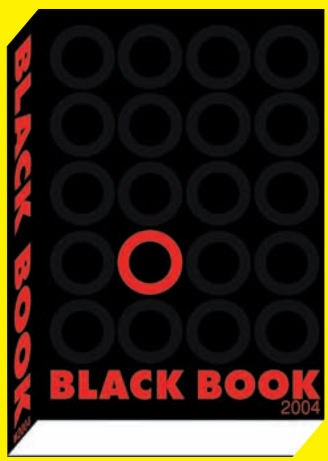
ANNUAL REPORT

December 2003



Address: http://www.dagmedia.com Go

Address: http://www.jewishyellow.com Go

Address: http://www.jewishmasterguide.com Go

Address: http://www.theonlykosherdirectory.com Go

Address: http://www.blackbook.com Go

Address: http://www.blackbookstock.com Go

DAG MEDIA Inc.

Dear shareholders,

Looking back at the year 2003 fills me with satisfaction. Our achievements in 2003 cleared the path to a strong, stable and profitable future. The sale of NEW YELLOW Manhattan, released us from the burden of a cash draining product. It also allowed us, for the first time ever, to distribute a cash dividend, which increased our visibility and boosted investors' confidence. It is our intention to continue to share our earnings with shareholders in the future, by paying more cash dividends whenever earning levels allow.

The Jewish Israeli Yellow Pages along with jewishyellow.com completed another successful year. The 27th edition of the directory was published in August of 2003 with 2048 pages and well over 3000 advertisers. Midyear we launched our first Florida sales office in North Miami and we are experiencing success. We plan on opening more sales offices in Florida in the near future.

Sales reached record levels at The Jewish Master Guide (AKA The Kosher Yellow Pages) and jewishmasterguide.com. This sudden increase in sales is due to the redistribution of the NEW YELLOW sales representatives to reinforce the Master Guide's sales force. I hope that soon The Jewish Master Guide's sales will exceed those of NEW YELLOW. When this happens our margins will increase tremendously.

I'm proud to report that Black Book ended the year 2003 with a profit. We have made significant progress in turning around our fully owned subsidiary Black Book Photography to profitability. The two new products, Blackbook's Complete Industry Directory and the blackbookstock.com web site together with the other reputed BlackBook products are the unquestioned leaders in the creative industry source books market. The turn around required painful downsizing and restructuring programs which were essential for the company's recovery and adjustment to today's industry dynamics and standards.

I'm grateful to my dedicated teams of employees and managements for their hard work and efforts.

Sincerely,

Assaf Ran
CEO & Chairman of the Board

We publish and distribute print and online business directories for domestic niche markets. Our principal source of revenue comes from the sale of ads in these directories. As a sales incentive we also provide our advertisers with added values, such as referral services and a consumer discount club. We also operate Internet portals, *JewishYellow.com* targeting worldwide Jewish communities and *JewishMasterguide.com*, targeting the ultra-orthodox and Hasidic communities.

Our principal directories are: the *Jewish Israeli Yellow Pages,* a bilingual, English and Hebrew, yellow page directory distributed free through local commercial and retail establishments in the New York metropolitan area and Florida and through travel agencies in Israel; the *Master Guide AKA The Kosher Guide,* a yellow page directory designed to meet the special needs of the Hasidic and ultra-Orthodox Jewish communities in the New York metropolitan area; and various *Blackbook* photography and illustration source books that have become the "Industry Standard" reference source for finding photographers, illustrators and graphic designers in North America.

Until August 22, 2003 we also published *New Yellow*, a general circulation classified directory for Manhattan. On that date, we sold this directory to Yellow Book USA for $1.3 million in cash. However, under the terms of sale we printed and distributed the October 2003 directory and we printed and distributed two more directories in October 2003 and in March 2004.

Products and services

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, New Jersey and Florida and 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 in 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 and by other members of the Jewish community whether or not they speak Hebrew. The *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.*

The layout, design, editing and most proofreading for the *Jewish Israeli Yellow Pages* is done domestically. The final version of the directory is then 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 Master Guide (Also known as the *Kosher Yellow Pages*). In October 1998 we published the first edition of the *Master Guide*, a yellow page directory designed to meet the special needs of the Hasidic and ultra-Orthodox Jewish communities in the New York metropolitan area. We produce the *Master Guide* and its similar companion, the *Kosher Guide,* in the same manner as the *Jewish Israeli Yellow Pages*, except that starting with the December 2003 edition, we have printed these *Guides* domestically with a directory printer. The *Master and Kosher Guides* differ from the *Jewish Israeli Yellow Pages* in that they are published in English only, and they do not advertise products or services that might offend the Hasidic and ultra-Orthodox Jewish communities. Generally, advertising rates for these *Guides* are lower than those for the *Jewish Israeli Yellow Pages* because the market served is smaller. Distribution is accomplished by placing copies of the directories in synagogues, community centers and businesses located in Hasidic and ultra-Orthodox neighborhoods. The development of the *Master and Kosher Guides* reflect our strategy of expansion through identifying and pursuing niche markets for yellow page directories. The *Master and Kosher Guides* are also available online at our web site *JewishMasterGuide.com.*

