

HUNGARIAN TELEPHONE & CABLE CORP
Form DEF 14A
April 15, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

.. Soliciting Material under Rule 14a-12

HUNGARIAN TELEPHONE AND CABLE CORP.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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- .. Fee paid previously with preliminary materials:

- .. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration No.

(3) Filing party:

(4) Date filed:

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**HUNGARIAN TELEPHONE
AND CABLE CORP.**

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

Dear Stockholder:

April 15, 2005

On behalf of the Board of Directors, I cordially invite you to attend the Annual Meeting of Stockholders of Hungarian Telephone and Cable Corp. (the Company) to be held at 10:00 a.m. local time, on May 19, 2005 at the Rihga Royal Hotel, 151 West 54th Street, New York, New York 10019.

At the Annual Meeting the holders of Common Stock of the Company will consider and vote upon the election of directors and the ratification of the appointment of auditors. **Your Board of Directors unanimously recommends a vote FOR the election of each of the nominees named herein as directors and the ratification of the appointment of auditors.**

The attached Proxy Statement more fully describes the matters to be voted upon at the Annual Meeting and also includes information concerning the Company. I urge you to read carefully the information contained in the Proxy Statement.

I hope that you will be able to attend the Annual Meeting. If you cannot attend, your shares of Common Stock can be represented by completing, signing and dating the enclosed proxy, and returning it in the envelope provided (which requires no postage if mailed in the United States). You may, of course, withdraw your proxy if you attend the Annual Meeting and choose to vote in person.

Sincerely,

Torben V. Holm
Chairman of the Board

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HUNGARIAN TELEPHONE AND CABLE CORP.

1201 Third Avenue, Suite 3400

Seattle, Washington 98101-3034

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 19, 2005

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Meeting) of Hungarian Telephone and Cable Corp., a Delaware corporation (the Company), will be held at the Rihga Royal Hotel, 151 West 54th Street, New York, New York 10019 on May 19, 2005, at 10:00 a.m., local time, for the following purposes:

1. To elect six directors of the Company to serve until the 2006 Annual Meeting of Stockholders or until their successors have been duly elected and qualified; and
2. To ratify the appointment of KPMG Hungaria Kft. as auditors of the Company for the fiscal year ending December 31, 2005; and

to transact such other business as may properly come before the Meeting and any adjournment or postponement thereof. The Board of Directors is not aware of any other business to come before the Meeting.

The Board of Directors has fixed April 5, 2005 as the record date for determining the stockholders entitled to notice of, and to vote at, the Meeting and any adjournment or postponement thereof. For ten days prior to the Meeting, a complete list of stockholders of record entitled to vote at the Meeting will be maintained for inspection by an eligible stockholder (for any purpose germane to the Meeting) during normal business hours at the U.S. office of the Company which is located at 1201 Third Avenue, Suite 3400, Seattle, WA 98101-3034, phone 206-654-0204.

Whether or not you plan to attend the Meeting in person, please mark, execute, date and return the enclosed proxy promptly in the envelope provided. Should you attend the Meeting in person you may, if you wish, withdraw your proxy and vote your shares in person.

By Order of the Board of Directors,

/s/ Peter T. Noone

Peter T. Noone
Secretary

Seattle, Washington

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April 15, 2005

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES TO ENSURE A QUORUM AT THE MEETING. A PRE-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

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HUNGARIAN TELEPHONE AND CABLE CORP.

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HUNGARIAN TELEPHONE AND CABLE CORP.

1201 Third Avenue, Suite 3400

Seattle, Washington 98101-3034

April 15, 2005

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 19, 2004

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Hungarian Telephone and Cable Corp. (the Company) to be used at the Annual Meeting of Stockholders of the Company, to be held at 10:00 a.m. local time, on May 19, 2005 at the Rihga Royal Hotel, 151 West 54th Street, New York, New York 10019, or at any adjournment or postponement thereof (the Meeting). This Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders and form of proxy are first being sent or given to stockholders on or about April 18, 2005.

At the Meeting, the stockholders of the Company are being asked to consider and vote upon: (i) the election of six directors of the Company to serve until the 2006 Annual Meeting of Stockholders or until their successors are duly elected and qualified; and (ii) the ratification of the appointment of KPMG Hungaria Kft. as auditors of the Company for the fiscal year ending December 31, 2005.

