DAG MEDIA Inc.

Annual Report
December 2000

Dear Shareholders:

Fiscal year 2000 was a very exciting year for us. Revenue increased 43% and we had several significant achievements that will be reflected in future results. We've been able to capture a respectable share of the Manhattan yellow page market. We have strengthened our sales force and exclusively dedicated three sales offices to our Manhattan yellow pages. We have also improved our distribution methods and I can proudly announce that our Manhattan yellow pages is now distributed to more than 80% of Manhattan residents and businesses. Despite competition by yello wbook and Ambassador Inc., we are managing to lead the "alternative" source of advertising to the giant Verizon.

Our ethnic publications are also doing well although we see the main growth opportunity of the Company in the mainstream yellow page market as well as in the on-line and wireless directories which our business development department is always exploring exciting opportunities in those fields.

We have made a decision to approach the Queens and Brooklyn markets as soon as we achieve ten million dollars in annual revenues for the Manhattan directory. I believe this will happen in the year 2001. The next step for the expansion of the print directory business will be expanding out of New York City into Philadelphia, Washington D.C. and Boston.

We would like to express our appreciation to our shareholders for investing in our Company, believing in our business plan and in our capabilities. Personally, I would also like to thank our dedicated employees who have established a base for the future success of the Company.

Sincerely,

Assaf Ran
CEO, DAG Media

We currently publish and distribute yellow page directories in print and on the worldwide web, both in the mainstream yellow page industry as well as in targeted niche markets in the New York metropolitan area. We sell yellow page advertisements as part of an overall media package that includes print advertising, on-line advertising and other added value such as our Referral Service and Consumer Discount Club.

We operate three internet portals, a mainstream general portal *NewYellow.com,* targeting the general population, *JewishYellow.com* targeting worldwide Jewish communities and *JewishMasterGuide.com,* targeting the ultra-orthodox Hasidic communities. Our principal source of revenue derives from the sale of ads in our print and on-line directories.

Industry background*

In 2000, yellow page advertising revenues in the United States were estimated by the Yellow Pages Publishers Association ("YPPA") to be $13 billion. The eight largest publishers of yellow page directories in the United States -- including the five regional bell operating companies, GTE, SNET and Sprint -- account for the overwhelming majority of yellow page advertising revenues. Verizon and SBC Directory Operations, a division of SBC Corporation, one of the regional bell operating companies, are the two largest publishers of yellow page directories in the United States, each having annual yellow page advertising revenue in excess of $2 billion.

There are many independent publishers of yellow page directories in the United States. In 2000, the yellow page advertising revenues of United States publishers of yellow page directories not affiliated with local telephone companies were estimated by the YPPA to be between 7% to 10% of the United States yellow page advertising market.

Further, in 1997 the total aggregate yellow page advertising revenues of companies that publish yellow page directories on the Internet were approximately $21.8 million. Simba estimates that yellow page Internet advertising revenues will continue to grow significantly. In 2000, yellow page directories on the Internet reached approximately $164.9 million.

Products and services

NewYellow. On May 12, 1999, we launched a general interest yellow page directory at the request of our ethnic directory advertisers who inquired of us to provide them with an alternative to the Verizon Yellow Pages. *NewYellow* competes directly with the Verizon Yellow Pages in New York City. We were the first to publish a Manhattan year 2000 yellow page directory. The first printed edition of *NewYellow* was distributed in March 2000 and the second in October 2000. *NewYellow* is currently published semi-annually and distributed door-to-door in New York City. Printing of *NewYellow* is done domestically with a professional directory printer.

NewYellow is the only general interest yellow page directory to provide full-color advertisements. *NewYellow* was also the first directory to include e-mail addresses. Also, as part of our service, we offer to all *NewYellow* advertisers free e-mail addresses as well as electronic mail boxes. These mail boxes are often used to provide our advertisers with electronic referrals.

NewYellow offers businesses a substantially discounted advertising package. Rates in *NewYellow* are at least 70% less than the Verizon rates and we provide three added features that are offered in addition to the basic *NewYellow* printed directory: the Referral Service, Online Service and the Consumer Discount Club. *NewYellow* is also available online at our web site *NewYellow.com*

The Jewish Israeli Yellow Pages. The *Jewish Israeli Yellow Pages* is a bilingual, yellow page directory that is distributed free through local commercial and retail establishments in the New York metropolitan area as well as through travel agencies in Israel. All ads in the Jewish Israeli Yellow Pages are in English and Hebrew unless the advertiser specifically requests that the ad be English only. The *Jewish Israeli Yellow Pages* is organized according to the Hebrew alphabet, although it is indexed in both Hebrew and English. We believe that *the Jewish Israeli Yellow Pages* is used principally by persons whose native language is Hebrew, although it is also used by members of the Jewish community whether or not they speak Hebrew. The

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* Except as otherwise indicated, all industry data are based on the *Yellow Pages & Directory Report,* a publication of Cowles/Simba Information, a unit of Cowles Business Media; Internet Yellow Pages, 1998: Business *Models and Market opportunities*, an annual research report published by Cowles/Simba; and oral communications with representatives of Cowles/Simba in January 2000 and of the YPPA in January 2001.

Jewish Israeli Yellow Pages was first published in February 1990 and has been published in February and August of each year since 1991. The *Jewish Israeli Yellow Pages* is also available online at our web site *JewishYellow.com*

All production, including layout, design, editing and most proofreading functions, for the *Jewish Israeli Yellow Pages* is performed locally. The final version of the *Jewish Israeli Yellow Pages* is shipped to Israel to be printed by HaMakor Printing Ltd. The printed directories are shipped to our main office in New York for distribution. We believe that HaMakor provides us with a competitive advantage with respect to cost, quality and responsiveness. From time to time we receive solicitations from printers who would like to publish our directory. We have consistently found their pricing to be significantly higher than that of HaMakor, even after taking into account shipping costs. In addition, we believe the quality of HaMakor's product is superior to anything that a local printer would produce, particularly because so much of the directory is in Hebrew. Finally, because of our long standing relationship with HaMakor we receive timely service.