Blackbook Publications. Our wholly owned *Blackbook* subsidiary publishes photography and illustration source books that have become the "Industry Standard" reference source for finding photographers, illustrators and graphic designers in North America. The *Blackbook* name is respected worldwide with an estimated 25,000 art directors, creative directors, designers and corporations worldwide using *Blackbook* to find the talent they need. *Blackbook* publishes three principal source books: *Blackbook Photography, Blackbook Illustration and Blackbook AR100* which serve three distinct advertiser groups: photographers, illustrators and a select group of more than 100 leading corporate annual reports designers. *Blackbooks* publications are supported by its web site, "*Blackbook*.com". To expand the *Blackbook* business, on August 27, 2003, we announced the launch of a new directory, The Complete Industry Directory. A directory designed to meet the needs of professionals who work with every aspect of photo, illustration, design, and creative studio services in the advertising and corporate communities and on October 2003, we announced the launch of a stock photography web site named *"Blackbookstock.com",* which will complement the suite of *Blackbook* publications by allowing web access to a large array of stock photography and illustrators through a direct link with the *Blackbook.com* web site. *Blackbook's* array of products and services are as follows:

Blackbook Photography. The book directory reproduces, in full color, the work of the finest commercial photographers in high-quality prints. The *Blackbook* name is respected worldwide among art directors, creative directors, designers and corporations using *Blackbook Photography* to find the talent they need. Celebrating 35 years of brand recognition, *Blackbook Photography* is the incomparable and original sourcebook for the creative industry.

Blackbook Illustration. The directory reproduces in full color the work of both well-known artists and young talent, and many of the images on display have appeared in high-profile ad campaigns, magazines and newspapers. The annual directory is a source book that has become the reference source for finding commercial illustrators and graphic designers in North America and in West Europe. The *Blackbook Illustration* book is used by ad agencies, design firms, book, magazine and newspaper publishers and corporate communicators who use it when needing an illustrator's touch to introduce audiences to new concepts or new worlds. The 2003-2004 *Blackbook* illustration directory was printed and distributed in October 2003. *Blackbook* Illustration database of qualified art directors, designers, creative directors, editors, producers, directors of corporate communications and owners has been developed in association with ADBASE. The lists are updated 6 times a year and guaranteed to be 98% accurate.

Blackbook AR 100 Award Show. The *Blackbook AR100 Award Show* is the largest and most prestigious competition recognizing excellence in corporate annual reports. A panel of leading designers selects the 100 best reports, which are then reproduced – in full color – in the AR100 Award Show Book. This sourcebook contains design and production credits for each winner, along with an extensive resource section showcasing the work of highly respected designers, photographers, illustrators, paper companies and printers who specialized in reports. The annual directory is a source book aimed directly at corporate America. AR 100 is distributed to leading corporations, design firms and to agencies specializing in annual reports and other corporate collateral. Art directors, designers, corporate communicators and other talent buyers will look for the talent needed to produce their upcoming annuals. AR 100 also features an extensive "Talent & Resources" section. The nineteenth annual edition of The AR100 Award Show was published and distributed in November 2003. AR 100's database, developed in association with ADBASE, is updated 6 times a year and guaranteed to be 98% accurate.

The Complete Industry Directory. On August 27, 2003, we announced the launch of a new directory, *The Complete Industry Directory.* The first edition will be published and distributed by May 2004. The directory will be specifically designed to meet the needs of professionals who work with every aspect of photo, illustration, design and creative studio services in the advertising and corporate communities. The directory's database of qualified art directors, creative directors, editors, producers, publishers, corporate communication professional and others is easy to use and its structure makes it easier to reach targeted buyers. The book will be organized with sections that help users find their resource of choice in seconds. The advertising pages will be high quality, exciting, and represent listing around the country. The Complete Industry Directory's database, developed in association with ADBASE, is updated 6 times a year and guaranteed to be 98% accurate.

www.Blackbook.com. The *Blackbook* website functions as a showcase of the *Blackbook* advertisers' portfolios on line. *Blackbook.com* offers a full service portfolio, which is managed by *Blackbook* sales consultant, as well as self-managed portfolios. The *Blackbook.com* enable the *Blackbook's* advertisers including Artists, Photographers and Illustrators, to exhibit their arts and change them at any time. In addition, the site enables its artist to e-mail vivid full-colored samples of their own work anywhere in the world through the web site Electronic Leave Behind features. Additional web site features provide the artist options to extend and market their art as well as different ways to connect with talent buyers.

www.Blackbookstock.com. In October 2003, we announced the launch of its stock photography web site named *"Blackbookstock.com"*. *Blackbook*stock.com will complement the suite of *Blackbook* publications by allowing web access to its vast array of stock photography and illustrators through a direct link with the *Blackbook*.com web site. The site extensive searching capability will enable creative professionals to find stock images faster and easier, while opening the market to a wider range of Communications Executives. *Blackbook*.com allows users to do keyword searches by type, color, orientation and a number of other criteria.

We purchased the business and assets of the *Blackbook* from Brandera.com [U.S], Inc on August 5, 2002.