Voting Rights and Proxy Information

All shares of common stock, par value \$.001 per share, of the Company (the Common Stock), represented at the Meeting by properly executed proxies received prior to or at the Meeting, and not revoked, will be voted at the Meeting in accordance with the instructions thereon. If no instructions are indicated, properly executed proxies will be voted for election of all nominees for director named below, and for the ratification of the appointment of auditors. The Company does not know of any matters, other than as described in the Notice of Annual Meeting, that are to come before the Meeting. If any other matters are properly presented at the Meeting for action, the persons named in the enclosed form of proxy and acting thereunder will have the discretion to vote on such matters in accordance with their best judgment. Proxies should not be sent by the stockholder to the Company, but to Continental Stock Transfer & Trust Company, the Company's Registrar and Transfer Agent, at 17 Battery Place South, 8th Floor, New York, New York 10004. A pre-addressed, postage-paid envelope is provided for this purpose.

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A proxy delivered pursuant to this solicitation may be revoked at any time before it is voted. Proxies may be revoked by (i) filing with the Secretary of the Company at or before the Meeting a written notice of revocation bearing a later date than the proxy, (ii) duly executing a subsequent proxy relating to the same shares and delivering it to the Secretary of the Company at or before the Meeting, or (iii) attending the Meeting and voting in person (although attendance at the Meeting will not in and of itself constitute revocation of a proxy). Any written notice revoking a proxy should be delivered to Peter T. Noone, Secretary, Hungarian Telephone and Cable Corp., 1201 Third Avenue, Suite 3400, Seattle, Washington 98101-3034.

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The presence, in person or by proxy, of a majority of the shares of Common Stock entitled to vote is required to constitute a quorum for the transaction of business at the Meeting. The election of directors requires the affirmative vote of a plurality of the shares of Common Stock voting in person or by proxy at the Meeting. Thus, abstentions and proxies returned by brokers as non-votes on behalf of shares held in street name will have no effect on the outcome of the election of directors. For the vote with respect to the ratification of the appointment of auditors, abstentions will have the same effect as a vote against such matter and proxies returned by brokers as non-votes will not affect the outcome of such vote. Proxies submitted which contain abstentions or broker non-votes will be deemed present at the Meeting in determining the presence of a quorum.

Your Board of Directors has unanimously approved the nomination of the persons named herein for election as directors and the Board's audit committee has unanimously approved the appointment of KPMG Hungaria Kft. Accordingly, the Board recommends a vote FOR the election of the nominees named herein as directors and the ratification of the appointment of KPMG Hungaria Kft. as auditors for the fiscal year ended December 31, 2005.

Voting Securities

April 5, 2005 has been set as the record date (the Record Date) for determining stockholders entitled to notice of, and to vote at, the Meeting. As of the close of business on the Record Date, there were outstanding 12,724,938 shares of Common Stock. Each holder thereof is entitled to one vote per share.

Stock Ownership of Certain Beneficial Owners

The following table sets forth, as of April 15, 2005, certain information as to those persons who were known by management to be beneficial owners of more than 5% of the Common Stock.

<u>Name and Address of Beneficial Owner</u>	<u>Shares Beneficially Owned (1)</u>	<u>Percent of Class (1)</u>
TDC A/S		
Noerregade 21	10,799,782(2)	69.6%
0900 Copenhagen C, Denmark		

- (1) Shares Beneficially Owned includes shares held directly as well as shares which such entity may have the right to acquire within 60 days of April 15, 2005. Percent of Class is calculated by dividing the Shares Beneficially Owned by such entity by the shares of Common Stock outstanding as of April 15, 2005 plus only those shares which such entity may have the right to acquire within 60 days of April 15, 2005.
- (2) Includes 300,000 shares of Common Stock which are issuable upon the conversion by TDC of its 30,000 shares of the Company's Series A Preferred Stock and 2,500,000 shares of Common Stock which are issuable upon the exercise of warrants held by TDC with an exercise

price of \$10.00 per share. See - Change in Control.

Change in Control

In September 2004 TDC A/S (TDC) and Ashmore Investment Management (Ashmore), two existing stockholders of the Company, purchased the entire equity interest in the Company held by Citizens Communications Company (Citizens) for \$13.2 million. TDC and Ashmore used their general investment funds for the purchase from Citizens. TDC purchased 1,383,544 shares of Common Stock

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and 18,000 shares of preferred stock convertible into 180,000 shares of Common Stock. Ashmore purchased 922,364 shares of Common Stock and 12,000 shares of preferred stock convertible into 120,000 shares of Common Stock. Following such transaction, TDC owned 41% of the Company's outstanding Common Stock while Ashmore owned 22% of the Company's outstanding Common Stock. TDC and Ashmore also entered into a stockholders agreement (the "Stockholders Agreement") governing their rights and obligations to each other as stockholders of the Company.