The MasterGuide. In October 1998 we published the first edition of the *MasterGuide*, a yellow page directory designed to meet the special needs of the Hasidic and ultra-Orthodox Jewish communities in the New York metropolitan area. With its successive growth, we now publish The *MasterGuide* semi-annually. We produce the *MasterGuide* generally in the same manner as we do the *Jewish Israeli Yellow Pages*, including printing it in Israel. The *MasterGuide* differs from the *Jewish Israeli Yellow Pages* in that the *MasterGuide* is published in English only, and that it does not advertise products or service that might offend the Hasidic and ultra-orthodox Jewish communities. Generally, advertising rates for the *MasterGuide* are lower than those for the *Jewish Israeli Yellow Pages* because the market that it serves is smaller. Distribution of the *MasterGuide* is accomplished by placing copies of the directory in synagogues, community centers and businesses located in Hasidic and ultra-Orthodox neighborhoods. The development of the *MasterGuide* reflects our strategy to expand by identifying and pursuing niche markets for yellow page directories. The *MasterGuide* is also available online at our web site *JewishMasterGuide.com*

We buy paper for our directories on the local market at prevailing prices. Accordingly, we do not depend on any single source of supply although we are subject to market forces that affect the price of paper. Paper costs fluctuate according to supply and demand in the marketplace. In addition, paper costs can be affected by events outside of our control, such as fluctuations in currency rates, political events, global economic conditions, environmental issues and acts of nature.

The *Referral Service*. The Referral Service provides added value to users of and advertisers in our directories. Potential consumers who are looking to purchase goods or services call the Referral Service and an operator directs them to one or more advertisers in our directories. Tourists also call the Referral Service with questions involving travel, lodging, visa issues, driver's license issues and the like. Finally, advertisers use the Referral Service as a tool to generate new business. The telephone number for the Referral Service is published throughout our various directories as well as various newspapers serving different communities.

Discount Club. As part of the Referral Service, we recently established a program under which participating advertisers have agreed to give discounts to customers who produce the specific directory’s Discount Card. This card is distributed with the directories or can be orderd directly from us. By presenting the card at participating establishments, consumers can receive discounts of up to 10%.

Online services. We initially launched our web site in 1995, and have since expanded it to include functions such as a "portal" with links to a variety of sites on the web, particularly those that carry information and news that may be of particular interest to specific users. We also develop web sites for our advertisers for a fee. We further enhanced our web site by providing links to *NewYellow* and community-focused yellow page directories, by including news and information and by creating strategic alliances with other Internet portals. We plan to explore ways in which our portal can be used to generate additional advertising revenue.

Growth strategy

In March 2000, we distributed the first printed edition of *NewYellow*, a general interest yellow page directory, in the New York metropolitan area. We were the first to print and distribute a year 2000 directory in Manhattan with the success of the Manhattan *NewYellow* directory, we plan to offer additional *NewYellow* directories covering the other boroughs in New York City, the other counties in the New York metropolitan area and northern New Jersey.

To continue our success with *NewYellow* in the New York market and sustain and increase our profitability, we are focusing our efforts on the following:

- convincing current and potential advertisers that *NewYellow* will be used by a sufficient number of their potential customers to make it worthwhile and cost effective for them to continue or begin advertising in *NewYellow*;
- managing the production, including ad sales, graphic design, layout, editing and proofreading, of multiple directories addressing different markets in varying stages of development;
- attracting, retaining and motivating qualified personnel and expand the number of sales, operating and management personnel;
- providing high quality, easy to use and reliable directories;
- establishing further brand identity for *NewYellow*;
- developing new and maintaining existing relationships with advertisers without diverting revenues from our existing directories;
- developing and upgrading our management, technical, information and accounting systems;
- responding to competitive developments promptly;
- introducing enhancements to our existing products and services to address new technologies and standards and evolving customer demands;
- controlling costs and expenses and managing higher levels of capital expenditures and operating expenses;
- maintaining effective quality control over all of our directories.

Our failure to achieve any of the above in an efficient manner and at a pace consistent with the growth of our business could adversely affect our business, financial condition and results of operations.

In order to prepare for publishing *NewYellow* in 2001, during fiscal year 2000 we hired and trained many new sales representatives to promote and sell *NewYellow.* We produced a special training video for our sales representatives that is being implemented in our sales force training program, beginning 2001.

We may also explore opportunities for adding *Jewish Israeli Yellow Pages* and MasterGuide directories in other cities with large Jewish and Israeli populations, like Miami, Florida and Los Angeles, California.

Sales

Advertisements for the directories are sold through our network of trained sales representatives, all of which are independent contractors who are paid solely on a commission basis. There are approximately 100 sales representatives in our network including those employees hired by the respective sales agencies with which we have agency agreements, B.I.Y., Inc. and M.I.Y. Inc. The sales representatives operated by us work out of our offices in Queens and Long Island City in New York and Fairlawn in New Jersey. B.I.Y. is located in Brooklyn, New York and M.I.Y. is located in Manhattan, New York. In 2000, we opened a new office in Long Island City, New York, dedicated to the *MasterGuide*. The location was chosen because of its proximity to the religious Jewish communities in New York.

Under our agreements with the sales agencies, which are terminable upon 30 days notice, the agencies may not sell advertising for any yellow page directories other than those we publish. Generally, each sales agency is responsible for all fixed costs relating to its operations. We pay sales commissions to the agencies, which, in turn, pays commissions to the individual sales representatives who sell the ads. The commissions payable to the individual sales representatives are prescribed in our agreements with the agencies and are consistent with the commissions we pay to the sales representatives that we hire directly.

We are responsible for training each sales representative, whether hired directly by us or by one of our sales agencies. Generally, training consists of a one-day orientation, during which one of our sales managers educates the sales representative about our business and operations, and a two-week period during which the sales representative receives extensive supervision and support from a sales manager or another experienced sales representative.

With the required implementation of SAB 101 beginning fiscal year end 2000, our revenue recongnition policy was affected. Thus, consistent with past revenue recognition policies, we will continue to utilize the point of publication method of accounting, however, we have now begun recognizing internet advertisement revenues simultaneously with the related printed yellow page edition in which it is sold. Additionally, as our sales cycle recognition is affected by the publication date of our books, the sales cycle will change beginning fiscal year 2001 as our publication schedule has been slightly altered. Nevertheless, we will continue to publish each of our yellow pages semi-annually.

