation of settlement on April 3, 2007. The settlement provided for dismissal of the litigation with prejudice and was subject to Court approval. As part of the settlement, the Company agreed to attorneys' fees and expenses to plaintiff's counsel in the amount of $150,000. Pursuant to the stipulation of settlement, the Company sent out notices to the members of the class on May 3, 2007. A fairness hearing took place on June 8, 2007, where the Delaware Court of Chancery (the "Court") entered an Order and Final Judgment (the "Order"), approving the settlement of the Complaint, authorizing the parties to consummate the settlement in accordance with its terms, certifying the class and dismissing the litigation with prejudice. Pursuant to the settlement, the Company also sent out notices to the members of the class on May 3, 2007. A fairness hearing took place on June 8, 2007, and, as stated above, the Order was entered on June 8, 2007.

The Company filed a complaint in the Superior Court for the County of Los Angeles, against an attorney. The case was filed on February 14, 2007, and service of process has been done. In the complaint the Company is seeking judgment against this attorney in the amount of approximately 250,000 Euros (approximately $316,000), plus interest, costs and fees. Defendant has not yet appeared in the action. The Company believes that it has a meritorious claim for the return of monies deposited with defendant in a trust capacity, and, from the documents in the Company's possession, there is no reason to doubt the validity of the claim. However, management does not have any information on the collectibility of any judgment that might be entered in court. During April 2007 defendant returned $92,694 (70,000 Euros at the relevant time) which netted to $72,694 post legal expenses; the Company has granted him a

15-day extension to file his defense. Post the extension and in lieu of not filing a defense, the Company filed for a default judgment.

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ITEM 2. CHANGES IN SECURITIES

In June 2006, the Company's Board of Directors approved a program to repurchase (the “Repurchase Program”), from time to time, at management's discretion, up to 700,000 shares of the Company's common stock in the open market or in private transactions commencing on June 20, 2006 and continuing through December 15, 2006 at prevailing market prices. Repurchases will be made under the program using our own cash resources and will be in accordance with Rule 10b-18 under the Securities Exchange Act of 1934 and other applicable laws, rules and regulations. The Shemano Group is acting as agent for our stock repurchase program. As of June 30, 2007, the Company acquired 1,279,893 shares of its common stock at a cost of $2,117,711.

Pursuant to the unanimous consent of the Board of Directors in September 2006, the number of shares that may be purchased under the Repurchase Program was increased from 700,000 to 1,500,000 shares of common stock and the Repurchase Program was extended until October 1, 2007, or until the increased amount of shares is purchased.

Pursuant to the Sale and Purchase Agreement of Navigator, the Company received 622,531 shares of the Company’s common stock as partial consideration on February 16, 2007, the closing date. The Company shares were valued at $1.34 per share, representing the closing price of the Company on the NASDAQ Capital Market on February 16, 2007. The Company intends to cancel the Emvelco common stock acquired during the disposition in the amount of $834,192.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None

ITEM 5. OTHER INFORMATION

DELOITTE RESIGNATION -

On April 25, 2007 (the "Resignation Date"), Deloitte Kft. (the "Former Auditor") advised the Company that it has resigned as the Company's independent auditor. The Former Auditor performed the audit for the one year period ended December 31, 2005, which report for the one year ended December 31, 2005 did not contain any adverse opinion or a disclaimer of opinion, nor was it qualified as to audit scope or accounting principles. During the Company's two most recent fiscal years and during any subsequent interim period prior to the Resignation Date, there were no disagreements with the Former Auditor, with respect to accounting or auditing issues of the type discussed in Item 304(a)(iv) of Regulation S-B.

Prior to the Resignation Date, the Former Auditor advised the Company that it had raised certain issues relating to the accounting of ERC. The Former Auditor believes that this communication is a disclosable event pursuant to Item 304(a)(v). The issues raised by the Former Auditor related to the recording of the cost of real estate purchased by Verge (a wholly owned subsidiary of ERC), the production of records relating to loans made to VLC and the valuation of land in connection with Lorraine LLC (a wholly owned subsidiary of ERC). Management of the Company disagrees with the aforementioned statements and believes that it has adequately explained each of the above inquires made by the Former Auditor. Further, prior to being advised of the above issues, the Company maintained that ERC and its subsidiaries do not need to be consolidated in the Company's financial statements, which such position was subsequently confirmed by a detailed analysis by management and an independent third party consultant of the accounting pronouncements governing consolidation.