On March 30, 2005, TDC reached an agreement to purchase Ashmore's entire equity holdings in the Company for \$79.9 million. Ashmore owned 2,750,936 shares of Common Stock (purchase price \$53,643,252); warrants to purchase 2,500,000 shares of Common Stock at \$10 per share with an expiration date of March 31, 2007 (purchase price \$23,750,000); and 12,000 shares of the Company's preferred stock which are convertible into 120,000 shares of Common Stock (purchase price \$2,540,040). Following the closing of this transaction on April 12, 2005, TDC now owns 63% of the Company's outstanding Common Stock and 66% of the Company's outstanding Common Stock on a fully diluted basis.

TDC also purchased from Ashmore notes issued by the Company in the principal amount of \$25 million that Ashmore held. TDC purchased the notes at face value. TDC used its own investment funds for the transaction. Following the closing of the transaction, the Stockholders Agreement between TDC and Ashmore was terminated. Since TDC purchased the shares in the Company held by Ashmore after the April 5, 2005 record date, Ashmore has given TDC the authority to vote at the Meeting the shares held in Ashmore's name as of the record date.

Table of Contents**Stock Ownership of Management**

The following table sets forth, as of April 15, 2005, certain information as to the shares of Common Stock beneficially owned by an executive officer and certain officers of the Company, and as to the shares of Common Stock beneficially owned by all directors and executive officers of the Company as a group.

<u>Name of Beneficial Owner</u>	<u>Shares Beneficially Owned (1)</u>	<u>Percent of Class(1)</u>
<i>Current Officers and Employees</i>		
Ole Bertram	451,968(2)	3.4
William T. McGann	128,023(3)	1.0
Peter T. Noone	100,330(4)	*
Directors and Executive Officers as a Group (5 persons)	559,968(5)	4.2

* Less than one percent

- (1) Shares Beneficially Owned includes shares held directly, as well as shares which such persons have the right to acquire within 60 days of April 15, 2005 and shares held by certain members of such persons' families, over which such persons may be deemed to have sole or shared voting power or investment power. Percent of Class is calculated by dividing the Shares Beneficially Owned by the individual (or group) by the shares of Common Stock outstanding as of April 15, 2005 plus only those shares which the individual (or group) has the right to acquire within 60 days of April 15, 2005.
- (2) Includes 100,000 shares subject to options presently exercisable at \$4.86 per share, 100,000 shares subject to options presently exercisable at \$4.72 per share, 100,000 shares subject to options presently exercisable at \$7.46 per share and 100,000 shares subject to options presently exercisable at \$9.39 per share, granted pursuant to Mr. Bertram's employment agreement. See Election of Directors - Employment Agreements.
- (3) Includes 10,000 shares subject to options presently exercisable at \$4.86 per share, 20,000 shares subject to options presently exercisable at \$4.72 per share, 20,000 shares subject to options presently exercisable at \$7.46 per share, 40,000 shares subject to options presently exercisable at \$9.39 per share and 35,000 shares subject to options presently exercisable at \$13.01 per share. See Election of Directors - Employment Agreements.
- (4) Includes 15,000 shares subject to options presently exercisable at \$4.86 per share, 20,000 shares subject to options presently exercisable at \$4.72 per share, 20,000 shares subject to options presently exercisable at \$7.46 per share, 20,000 shares subject to options presently exercisable at \$9.39 per share and 20,000 shares subject to options presently exercisable at \$13.01 per share granted pursuant to Mr. Noone's employment agreement. See Election of Directors - Employment Agreements.
- (5) Does not include shares reported to be beneficially owned by TDC A/S. Torben V. Holm and Jesper Helmuth Larsen, directors of the Company, serve as officers of TDC A/S. See - Stock Ownership of Certain Beneficial Owners.

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I. ELECTION OF DIRECTORS

General

Pursuant to the Company's By-laws, directors are elected to serve for a one-year term or until their respective successors have been elected and qualified. Three of the six nominees are incumbent directors who were elected at the last annual meeting of stockholders. One nominee is an incumbent director who was elected by the Board in December 2004 to fill a vacancy. Two nominees were designated by TDC to replace Torben Holm as a TDC representative and provide one more representative from TDC. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to one or more nominees) will be voted at the Meeting for the election of the nominees identified below. If any nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such substitute as the Board of Directors may recommend. At this time, the Board of Directors knows of no reason why any of the nominees might be unable to serve, if elected. Except as described below, there are no arrangements or understandings between any director or nominee and any other person pursuant to which such director or nominee was selected.

Table of Contents**Current Directors and Nominees for Director**

The table below sets forth certain information, as of April 15, 2005, regarding the Company's current Board of Directors and nominees for election to the Board of Directors, including beneficial ownership of Common Stock.