Marketing strategy

We are now focused on increasing our share of the mainstream yellow page market in the New York Metropolitan area as well as continuing our dominance of the Jewish and Israeli niche yellow page markets. *NewYellow* currently competes directly with the Verizon Yellow Pages in Manhattan. In the future we plan to expand into the other boroughs of New York City and its surrounding suburbs. Initially, we dedicated sales representatives from our existing network, spread out over the four sales offices, to selling ads for *NewYellow.* Because *NewYellow* is a relatively new publication, it is more difficult to sell, and because it competes directly with Verizon, the commission structure for *NewYellow* sales representatives is higher than it is for our other directories. Generally, advertising rates for the *NewYellow* directory are approximately 33% of the rates for the Verizon Yellow Pages.

We believe that advertisers are attracted to *NewYellow* for several reasons. First, advertising rates for *NewYellow* are significantly lower than the comparable rates for advertising in Verizon Yellow Pages. Second, *NewYellow* is lighter in weight and less dense than the Verizon Yellow Pages, so that each advertisement in *NewYellow* will stand out more prominently than it would in the Verizon Yellow Pages. Accordingly, we believe that *NewYellow* will attract advertisers who do not currently advertise in the Verizon Yellow Pages as well as existing Verizon Yellow Pages advertisers.

The *Jewish Israeli Yellow Pages* and *MasterGuide* are marketed to the Jewish and Israeli communities living in the New York metropolitan area. According to the American Jewish Congress, there are approximately two million Jews living in this market, representing approximately 10.6% of the total population. We believe that the Jewish population has higher than average disposable income, is well educated and possesses a strong sense of community. In addition, while there is no precise data as to the number of Israeli immigrants living in the New York metropolitan area, we believe the number is substantial. Moreover, a significant number of Israeli tourists visit the area annually. Accordingly, we believe that advertisers are attracted to the *Jewish Israeli Yellow Pages* as a way to advertise directly to this market.

We further believe that the Jewish population in the New York metropolitan area is likely to use the *Jewish Israeli Yellow Pages* because of the impression that businesses that advertise in the *Jewish Israeli Yellow Pages* support or are affiliated with the Jewish community. In the case of the *MasterGuide*, users can be comfortable that none of its advertisers will offend their religious beliefs. We also believe that our advertising rates are attractive, particularly to small businesses which cannot afford to advertise in the Verizon Yellow Pages.

Government regulation

We are subject to laws and regulations relating to business corporations generally, such as the Occupational Safety and Health Act, Fair Employment Practices and minimum wage standards. We believe that we are in material compliance with all laws and regulations affecting our business and we do not have any material liabilities under these laws and regulations. In addition, compliance with all these laws and regulations does not have a material adverse effect on our capital expenditures, earnings, or competitive position.

Competition

In New York, the market for yellow page advertising is dominated by Verizon. In addition, there are a number of independent publishers of yellow page directories, including bilingual directories for specific ethnic communities. There are also independent publishers of yellow page directories that publish community or neighborhood directories. However, we are not aware of any other Hebrew-English yellow page directory in the New York metropolitan area. By focusing on the special needs of the Hebrew speaking, Hasidic and ultra-Orthodox Jewish communities, we believe that we have identified niche markets that allows us to compete effectively with our larger rivals.

Unlike the *Jewish Israeli Yellow Pages* and the *MasterGuide*, *NewYellow* competes directly with the Verizon Yellow Pages and other smaller, English-only, general interest yellow page directories published by companies other than Verizon such as Yellow Book USA. Since there are virtually no barriers to entry in this market, any company with a reasonable amount of capital, like the regional bell operating companies or publishers, are potential competitors. In addition, the Internet is growing rapidly and is a current and potential source of even greater competition. There are a number of online yellow page directories, including Big Yellow, owned by Verizon. Finally, strategic alliances could give rise to new or stronger competitors. Many of our competitors, such as Verizon, can reduce advertising rates, particularly where directory operations can be subsidized by other revenues, making advertising in our directories less attractive. In response to competitive pressures, we may have to increase our sales and marketing expenses or reduce our advertising rates.

Intellectual property

To protect our rights to our intellectual property, we rely on a combination of federal, state and common law trademarks, service marks and trade names, copyrights and trade secret protection. We have registered some of our trademarks and service marks on the supplemental register of the United States and some of our trade names in Queens, New York and New Jersey. In addition, every directory we publish has been registered with the United States copyright office. The protective steps we have taken may be inadequate to deter misappropriation of our proprietary information. We may be unable to detect the unauthorized use of, or take steps to enforce, our intellectual property rights. In addition, although we believe that our proprietary rights do not infringe on the intellectual property rights of others, other parties may assert infringement claims against us or claims that we have violated a trademark, trade name, service mark or copyright belonging to them. These claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources on our part.

Employees

As of December 31, 2000, we employed five people, three of whom are full-time, and all of whom were employed in executive, managerial or administrative positions capacities. In addition, we retained the services of 18 administrative, accounting and production personnel, all of whom are independent contractors. Finally, we had a network of 108 sales representatives, 37 contracted by us and 71 hired by the sales agencies that sell ads for our directories. We believe that our relationship with our employees and contractors is good. None of our employees are represented by a labor union.

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our audited financial statements and notes thereto contained elsewhere in this report. This discussion contains forward-looking statements based on current expectation that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements.

OVERVIEW

We currently publish and distribute yellow page directories in print and on the worldwide web. Our directories target the mainstream yellow page market in New York City as well as niche markets in the New York metropolitan area. We sell yellow page advertisements as part of an overall media package that includes print advertising, on-line advertising and other added value services such as our Referral Service and Consumer Discount Club.

We operate three internet portals, a mainstream general portal *NewYellow.com,* targeting the general population, *JewishYellow.com,* targeting worldwide Jewish communities and *JewishMasterGuide.com,* targeting the ultra-orthodox Hasidic communiteis. Our principal source of revenue derives from the sale of ads in our print and on-line directories.

Advertising fees, whether collected in cash or evidenced by a receivable, generated in advance of publication dates, are recorded as "Advanced billings for unpublished directories" on our balance sheet. Many of our advertisers pay the fee over a period of time. In that case, the entire amount of the deferred payment is booked as a receivable. Revenues are recognized at the time the directory in which the ad appears is published. Thus, costs directly related to the publication of a directory in advance of publication are recorded as "Directories in progress" on our balance sheet and are recognized when the directory to which they relate is published. All other costs are expensed as incurred.