The Company provided the Former Auditor with a copy of this disclosure. The Former Auditor advised the Company that it intended to furnish a letter to the Company, addressed to the SEC, stating that it agreed with the statements made herein or the reasons why it disagreed. The letter from the Former Auditor was filed as an exhibit to Form 8-K/A filed May 14, 2007.

Appointment of New Auditors - Robison, Hill & Co. ("RHC") -

On April 26, 2007, the Company engaged Robison, Hill & Co. ("RHC") as its independent registered public accounting firm for the Company's fiscal year ended December 31, 2006. The decision to engage RHC as the Company's independent registered public accounting firm was approved by the Company's Board of Directors.

During the two most recent fiscal years and through April 26, 2007, the Company has not consulted with RHC regarding either:

1. the application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report was provided to the Company nor oral advice was provided that RHC concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or

2. any matter that was either subject of disagreement or event, as defined in Item 304(a)(1)(iv)(A) of Regulation S-B and the related instruction to Item 304 of Regulation S-B, or a reportable event, as that term is explained in Item 304(a)(1)(iv)(A) of Regulation S-B.

ITEM 6. EXHIBITS

Exhibits (numbers below reference Regulation S-B, Item 601)
(3) (a) Certificate of Incorporation filed November 9, 1992[1]

Amendment to Certificate of Incorporation filed July 9, 1997[2]
(c) Restated Certificate of Incorporation filed May 29, 2003

(d) Restated By-laws (filed as an exhibit to the Form 10-QSB for the quarter ended September 30, 2004)
(10) (a) Shares Purchase Agreement between PanTel Tavkozlesi es Kommunikacios rt., a Hungarian company, and Emvelco Corp., a Delaware corporation (3)

(10) (b) Guaranty by Emvelco International Corp., a Delaware corporation, in favor of PanTel Tavkozlesi es Kommunikacios rt., a Hungarian company (3)

(10) (c) Shares Purchase Agreement between Vitonas Investments Limited, a Hungarian corporation, Certus Kft., a Hungarian corporation, Rumed 2000 Kft., a Hungarian corporation and Emvelco International Corp., a Delaware corporation, dated as of February 23, 2004. (4)

(10) (d) Share Purchase Agreement by and between Emvelco International Corp. and Invitel Tavkozlesi Szolgaltato Rt. (5)

(10) (e) Investment Agreement, dated as of June 19, 2006, by and between EWEB RE Corp. and AO Bonanza Las Vegas, Inc. (6)

(10) (f) Sale and Purchase Agreement, dated as of February 16, 2007, by and between Emvelco Corp. and Marivaux Investments Limited (7)

(10) (g) Stock Transfer and Assignment of Contract Rights Agreement, dated as of May 14, 2007 among Emvelco Corp., Emvelco RE Corp., The International Holdings Group Ltd., and Verge Living Corporation (8)

(10 (h) Memorandum of Understanding, dated as of May 31, 2007, among Emvelco Corp., Emvelco RE Corp., and Yossi Attia

(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 (principal financial 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 (principal financial 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.

(3) Filed as an exhibit to Form 8-K on February 27, 2004.

(4) Filed as an exhibit to Form 8-K on March 9, 2004.

(5) Filed as an exhibit to Form 8-K on December 21, 2005.

(6) Filed as an exhibit to Form 8-K on June 23, 2006

(7) Filed as an exhibit to Form 8-K on February 20, 2007

(8) Filed as an exhibit to Form 8-K on May 16, 2007

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 Beverly Hills, California, on August 14, 2007.

EMVELCO CORP.

By /s/Yossi Attia
Yossi Attia
Chief Executive Officer and Principal Financial Officer

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