<u>Name</u>	<u>Age</u>	<u>Position(s) Held in the Company</u>	<u>Director Since</u>	<u>Shares Beneficially Owned (1)</u>	<u>Percent of Class (1)</u>
<i>Current Directors who are Nominees for Election</i>					
Ole Bertram	69	Director, President and Chief Executive Officer	1997	451,968(2)	3.4
Jesper Helmuth Larsen	38	Director	2004	1,000(3)	*
John B. Ryan	74	Director	1992	43,000(4)	*
William E. Starkey	69	Director	1996	42,000(4)	*
<i>Other Current Director</i>					
Torben V. Holm	54	Director	1999	22,000(5)	*
<i>Other Nominees for Election</i>					
Kim Frimer	45			0(6)	*
Christian Eyde Moeller	41			0(6)	*

* Less than one percent

- (1) Shares Beneficially Owned includes shares held directly, as well as shares which such persons have the right to acquire within 60 days of April 15, 2005 and shares held by certain members of such persons' families, over which such persons may be deemed to have sole or shared voting power or investment power. Percent of Class is calculated by dividing the Shares Beneficially Owned by the individual by the shares of Common Stock outstanding as of April 15, 2005 plus only those shares which the individual has the right to acquire within 60 days of April 15, 2005.
- (2) Includes 100,000 shares subject to options presently exercisable at \$4.86 per share, 100,000 shares subject to options presently exercisable at \$4.72 per share, 100,000 shares subject to options presently exercisable at \$7.46 per share and 100,000 shares subject to options presently exercisable at \$9.39 per share granted pursuant to Mr. Bertram's employment agreement. See - Employment Agreements.
- (3) Consists of 1,000 shares granted from the Company's 2004 Long-Term Incentive Plan which vest in May 2005. Does not include shares reported to be beneficially owned by TDC A/S. See Introduction - Stock Ownership of Certain Beneficial Owners and Introduction Change in Control. Mr. Larsen is currently an officer with TDC A/S.
- (4) Includes 10,000 shares subject to options presently exercisable at \$9.44 per share, 5,000 shares subject to options presently exercisable at \$6.78 per share, 5,000 shares subject to options presently exercisable at \$6.00 per share, 5,000 shares subject to options presently exercisable at \$6.21 per share, 5,000 shares subject to options presently exercisable at \$6.49 per share, 5,000 shares subject to options presently exercisable at \$5.78 per share, and 5,000 shares subject to options presently exercisable at \$10.89 per share granted from the Company's Non-Employee Director Stock Option Plan. Also includes 2,000 shares granted from the Company's 2004 Long-Term Incentive Plan which vest in May 2005.
- (5) Does not include shares reported to be beneficially owned by TDC A/S. See Introduction - Stock Ownership of Certain Beneficial Owners and Introduction Change in Control. Mr. Holm is currently an officer of TDC A/S. Mr. Holm's shares include 5,000 shares subject to options presently exercisable at \$6.21 per share, 5,000 shares subject to options presently exercisable at \$6.49 per share, 5,000 shares subject to options presently exercisable at \$5.78 per share, and 5,000 shares subject to options presently at \$10.89 per share granted from the Company's Non-Employee Director Stock Option Plan. Also includes 2,000 shares granted from the Company's 2004 Long-Term Incentive Plan which vest in May 2005.
- (6) Does not include shares reported to be beneficially owned by TDC A/S. See Introduction - Stock Ownership of Certain Beneficial Owners and Introduction Change in Control. Messrs. Frimer and Moeller are currently officers of TDC A/S.

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Ole Bertram. Mr. Bertram was appointed as the Company's President and Chief Executive Officer effective January 1, 1999. Prior to joining the Company, Mr. Bertram was the Senior Vice President of Tele Danmark International since 1997. Prior to that, Mr. Bertram was Technical Director of Tele Danmark International from 1995 to 1997, and Technical Director and Vice President of the Copenhagen Telephone Company from 1988 to 1995. Mr. Bertram recently announced that he will retire from his roles as the Company's President and Chief Executive Officer in May 2005 but will remain on the Company's Board of Directors.

Kim Frimer. Mr. Frimer has been with TDC since 1992. He is currently the President of TDC Solutions. TDC Solutions is TDC's business unit that provides communications services primarily in Denmark and the Nordic countries. Its services include landline telephony services, convergence products (combined landline and mobile telephony), broadband solutions, data communications services and Internet services. From 2001 to 2004, Mr. Frimer was the Chief Executive Officer of TDC's Swiss telecommunications subsidiary, TDC Switzerland. He was the President of TDC's German subsidiary Talkline AG from 1999 to 2001. TDC has designated Mr. Frimer to replace Torben Holm as one of three representatives from TDC on the Company's Board of Directors. TDC owns 63% of the Company's outstanding Common Stock. Pursuant to an agreement with TDC, the Company is required, under certain conditions, to nominate for election to the Board one person designated by TDC. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Change in Control.