The principal operating costs incurred in connection with publishing the directories are commissions payable to sales representatives and costs for paper and printing. Generally, advertising commissions are paid as advertising revenue is collected. However, in connection with *NewYellow*, we pay commissions to our sales representatives even before we collect the related advertising revenue. We do not have any long-term agreements with paper suppliers or printers. Since ads are sold before we purchase paper and print a particular directory, a substantial increase in the cost of paper or printing costs would reduce our profitability. General and administrative expenses include expenditures for marketing, insurance, rent, sales and local franchise taxes, licensing fees, office overhead and wages and fees paid to employees and contract works (other than sales representatives).

RESULTS OF OPERATION

The following table sets forth for the periods presented statement of operations data as a percentage of net advertising revenue. The trends suggested by this table may not be indicative of future operating results.

	2000	1999
Advertising revenues	100.0%	100.0%
Publishing cost	22.8%	10.0%
Gross profit	77.2%	90.0%
Selling expenses	33.8%	38.1%
General & administrative expenses	47.4%	38.0%
Total operating costs & expenses	81.2%	76.0%
Other income, net	6.8%	5.0%
Earning before provisions for income taxes & equity income	2.8%	18.9%
Provision for income taxes	1.4%	9.0%
Equity in loss of affiliate	–	-.01%
Cumulative effect of charge in accounting	-8.2%	–
Net income	-6.8%	9.9%

<u>YEARS-ENDED DECEMBER 31, 2000 & 1999</u>

ADVERTISING REVENUES

Advertising revenues in 2000 and 1999 were $6,237,000 and $4,365,000, respectively, representing an increase of $1,872,000, or 42.9% in 2000. This increase was primarily attributable to: (1) the first time publication of NewYellow - Manhattan directory as well as its internet on-line version (2) increased advertising revenue with respect to the publication of the Jewish Israeli Yellow Pages and The MasterGuide and (3) some increase in our advertising rates. Furthermore, in addition to the fact that in 1999 we had not published a NewYellow directory, we had only one publication of the MasterGuide and it was the second publication printed, thus, only establishing its initial history of publications.

PUBLISHING COSTS

Publishing costs for 2000 and 1999 were $1,422,000 and $438,000 respectively, representing an increase of $984,000, or 224.7% in 2000. As a percentage of net advertising revenues, publishing costs were 22.8% in 2000 compared to 10.0% in 1999. The increase in publishing costs as a percentage of net advertising revenues primarily reflects that in the year ended December 31, 2000 we first printed NewYellow which is (1) more costly to print that our other directories which are published abroad and (2) with an initial publication there are certain start-up costs involved with such an endeavor.

SELLING EXPENSES

Selling expenses for the year ended December 31, 2000 and 1999 were $2,109,000 and $1,661,000, respectively, representing an increase of $448,000, or 27.0% in 2000. As a percentage of net advertising revenues, selling expenses decreased to 33.8% from 38.1%. The decrease in selling expenses as a percentage of revenues results from the fact that the range of commision percentages fluctuate dependant on the sales source and publication, i.e. if a sale is made by a given office or agency. The resulting ratio of agency sales versus office sales will thereby effect the overall sales commisions percentage as a percentage of revenues as seen in 2000.

GENERAL & ADMINISTRATIVE COSTS

General and administrative expenses for 2000 and 1999 were 2,958,000 and $1,657,000, respectively, representing an increase of $1,301,000, or 78.5%, in 2000. This increase is primarily attributable to (1) increased write-offs of uncollectible accounts due to increasing sales and a more stringent Company policy with respect to accounts receivable write-offs (2) a cumulative increase in consulting and professional services as well as insurance costs related to our status as a public company for the entire fiscal year (3) increased officer expenses and payroll expenses resulting from corporate expansion and (4) increase advertising costs for the Company as well as for the *NewYellow* publication.

OTHER INCOME, NET

For the year ended December 31, 2000 we had other income of $425,000 and $226,00, respectively. This increase of $199,000 was primarily attributable to interest and dividends earned from the investment of the net proceeds from our initial public offering in May 1999.

EARNINGS BEFORE PROVISION FOR INCOME TAXES, EQUITY INCOME & CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Earnings before provision for income taxes and equity income for the year ended December 31, 2000 were $173,000 as compared to $827,000 for the year ended December 31, 1999. The decrease of $654,000 was primarily attributable to the increase of $622,000 in bad debt expense, included in general and administrative expenses, since the prior year as well as increased publication costs and selling expenses associated with the establishment and growth of the Company and its newest publication *NewYellow.*

PROVISION FOR INCOME TAXES

Provision for income taxes in 2000 and 1999 was $88,000 and $391,000, respectively. The decrease in provision for income taxes reflects the decrease in earnings. As a percentage of net advertising revenues, provision for income taxes decreased to 1.4% in 2000 from 9.0% in 1999.

EQUITY IN LOSS OF AFFILIATE

There was no equity in loss of affiliate in 2000. In 1999, there was $3,000 equity in loss of affiliate resulting from losses incurred in the first quarter of 1999 by our subsidiary at the time, DAH, that has since been consolidated pursuant to its acquisition by us that become effective with our initial public offering, in May 1999.

CUMMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

The cumulative effect of change in accounting principles incurred in fiscal year 2000 was a loss of $511,000, net of tax benefit. This charge was incurred as a result of the fact that in December 1999, the Securities and Exchange commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 that expresses the views of the SEC staff in applying generally accepted accounting principles to certain revenue recognition issues. SAB 101 has since become a required accounting principle to be applied with the onset of the fourth quarter of this year, effective from January 1, 2000.

NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS

Net loss for 2000 was $(425,000) compared to net income of $433,000 in 1999 respectively. This decrease is primarily attributable to the resulting increased expenses in fiscal year 2000 associated with the growth of the Company, increased publishing costs as they relate to the company's newest publication, *NewYellow,* and its status as a public corporation for a full fiscal year.

LIQUIDITY & CAPITAL RESOURCES

Until our initial public offering in 1999, our only source of funds was cash flow from operations, which has funded both our working capital needs and capital expenditures. We have no debt to third parties or credit facilities. Generally, advertising fees, whether collected in cash or evidenced by a receivable, are generated before the publication of the related directory and before many of the costs directly associated with publishing the related directory are incurred.

As a result of our initial public offering in May 1999, we received proceeds of approximately $6.4 million net of underwriting discounts and commissions and other expenses. The funds from the initial public offering, $6.7 million in the aggregate, were deposited in an interest bearing money market account, thereby increasing our working capital and are available to pay operating expenses including marketing expenses for *NewYellow*.