Torben V. Holm. Mr. Holm is the head of TDC's Corporate Business Development department. From 1994 to 2000 Mr. Holm was a Senior Vice President of Tele Danmark International (part of TDC). Mr. Holm is a member of the boards of several communications companies in which TDC holds investments. TDC owns 63% of the Company's outstanding Common Stock. Mr. Holm is one of two representatives of TDC currently on the Company's Board of Directors. Pursuant to an agreement with TDC, the Company is required, under certain conditions, to nominate for election to the Board one person designated by TDC. The Company recently appointed Mr. Holm to replace Mr. Bertram as the Company's President and Chief Executive Officer but Mr. Holm will not seek reelection to the Company's Board of Directors. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Change in Control.

Jesper Helmuth Larsen. Mr. Larsen has been the Chief Financial Officer of TDC Solutions since 2002. Prior to that Mr. Larsen was the chief financial officer from 2000 to 2002 of Polkomtel, a Polish cellular phone provider owned by TDC and others, including Vodafone. Prior to that, Mr. Larsen held various financial positions within TDC. TDC owns 63% of the Company's outstanding Common Stock. Mr. Larsen is one of two representatives of TDC currently on the Company's Board of Directors. Pursuant to an agreement with TDC, the Company is required, under certain conditions, to nominate for election to the Board one person designated by TDC. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Change in Control.

Christian Eyde Moeller. In March 2005, Mr. Moeller was appointed as the head of international operations for TDC Solutions, where he is responsible for the expansion of TDC's existing wireline operations in Europe. Prior to joining TDC, Mr. Moeller was Sprint's regional President responsible for all of Sprint's operations within Europe, Asia Pacific and Australia. Mr. Moeller was with Sprint from 2002 to 2005. Prior to Sprint, Mr. Moeller was with Ebone (GTS), a European broadband IP and optical networking company, where he served as the regional Vice President responsible for operations in Northern Europe. TDC owns 63% of the Company's outstanding Common Stock. Pursuant to an agreement with TDC, the Company is required, under certain conditions, to nominate for election to the Board one person designated by TDC. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Change in Control.

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John B. Ryan. Mr. Ryan has been a financial consultant since 1988. From 1984 through 1987 he was a Senior Vice President and member of the Executive Committee of Josephthal & Co., Inc., a member of the New York Stock Exchange. From 1967 to 1984, he was a General Partner, Director of Compliance and a member of the Executive Committee of Herzfeld & Stern, a member of the New York Stock Exchange. He is a member of the Arbitration Panel of the New York Stock Exchange, the National Association of Securities Dealers and the American Arbitration Association.

William E. Starkey. Mr. Starkey is currently a consultant. He was with GTE Corporation from 1964 to 1993, when he retired as a Senior Executive. While at GTE, he held various posts involving operations, marketing and customer service, regulatory, human resources, information systems, management and planning. He was the Chairman of the Tampa Chamber of Commerce in 1990 and the Chairman of Enterprise Corporation from 1994 to 1996 (a private non-profit organization, with over 60 employees providing management, technical and financial assistance to small- and medium-sized companies). Mr. Starkey also served as the interim Director of the Port of Tampa from 2004 to March 2005.

Committees and Meetings of the Board of Directors

The Board of Directors held nine meetings during the fiscal year ended December 31, 2004. Each of the incumbent directors attended at least 75% of the meetings of the Board of Directors and Board committees that were held during the 2004 fiscal year while he was a member of the Board or committee. While the Board of Directors does not have a formal policy regarding attendance at annual stockholders meetings, the Board encourages the directors to attend the annual meeting of stockholders. All of the directors then serving attended the 2004 annual meeting of stockholders.

The Board of Directors has a Compensation Committee and an Audit Committee. The Board of Directors does not have a separately designated nominating committee. The Company does not have a nominating committee charter.

The full Board of Directors fulfills the role of a nominating committee. Each of the directors participates in the consideration of director nominees. It is the position of the Board of Directors that it is appropriate for the Company not to have a separate nominating committee because the size and composition of the Board of Directors enables it to adequately fulfill the functions of a standing nominating committee. The American Stock Exchange does not require the Company to have a separate nominating committee but does require that board nominees be selected by either a nominating committee comprised solely of independent directors or by a majority of the independent directors. The Company has considered all of the directors, except for Mr. Bertram as a member of management, independent within the meaning of such term in the listing standards of the American Stock Exchange. Given TDC's purchase on April 12, 2005 of Ashmore's equity stake in the Company which increased TDC's percentage ownership interest in the outstanding Common Stock to 63%, the Company is reevaluating the independence, within the meaning of such term in the American Stock Exchange listing standards, of the TDC representatives on the Company's Board.

The Board of Directors will consider nominees recommended by stockholders although, to date, it has not actively solicited such nominations. Such recommendations about nominees should be submitted in writing to the Secretary of the Company at the principal U.S. office of the Company not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual stockholders' meeting (provided, however, that in the event that the date of the annual stockholders' meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to such annual stockholders' meeting and not later than the close of business on the later of the 90th day prior to such annual stockholders' meeting or the 10th day following

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the day on which public announcement of the date of such stockholders' meeting is first made by the Company). The written recommendation must include: (1) the name and address of the stockholder making the recommendation and the beneficial owner, if any, on whose behalf the nomination is made; (2) the number of shares of Common Stock which are owned of record and beneficially by such stockholder and such beneficial owner; (3) a representation that the stockholder is a holder of record of Common Stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such nomination; (4) a representation whether the stockholder or beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to stockholders owning at least the percentage of the Company's outstanding Common Stock required to elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such nomination; (5) all information regarding the director candidate that would be required to be included in a proxy statement filed under the proxy rules of the Securities and Exchange Commission; and (6) the written consent of the director candidate to being named in the proxy as a nominee and to serving as a director if elected. The Board of Directors may refuse to consider the recommendation of any person not made in compliance with this procedure.

In 2004, the Board of Directors established a policy regarding the director nomination process ("Nomination Policy"). The Nomination Policy contains both specific minimum qualifications for Board recommended nominees as well as specific qualities or skills that the Board believes are necessary for one or more of its directors to possess. The specific, minimum qualifications a Board recommended nominee must possess are: the highest ethical character; the ability to read and understand financial statements; be over 21 years of age; no significant and material conflicts; the necessary time to devote to board duties; and the ability to represent the interests of all the Company's shareholders. The specific qualities or skills that the Board believes are necessary for one or more of its directors to possess are: the relevant expertise and experience and the ability to offer advice and guidance to the Company's Chief Executive Officer; the ability to evaluate management performance objectively; the necessary independence or financial expertise that may be required; the skills, experience and background to complement the other directors; and the likelihood of a constructive working relationship with the rest of the Board. The Nomination Policy contains a process for identifying Board candidates which includes using the network of Board contacts, engaging a search firm and considering independent candidates recommended by the Company's stockholders. The Nomination Policy also contains a procedure for evaluating nominees. Nominees are evaluated by the Board using the criteria summarized above. At its discretion, the Board can use questionnaires, interviews, and additional background and reference checks. Incumbent directors will be evaluated based on their participation and performance. With respect to the Company's nominees for the 2005 to 2006 Board term, TDC designated Messrs. Frimer, Larsen and Moeller as their representatives on the Company's Board of Directors.

The members of the Compensation Committee are John B. Ryan and William E. Starkey (Chairman). The Compensation Committee held seven meetings during the fiscal year ended December 31, 2004. The functions of the Compensation Committee include: administering the 2004 Long-Term Incentive Plan; negotiating and determining the compensation of executive officers; and determining the compensation of all other officers. See - Compensation Committee Report on Executive Compensation.

The members of the Audit Committee are Jesper Helmuth Larsen, John B. Ryan (Chairman), and William E. Starkey. Mr. Larsen joined the Audit Committee upon his election to the Board in December 2004. Mr. Larsen replaced Thomas Gelting as a member of the Audit Committee. The Board has determined that Mr. Larsen is an "audit committee financial expert", within the meaning of Securities and Exchange Commission regulations. The Company has considered all of the members of the Audit Committee independent within the meaning of such term in the Securities and Exchange Commission regulations and the listing standards of the American Stock Exchange. Mr. Gelting was also considered independent. Given TDC's purchase on April 12, 2005 of Ashmore's equity stake in the Company which