We do not have any material commitments under any leases, sales agency agreements or employment agreements, other than those of the employment agreements with Assaf Ran and Orna Kirsh. Those agreements call for annual salaries of $75,000 and $100,000 respectively. Mr. Ran's contract runs through June 30, 2002, and Ms. Kirsh's agreement expires on July 19, 2001.

At December 31, 2000 we had cash and cash equivalents of $7,149,000 and working capital of $6,643,000 compared to cash and cash equivalents of $7,201,000 and working capital of $6,997,000 at December 31, 1999. The decrease in cash and cash equivalents is primarily attributable to the use of cash in investing activity.

Net cash provided by operating activities was $66,000 for the year ended December 31, 2000 compared to $500,000 for the year ended December 31, 1999. The decrease in net cash provided by operating activities reflects increased corporate expenses in 2000.

Net cash used in investing activities was $118,000 for the year ended December 31, 2000 compared to net cash used in investing activities of $9,000 for the year ended December 31, 1999. Net cash used in investing activities in 2000 is primarily the result of various fixed asset purchases made.

There was no cash provided by financing activities in 2000 as apposed to $6,399,000 of net cash provided by financing activities in 1999. The net cash provided from financing activities in 1999 reflects the initial offering proceeds.

We anticipate that our current cash balances together with our cash flows from operations will be sufficient to fund the production of our directories and the maintenance of our web site as well as increases in our marketing and promotional activities for the next 12 months. However, we expect our working capital requirements to increase significantly over the next 12 months as we continue to market *NewYellow* and expand our on-line services.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission (SEC) issued staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 expresses the views of the SEC staff in applying generally accepted accounting principles to certain revenue recognition issues. The Company has decided to apply the SAB effective fiscal year ending December 31, 2000. The effect of this application can be seen in the table above.

Three months period ended-

	3/31/00	6/30/00	9/30/00
As reported	$421,654	$(124,065)	$142,430
Effect for applying SAB 101	(568,733)	(133,746)	(33,921)
Net income (loss)	$(147,079)	$(257,811)	$108,509
Per Share Amounts:			
Basic earnings per common share:			
As reported	$ 0.15	$ (0.04)	$ 0.05
Effect for applying SAB 101	$ (0.20)	$ (0.05)	$ (0.01)
Ner income (loss)	$ (0.05)	$ (0.09)	$ 0.04
Diluted earnings per common share:			
As reported	$ 0.15	$ (0.04)	$ 0.05
Effect for applying SAB 101	$ (0.20)	$ (0.05)	$ (0.01)
Net income (loss)	$ (0.05)	$ (0.09)	$ 0.04

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are typically identified by the words "believe", "expect", "intend", "estimate" and similar expressions. Those statements appear in a number of places in this report and include statements regarding our intent, belief or current expectations or those of our directors or officers with respect to, among other things, trends affecting our financial conditions and results of operations and our business and growth strategies. These forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of various factors (such factors are referred to herein as "Cautionary Statements"), including but not limited to the following: (I) Our limited operating history, (II) potential fluctuations in our quarterly operating results, (III) challenges facing us relating to our growth and (IV) our dependence on a limited number of suppliers. The accompanying information contained in this report, including the information set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations", identifies important factors that could cause such differences. These forward-looking statements speak only as of the date of this report, and we caution potential investors not to place undue reliance on such statements. We undertake no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

Year Ended December 31, 2000

Assets	
Current assets:	
Cash & cash equivalents (Note 2)	$ 7,148,664
Trade accounts receivable, net of allowance for doubtful accounts of $485,000	2,299,267
Directories in progress	1,469,182
Deferred tax asset	187,058
Other current assets	48,669
Total current assets	11,152,840
Fixed assets, net of accumulated depreciation $ 67,629	222,764
Goodwill & trademarks, net of accumulated amortization of $ 87,815	1,263,166
Other assets	14,196
Total assets	$ 12,652,966
Liabilities & Shareholders' Equity	
Current Liabilities:	
Account payable & accrued expenses	$ 75,752
Commissions payable	553,116
Advanced billing for unpublished directories	3,545,211
Income tax payable	335,945
Total current liabilities	4,510,024
Commitments & contingencies (Note - 10)	
Shareholders' equity:	
Preferred shares $.01 per value; 5,000,000 shares authorized; no shares issued	--
Common shares - $.001 per value; 25,000,000 authorized; 2,976,190 issued and 2,907,460 outstanding	2,976
Additional paid-in capital	7,916,701
Treasury stock, at cost- 68,730 shares	(231,113)
Deferred compensation	(77,061)
Retained earnings	531,439
Total shareholders' equity	8,142,942
Total liabilities & shareholders' equity	$ 12,652,966

The accompanying notes are an integral part of this balance sheet .

Years Ended December 31,	2000	1999
Advertising revenues	$ 6,237,173	$ 4,365,107
Publishing costs	1,421,994	438,350
Gross profit	4,815,179	3,926,757
Operating costs & expenses:		
Selling expenses	2,109,136	1,661,090
General and administrative expenses	2,957,637	1,656,928
	5,066,773	3,318,018
Total operating costs & expenses:		
Income (loss) from operations	(251,594)	608,739
Interest income	425,021	225,830
Other expense	--	(7,504)
Other income, net	425,021	218,326
Income before provision for income taxes and equity in loss of affiliate	173,427	827,065
Provision for income taxes	87,667	391,000
Equity in loss of affiliate	--	(2,654)
Income before cumulative effect of change in accounting principle	85,760	433,411
Cumulative effect of change in accounting principle, net of tax benefit of $ 435,356	(511,071)	--
Net (loss) income	$ (425,311)	$ 433,411
Earnings per common share:		
Basic -		
Income before cumulative effect of change in accounting principle	$ 0.03	$ 0.19
Cumulative effect of change in accounting principle	(0.18)	--
Net (loss) income	$ (0.15)	$ 0.19
Diluted -		
Income before cumulative effect of change in accounting principle	$ 0.03	$ 0.19
Cumulative effect of change in accounting principle	(0.18)	--
Net (loss) income	$ (0.15)	$ 0.19
Weighted average number of common shares outstanding		
- Basic	2,907,460	2,285,639
- Diluted	2,915,430	2,286,153

The accompanying notes are an integral part of these financial statements.