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increased TDC's percentage ownership interest in the outstanding Common Stock to 63%, the Company is reevaluating the independence, within the meaning of such term in the American Stock Exchange listing standards, of Mr. Larsen. The Audit Committee has adopted a written charter which was included as an attachment to the Company's proxy statement for its 2004 annual meeting of stockholders. The Audit Committee's duties include, among other duties: the appointment, retention, compensation and oversight of the independent auditors; reviewing the independence, experience, qualifications and performance of the independent auditors; the pre-approval of all audit and non-audit services to be performed by the independent auditors; reviewing and discussing with management and the independent auditors the audited annual financial statements and quarterly unaudited financial statements; reviewing the scope and results of the audits performed; reviewing the adequacy and operation of the Company's financial reporting and internal controls, as well as the disclosure controls and procedures; reviewing and approving related party transactions; monitoring compliance with the Company's Code of Ethics; and performing such other duties or functions with respect to the Company's accounting, financial and operating controls as deemed appropriate by it or the Board of Directors. During the fiscal year ended December 31, 2004 the Audit Committee held four meetings. All of the 2004 Audit Committee meetings were held prior to the time that Mr. Larsen joined the Audit Committee. See - Report of the Audit Committee.

Report of the Audit Committee

The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.

March 29, 2005

To the Board of Directors of Hungarian Telephone and Cable Corp.:

We have reviewed and discussed with management the Company's audited consolidated financial statements as of and for the fiscal year ended December 31, 2004.

We have discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

We have received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and have discussed with the auditors the auditors' independence.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the audited consolidated financial statements referred to above be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

Members of the Audit Committee

Jesper Helmuth Larsen

John B. Ryan, Chairman

William E. Starkey

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Compensation Committee Report on Executive Compensation

The following Report of the Compensation Committee and the performance graph included elsewhere in this proxy statement do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report or the performance graph by reference therein.

General. The Company's compensation policy is designed to motivate, reward and retain the managerial and technical talent needed to achieve the Company's business objectives. This policy provides for incentives to achieve short- and long-term objectives and rewards exceptional performance and accomplishments that contribute to the Company's business. Compensation arrangements for the Company's officers have been designed to align such compensation with the achievement of the Company's business objectives and growth strategy. The Compensation Committee determines the compensation of the Company's officers. The Compensation Committee directly determines the Chief Executive Officer's compensation and, with input from the Chief Executive Officer, determines the compensation of the other officers. The Chief Executive Officer is given authority, within certain limits, to determine the compensation of the rest of the Company's employees.

Employment Contracts. The Company has secured the services of three of its long serving top officers, including the Chief Executive Officer, with employment agreements which have indefinite terms. Such agreements can be terminated by either party following required notice periods. These employment agreements have fixed based salaries that are adjusted annually, option grants to provide incentive to build shareholder value and, in the case of the Chief Executive Officer, an annual target cash bonus. The agreements also have protection in the event of termination of employment without cause, which provisions are intended to retain such officers so that they can focus on the Company and its goals. Each of the agreements also addresses the possibility of a change in control of the Company so that the officers can focus on the Company and its goals without the distraction of concern about the future ownership of the Company. In determining bonuses, the Compensation Committee has taken into account the weakened value of the U.S. dollar. In order to avoid the problems associated with currency fluctuations, the Compensation Committee has begun the transition from dollar-based employment agreements for its officers and top employees to euro-based employment agreements since the value of the Hungarian forint is more closely associated with the euro than the U.S. dollar.

Chief Executive Officer's 2004 Compensation. During 2004, the Compensation Committee provided Mr. Bertram with a base salary based on comparable industry standards and an annual grant of options also based on comparable industry standards. The options are intended to provide Mr. Bertram with incentive to increase the Company's value. The employment agreement with Mr. Bertram also provides for a potential annual cash bonus tied to certain Company objectives established by the Compensation Committee. In February 2004, the Compensation Committee awarded Mr. Bertram a bonus of \$125,000, which was based on the achievement of Company objectives set in 2003 relating to revenues, operating income, line connections, revenue per subscriber and other strategic goals. The cash bonus also reflected the continuing devaluation of the U.S. dollar. In 2004, the Compensation Committee agreed to award Mr. Bertram a special cash bonus of \$600,000 for his efforts in securing the PanTel acquisition and the related financing. The Compensation Committee recognized the transforming nature of this transaction for the Company and wanted to reward Mr. Bertram for his efforts and sacrifices in bringing the transaction to a close. With the PanTel transaction complete, such bonus is now payable to Mr. Bertram. After a review of Mr. Bertram's employment agreement and his service to the Company both as a director and executive officer since 1997, the Compensation Committee agreed to award Mr. Bertram with a one-time lump sum payment payable at his retirement equal to six months pay at the monthly rate in effect upon his retirement. Mr. Bertram recently announced that he will retire in May 2005. In March 2005, the Compensation Committee awarded Mr. Bertram an annual cash bonus of

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\$100,000, which was based on the achievement of Company objectives set in 2004 relating to revenues, operating income, line connections, revenue per subscriber and other strategic goals. The Company also changed Mr. Bertram's cash compensation for 2005 from U.S. dollars to euros and set his 2005 base cash compensation amount at EUR 310,000 (including a housing allowance).

In 1993, Section 162(m) was added to the Internal Revenue Code of 1986, as amended, the effect of which is to eliminate the deductibility of compensation of over \$1 million, with certain exceptions, paid to each of certain highly compensated executive officers of publicly held corporations, such as the Company. Section 162(m) applies to all remuneration (both cash and non-cash) that would otherwise be deductible for tax years beginning on or after January 1, 1994, unless expressly excluded. To date, the annual compensation of the Company's current officers has been below the \$1 million threshold. The Company's equity compensation plan has certain rewards which would qualify for certain performance-based exceptions to the limitations on deductibility.

Members of the Compensation Committee

John B. Ryan

William E. Starkey, Chairman

Standard Remuneration of Directors and Other Arrangements

The Company has a compensation structure for the Company's non-employee directors pursuant to which the Chairman (Mr. Holm) is to be compensated with a fixed quarterly fee of \$3,000, a per meeting fee of \$1,100 for meetings held in-person and a per meeting fee of \$550 for meetings held via telephonic conference call. The other directors are compensated with a fixed quarterly fee of \$2,500, a per meeting fee of \$800 for meetings held in-person and a per meeting fee of \$400 for meetings held via telephonic conference call. The non-employee directors also received 2,000 shares of Common Stock, or a pro-rated amount of shares, for their 2004 to 2005 Board service. Such shares vest upon the completion of the one-year board term in May 2005. For Committee meetings, the directors are paid a per meeting fee of \$1,000 (\$2,000 for the Chairman) for meetings held in-person and a per meeting fee of \$500 (\$1,000 for the Chairman) for meetings held via telephonic conference call. The Chairman of each committee also receives a \$2,500 fixed quarterly fee. The Company also reimburses the directors for out-of-pocket expenses.

Table of Contents**Executive Compensation**

The following table sets forth certain information, for each of the Company's last three fiscal years, with respect to compensation awarded to the Company's Chief Executive Officer and certain current officers of the Company whose total annual salary and bonus exceeded \$100,000 during the fiscal year ended December 31, 2004 (collectively, the "Named Executives").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary (\$)(1)	Bonus (\$)(2)	Other Annual Compensation (\$)(3)	Awards		
					Stock Award (\$)(4)	Securities Underlying Options (#)	All Other Compensation (\$)(5)
Ole Bertram President and Chief Executive Officer	2004	280,000	125,000	36,000		100,000	30,000
	2003	270,000	127,340	36,000	246,500	100,000	30,000
	2002	260,000	95,000	36,000		100,000	30,000
William T. McGann Controller and Treasurer	2004	150,867	89,112	58,396		40,000	63,172
	2003	113,263	62,240	48,359		20,000	50,774
	2002	102,376	40,000	38,410		20,000	50,774
Peter T. Noone General Counsel and Secretary	2004	182,560	25,000	7,439		20,000	86,925
	2003	172,500	25,000	5,553		20,000	
	2002	170,000	20,000			20,000	

- (1) Consists of salaries paid pursuant to employment agreements. See - Employment Agreements.
- (2) The bonuses paid in 2003 and 2004 to Messrs. Bertram and McGann include additional cash compensation to reflect some currency devaluation.
- (3) The amounts reported for Mr. Bertram's Other Annual Compensation consist of an annual housing allowance in the amount of \$36,000. Mr. McGann's Other Annual Compensation includes an annual housing allowance in the amount of \$36,000 for 2002 and 2003, and \$40,671 for 2004. Mr. Noone's Other Annual Compensation consists of payments to Mr. Noone of \$2,502 and \$3,500 for certain out-of-pocket medical and dental expenses in 2003 and 2004, respectively, and \$3,051 and \$3,939 for certain insurance costs in 2003 and 2004, respectively.
- (4) The Compensation Committee agreed to award Mr. Bertram 25,000 shares of Common Stock provided he remained in the employment of the Company through December 31, 2003. After a tax withholding, Mr. Bertram received a net amount of 15,500 shares which do not have any restrictions.
- (5) All amounts reported for Messrs. Bertram and McGann consist of Company contributions to a certain vested pension plan. The amount reported in 2004 for Mr. Noone consists of the retirement by the Company of an in-the-money employee option.

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The following table sets forth certain information with respect to options granted to the Named Executives during the fiscal year ended December 31, 2004.

Option Grants in Last Fiscal Year

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$)	Expiration Date	5% (\$)	10% (\$)
Ole Bertram	100,000	62.5	9.39	12/31/13	590,532	