Years Ended December 31, 2000 and 1999

	Common Stock Shares	Common Stock Amount	Additional Paid Capital	Treasury Stock Shares	Treasury Stock Cost	Deferred Compensation	Retained Earnings	Total
Balance, December 31, 1998	1,250,000	$1,250	$150	-	-	-	$523,339	$524,739
Sale of common stock in public offering, net of offering expenses	1,250,000	1,250	6,407,260	-	-	-	-	6,408,510
Acquisition of affiliate	476,190	476	1,392,379	-	-	-	-	1,392,855
Treasury shares purchased	-	-	-	68,730	(231,113)	-	-	(231,113)
Net income for the year ended December 31, 1999	-	-	-	-	-	-	433,411	433,411
Balance, December 31, 1999	2,976,190	$2,976	$7,799,789	68,730	$(231,113)	-	$956,750	$8,528,402
Issuance of stock option	-	-	116,912	-	-	(116,912)	-	0
Amortization of deferred compensation	-	-	-	-	-	39,851	-	39,851
Net loss for the year ended December 31, 2000	-	-	-	-	-	(425,311)		(425,311)
Balance, December 31, 2000	2,976,190	$2,976	$7,916,701	68,730	$(231,113)	$(77,061)	$531,439	$8,142,942

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows - DAG Media, Inc.

Years Ended December 31,	2000	1999
Cash flows from operating activities:		
Net (loss) income	$ (425,311)	$ 433,411
Adjustment to reconcile net (loss) income to		
net cash provided by operating activities -		
Cumulative effect of change in accounting principle.	511,071	--
Loss on disposal of fixed assets	--	7,504
Depreciation and amortization	93,445	62,253
Amortization of deferred compensation	39,851	--
Equity in loss of affiliate	--	2,654
Bad debt expense	1,311,924	689,634
Deferred taxes	(303,058)	(55,000)
Changes in operating assets and liabilities -		
Accounts receivable	(1,145,635)	(1,502,219)
Directories in progress	(13,319)	(289,934)
Other current and non current assets	60,205	(92,977)
Accounts payable and accrued expenses	45,797	(54,155)
Commissions payable	(34,497)	570,305
Advanced billings for unpublished directories	(451,856)	693,013
Income taxes payable	377,301	36,000
Net cash provided by operating activities	65,918	500,489
Cash flows from investing activities:		
Investment in affiliate	--	39,221
Acquisition of business	--	43,125
Sale of fixed assets	--	22,500
Purchase of fixed assets	(118,111)	(113,407)
Net cash used in investing activities	(118,111)	(8,561)
Cash flows from financing activities:		
Proceeds from IPO, net of expenses	--	6,408,510
Purchase of treasury shares	--	(231,113)
Repayment of loans to shareholders, net	--	221,347
Net cash provided by financing activities	--	6,398,744
Net (decrease) increase in cash and cash equivalents	(52,193)	6,890,672
Cash and cash equivalents, beginning of year	7,200,857	310,185
Cash and cash equivalents, end of year	$ 7,148,664	$ 7,200,857
Supplemental Cash Flow Information:		
Taxes paid during the years	$ 15,579	$ 394,438
Non-cash transactions --		
Goodwill and trademark acquired in connection of affiliate	--	$1,350,981

The accompanying notes are an integral part of these financial statements.

1. THE COMPANY

We currently publish and distribute yellow page directories, in print and on the world wide web both in the mainstream yellow page industry as well as in targeted niche markets in the New York metropolitan area. We sell yellow page advertisements as part of an overall media package that includes print advertising, on-line advertising and other added value services such as our Referral Service and consumer discount club.

We operate three internet portal, a mainstream general portal *NewYellow.com,* targeting the general population, *JewishYellow.com,* targeting worldwide Jewish communities and *JewishMasterGuide.com,* targeting the ultra-Orthodox Hasidic communities. Our principal source of revenue derives from the sale of ads in our print and on-line directories.

Effective September 28, 1999, the wholly-owned subsidiaries of the Company, Dapey Assaf-Dapey Zahav Ltd. (a New York corporation) and Dapey Assaf-Hamadrikh Leassakim Be New York Ltd. (a New York corporation), were merged into DAG pursuant to the laws of the State of New York.

2. SIGNIFICANT ACCOUNTING POLICIES

Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents include $1,000,000 that the Company pledged as security for a promissory note payable by its Chief Executive Officer ("CEO") to a third party. The restriction on such amount expires in conjunction with the settlement of such officers' promissory note, which is due on demand. See Note 11 below, with respect to information regarding the release of the restriction on these funds in January 2001.

Directories in Progress/Advanced Billings for Unpublished Directories

Directories in progress include direct costs incurred applicable to unpublished directories. Advanced billings for unpublished directories arise from billings on advertising contracts. Upon publication, revenue and the related expense are recognized.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is provided on a straight-line basis to distribute costs evenly over the useful economic lives of the assets ranging from three to five years.

Goodwill and Trademarks

Goodwill and trademarks are amortized using the straight-line method over twenty-five years.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes 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. 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 taxes of a change in tax rate is recognized in income in the period that includes the enactment date.

Revenue Recognition

Advertising revenues are recognized under the point-of-publication method, which is generally followed by publishing companies. Under this method, revenues and expenses are recognized when the related directories are published. Similarly, costs directly related to the publication of a directory in advance of publication are recorded as "Directories in progress" on our balance sheet and are recognized when the directory to which they relate is published. All other costs are expensed as incurred.

In December 1999, the Securities and Exchange Commission (SEC) issues Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 expresses the views of the SEC staff in applying generally accepted accounting principles to certain revenue recognition issues. The Company adapted SAB 101 effective January 1, 2000

In the past, the Company recognized non-printed advertising revenues related to its NewYellow directory sales upon launch of the applicable advertisement. In accordance with SAB 101, the Company began to recognize such revenues simultaneously with the related printed editions in which the advertisement was sold. In addition, the Company allocates directory sales over the number of printed editions, based on its past experience. Accordingly, the Company recorded a cumulative effect of change in accounting principle of $946,427, net of tax benefit of $435,356. The related revenues amounting to approximately $1,472,000 were recognized in full during 2000. Net effect of this change on fiscal 1999 is immaterial to the overall presentation of the financial statements. The following table represents the net effect for applying SAB 101 in the 2000 interim period.

Three months period ended-

	3/31/00	6/30/00	9/30/00
As reported	$421,654	$(124,065)	$142,430
Effect for applying SAB 101	(568,733)	(133,746)	(33,921)
Net income (loss)	$(147,079)	$(257,811)	$108,509
Per Share Amounts:			
Basic earnings per common share:			
As reported	$ 0.15	$ (0.04)	$ 0.05
Effect for applying SAB 101	$ (0.20)	$ (0.05)	$ (0.01)
Ner income (loss)	$ (0.05)	$ (0.09)	$ 0.04
Diluted earnings per common share:			
As reported	$ 0.15	$ (0.04)	$ 0.05
Effect for applying SAB 101	$ (0.20)	$ (0.05)	$ (0.01)
Net income (loss)	$ (0.05)	$ (0.09)	$ 0.04

Earnings Per Share

Basic and diluted earnings per share are calculated in accordance with Financial Accounting Standard Board ("FASB") statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." Under this standard, basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share include the potential dilution from the exercise of stock options and warrants for common shares using the treasury stock method.

The following table reconciles the number of weighted average common shares outstanding for basic and diluted earning per share:

Years Ended December 31,

	2000	1999
Basic	2,907,460	2,285,639
Incremental shares for assumed		
conversion of options	7,970	514
Diluted	2,915,430	2,286,153

103,884 and 175,824 stock options and warrants were not included in the diluted earnings per share calculation for the 2000 and 1999 fiscal years, respectively, as their effect would have been anti-dilutive.

Accounting for Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the impairment of Long-Lived Assets and for Long Lived Assets to be Disposed Of" ("SFAS 121"). This statement establishes financial accounting and reporting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used, and for long-lived assets and certain identifiable intangibles to be disposed of. SFAS 121 requires, among other things, that an entity review its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company does not believe that any such changes have taken place, as of December 31, 2000.

Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes a fair market value based method of accounting for an employee stock option but allows companies to continue to measure compensation cost for those plans using the intrinsic value based method prescribed by APB Opinion No. 25 "Accounting for Stock Issued to Employees." Companies electing to continue using the accounting under APB Opinion No. 25 are required to present pro forma disclosure of net income and earnings per share as if the fair value based method of accounting in SFAS No. 123 had been applied. The Company has elected to continue to account for its stock-based compensation awards to employees and directors under the accounting prescribed by APB Opinion No. 25, and to provide the necessary pro forma disclosures as if the fair value method had been applied. (Note 8).

3. FIXED ASSETS, NET

December 31, 2000

Office equipment	$ 153,036
Automobiles	117,696
Leasehold improvements	19,661
Total fixed assets	290,393
Less: accumulated depreciation and amortization	(67,629)
Fixed assets, net	$ 222,764

Depreciation and amortization expense was approximately $93,000 and $62,000 for the years ended December 31, 2000 and 1999, respectively.

4. INITIAL PUBLIC OFFERING

On May 13, 1999, the Company's initial public offering of common shares was declared effective and trading in the Company's common shares commenced on the Nasdaq Small Cap Market. An aggregate of 1,325,000 common shares were sold in the offering of which 1,250,000 common shares were sold by the Company and 75,000 common shares were sold by Assaf Ran. The initial public offering price for the common shares sold in the offering was $6.50 per share and the net proceeds to the Company from the sale of its common shares, after payment of underwriting discounts and commissions and other expenses related to the offering of approximately $1,716,000 were $6,408,000. In addition, Mr. Ran repaid a loan of $221,000 out of the net proceeds he received from the sale of his common shares.

In connection with the Company's initial public offering the Company issued 132,500 warrants to the underwriters of the initial public offering. The warrants are convertible into the same number of common shares at an exercise price of $7.80 per warrant. The warrants are excercisable over the four year period beginning on the first anniversary of the offering.

5. ACQUISITIONS OF AFFILIATED

In connection with the initial public offering ("IPO"), the Company entered into an Exchange Agreement with Dapey Assaf-Dapey Zahav, Ltd. ("DAZ"), Dapey Assaf-Hamadrikh Leassakim Israelim Be New York, Ltd. ("DAH") and the shareholders of DAZ and DAH. Pursuant to the Exchange Agreement, on May 11, 1999 the shareholders of DAZ and DAH exchanged all of their common shares in DAZ and DAH, as the case may be, for the common shares of the Company and DAZ and DAH became wholly owned subsidiaries of the Company. The exchange has been accounted for under the purchase method of accounting, resulting in a "step up" in the basis of the Company's assets to the extent of the interests of the minority shareholders. The value of the stock issued for the purchase of the minority interest is approximately $1,393,000 (assuming a 10% discount from the initial public offering price) and has been allocated among the assets of the Company based on their relative fair market values. Of this amount, approximately $42,000 has been allocated to the Company's tangible assets, $350,000 has been allocated to the Company's trademarks, trade names and other intellectual property and $1,000,000 has been allocated to goodwill. The amounts allocated to the Company's intellectual property and goodwill are being amortized on a straight-line basis over 25 years, or approximately $54,000 per year. The pro forma effect of the aforementioned transaction is immaterial to the overall presentation of the consolidated financial statements.

6. INCOME TAXES

The provision for income taxes consists of the following:

For the Years Ended December 31,

	2000	1999
Current taxes:		
Federal	$ 237,725	$ 273,000
State	153,000	173,000
Total current taxes	$ 390,725	$ 446,000
Deferred taxes:		
Federal	(184,000)	(33,000)
State	(119,058)	(22,000)
Total deferred taxes	(303,058)	(55,000)
Provision for income taxes	$ 87,667	$ 391,000

Deferred tax assets (liabilities) are comprised of the following:

For the Years Ended December 31,

	2000	1999
Accounts receivable	$ (1,053,000)	$ (1,129,000)
Directories-in-progress	(673,000)	(418,000)
Gross deferred tax liability	(1,726,000)	(1,547,000)
Advanced billing for unpublished directories	1,624,000	1,156,000
Other deferred tax liabilities	289,058	275,000
Gross deferred tax asset	1,913,058	1,431,000
Net deferred tax asset (liability)	$ 187,058	$ (116,000)

The Company is on the cash method of accounting for tax purposes. The deferred tax items indicated above are primarily a result of recognizing items of income or expense under the cash method in a different period from when those items are recognized for accrual basis financial purposes. The provision for income taxes or income differs from the amount computed by applying the U.S. federal income tax rate (34%) because of the effect of the following items:

For the Years Ended December 31,

	2000	1999
Tax at U.S. federal income tax rate	$ 59,000	$ 281,000
State income taxes, net of U.S. federal income	22,000	100,000
Other	6,667	10,000
Provision for income taxes	$ 87,667	$ 391,000

7. SIMPLE IRA PLAN

On October 26, 2000, the Board of Directors approved a Simple IRA Plan (the "IRA Plan") for the purpose of attracting and retaining valuable employees. The IRA Plan was effective August, 2000 with a trustee, which allows up to 100 eligible employees to participate. It is a "Matching Contribution" plan under which eligible employees may contribute up to 6% of their yearly salary, on a pre-tax basis (with a cap of $6,000), with the Company matching on a dollar-for-dollar basis up to 3% of the employees' compensation (with a cap of $3,000). These thresholds are subject to change under notice by the trustee. The Company is not responsible for any other costs under this plan. For fiscal year 2000 the Company contributed $5,250 as a matching contribution to the IRA Plan.

8. STOCK OPTION PLAN

Immediately prior to the initial public offering, the Company adopted the DAG Media, Inc. 1999 Stock Option Plan (the "Plan") reserving 124,000 common shares of the Company for issuance upon exercise of stock options granted pursuant to the Plan. At the Company's annual shareholder meeting held on July 18, 2000, an amendment to the Company's Stock Option Plan to increase the maximum number of options issuable there under by 145,000 options was proposed and passed as of December 31, 2000. At December 31, 2000, 34,116 options are available for future grants under the plan.

The exercise price of options granted under the Plan may not be less than the fair market value on the date of grant. The options may vest over a period not to exceed ten years. Stock options under the Plan may be awarded to officers, key-employees, consultants and non-employee directors of the Company. Under the plan, every non-employee director of the Company will be granted 7,000 options upon first taking office. The objectives of the Plan include attracting and retaining key personnel, providing for additional performance incentives and promoting the success of the Company by increasing the efforts of such officers, employees, consultants and directors. The Plan is the only plan that the Company has adopted with stock options available for grant.

The Company accounts for the employee options under APB Opinion No. 25, under which no compensation cost has been recognized as all options granted during 2000 and 1999 have been granted at the fair market value of the Company's common stock. Options granted to conultants are accounted for under SFAS No. 123 and are measured using Black-Scholes option pricing model. Accordingly, deferred compensation costs of approximately $117,000 was recorded in 2000. Such costs will be amortized over the option vesting period (generally five years). In 2000, the Company charged $39,857 of compensation costs to operations. Had compensation cost for this plan been determined in accordance with SFAS No. 123, the Company's net income (loss) and EPS would have been reduced as follows:

Years Ended December 31, 1999

		2000	1999
Net income (loss)	As reported	$ (425,311)	$ 433,411
	Pro-forma	$ (488,697)	$ 179,982
Basic EPS	As reported	$ (0.15)	$ 0.19
	Pro-forma	$ (0.17)	$ 0.08
Diluted EPS	As reported	$ (0.15)	$ 0.19
	Pro-forma	$ (0.17)	$ 0.08

Under SFAS No. 123, the fair value of each option is estimated on the date of grant using Black-Scholes option-pricing model with the following weighted-average share assumptions used for grants in 2000 and 1999 respectively: (1) expected life of the option 5 years; (2) no dividend yield; (3) expected volatility 70% and 209%; (4) risk free interest rate of 6%.
The following summarizes stock options activity for 2000 and 1999:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 1998	–	–
Granted	101,824	$ 4.82
Outstanding at December 31, 1999	101,824	$ 4.82
Granted	157,000	$ 2.59
Forteited	(23,940)	$ 4.32
Outstanding at December 31, 2000	234,884	$ 3.67
Exercisable at December 31, 2000	144,884	$ 3.95

9. SHAREHOLDERS' EQUITY

In August 1999, the Board of the Directors of the Company authorized a stock repurchase program. The program authorizes the Company to purchase up to 150,000 common shares of the Company within the upcoming year. To date, the Company has purchased 68,730 common shares at an aggregate cost of approximately $231,000. None of the proceeds of the Company's initial public offering have been used in connection with this stock repurchase program. The purpose of the stock repurchase program is to help the Company achieve its long-term goal of enhancing shareholder value. No additional shares were repurchased during fiscal year 2000.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has various lease and rental commitments ending 2003 for its offices, automobiles and equipment. At December 31, 2000, approximate future minimum rental payments under these commitments are as follows:

2001	$ 109,984
2002	49,869
2003	24,709
Total	$ 184,472

Rent expense was approximately $109,000 and $71,000 in 2000 and 1999, respectively.

EMPLOYMENT AGREEMENT

In March 1999, the Company entered into an employment agreement with Assaf Ran, its president and chief executive officer. Mr. Ran's employment term initially ends June 30, 2002 but renews automatically for successive one-year periods until either party gives 180 days written notice of its intention to terminate the agreement. Under the agreement, Mr. Ran will receive an annual base salary of $75,000, annual bonuses as determined by the compensation committee of the Board of Directors in its sole and absolute discretion and is eligible to participate in all executive benefit plans established and maintained by the Company. Under the agreement, Mr. Ran has also agreed to a one-year non-competition period following the termination of his employment.

On July 19, 1999, the Company entered into an employment agreement with Orna Kirsh, providing for her employment as chief financial officer of the Company through July 19, 2001 at a base salary of $100,000. The agreement with Ms. Kirsh renews automatically for successive one-year periods until either party gives 14 days written notice of its intention to terminate the agreement.

11. SUBSEQUENT EVENTS

On January 26, 2001 Chase Manhattan Bank released the restriction it placed on the $1,000,000 the Company assigned as security for a promissory note payable by the Company's CEO (See Note 2). This cash and accumulating interest is free of any lines and restrictions as of the aforementioned date.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of DAG Media, Inc:

We have audited the accompanying balance sheet of DAG Media, Inc. (a New York corporation) as of December 31, 2000, and the related statements of operations, changes in shareholders' equity and cash flows for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DAG Media, Inc. as of December 31, 2000 and the results of its operations and its cash flows for the years then ended December 31, 2000 and 1999, in conformity with accounting standards generally accepted in the United States.

As discussed in Note 2, the Company changed its method of accounting per revenue recognition.

Arthur Andersen LLP

Arthur Andersen LLP

New York, New York
February 9, 2001

DAG MEDIA Inc.

Main Office: **718-263-8454** • Fax: **718-793-2522**
125-10 Queens Blvd., Suite 14, Kew Gardens, NY 11415

NASDAQ:DAGM