We provide the following additional services for our advertisers.

www.dagmedia.com Our web site, launched in 1995, serves 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 specified users. We also develop web sites for our advertisers for a fee. We further enhanced our web site by providing links community-focused yellow page directories, by including 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.

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 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 ordered directly from us. By presenting the card at participating establishments, consumers can receive discounts of up to 10%.

We buy paper for our directories 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.

Growth strategy

We plan to continue to publish and expand our existing niche and ethnic directories and may start new niche and ethnic directories, in other geographic areas. We have enhanced our expansion capability through the retention of sales personnel, sales offices and other assets previously assigned to our *New Yellow* operations. In addition, we plan to expand sales of the *Blackbook*'s existing directories and have launched "The Complete Industry Directory," a new source book to be printed and distributed for the first time in May 2004. Also, we plan to increase the revenues derived from both of *Blackbook*'s web sites, which generate sales on a daily basis, *Blackbook*.com and *Blackbook*stock.com, which was launched in October 2003.

We plan to increase sales of advertisements in our directories through the following:

- convince current and potential advertisers that DAG's directories are and 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 DAG's directories;

- convince current, past and potential advertisers in the *Blackbook* directories that the management of the Company will lead *Blackbook* to a better era while maintaining high end printing standards, world-wide distribution and particularly the directories' reputation as the "Industry Standard" reference source for finding photographers, illustrators and graphic designers in North America as well as extending its verity of products both in print and online.

- manage the production, including advertisement sales, graphic design, layout, editing and proofreading, of multiple directories addressing different markets in varying stages of development;

- attract, retain and motivate qualified personnel;

- provide high quality, easy to use and reliable directories;

- establish further brand identity for our directories;

- develop new and maintain existing relationships with advertisers without diverting revenues from our existing directories;

- develop and upgrade our management, technical, internal controls, information and accounting systems;

- respond to competitive developments promptly;

- introduce enhancements to our existing products and services to address new technologies and standards and evolving customer demands;

- control costs and expenses and manage higher levels of capital expenditures and operating expenses; and

- maintain 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 the growth of the company's directories in 2004, during fiscal year 2003 we hired and trained new sales representatives to promote and sell for all of the Company's directories. By the end of 2003 we dedicated six sales offices for advertisement sales for the *Jewish Israeli Yellow Pages Directory,* four offices dedicated for advertisement sales for the *Master Guide Directory* and two for the *Blackbook's* directories and other products.

In 2003, we opened a new sales office of the *Jewish Israeli Yellow Pages* in Forest Hills NY where its target market is located. In addition, during the year 2003 we opened a new sales office in Miami FL to fulfill the needs of both the advertisers and population. The 27th edition of the Jewish Yellow Pages directory was already distributed in Florida's synagogues as well as in Jewish-Israeli community's centers. After the sale of the New Yellow Manhattan Directory, we converted two of its sales offices to sell ad space to the Company's Master Guide Directory and one sales office to sale to the *Blackbook*'s new directory *"The Complete Industry Directory"*. During 2003, we also produced a special training kit for our new Master Guide sales representatives that are currently being implemented in our sales force training program.

Sales

Advertisements for the directories are sold through our network of trained sales representatives, some of which are sales agencies, paid solely on a commission basis and some of which are directly employed by the Company. There are approximately 110 sales representatives in our network including those employees hired by the respective sales agencies with which we have agency agreements. In 2003, we opened two new sales offices for the *Jewish Israeli Yellow Pages directory* one in Miami Florida and the other in Forest Hills New York. After the completion of the sale of our *New Yellow Manhattan* directory the Company converted two of its sales agencies to sell ad space to the *Master Guide* Directory. We now also use our in-house sales office in Queens NY for the sale of ads for *Master Guide*.

Under our agreements with the sales agencies, the agencies may not sell advertising for any 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, pay 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 whose services we retain directly.

We are responsible for training each sales representative, whether retained 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 representatives 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.

Ad spaces of the *Blackbook*'s directories are sold by the Company's sales representatives, as well as by independent contractors. Sales representatives are paid a minimum monthly salary and variable commissions. The independent contractors are paid solely on a commission basis. There are currently more than 15 sales representatives and independent contractors.

Under the Company's agreement with all of its sales representatives, commissions for all employees and independent contractors are being paid upon collection. According to the Company's commission payments policy any collections made for sale of ad space for the Company's yellow pages directories will be subjected to commission payments with no time limit whereas according to collections made for any other Company's business directories its commissions will be paid only for the three months period after the completion of the directory's distribution, and all further collections will not be subject to any commission payments. Therefore it is the sales representative's responsibility to help contact the clients and collects the outstanding balances within three months after the directory's distribution.

Marketing strategy

We are now focused on continuing our dominant position in of the Jewish and Israeli niche yellow page markets. In the future we plan to expand into other major Jewish populated cities.

The *Jewish Israeli Yellow Pages* and *Master Guide* are marketed to the Jewish and Israeli communities living in the New York metropolitan area, New Jersey, Connecticut and Florida. 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 these areas, 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 our covered areas 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 *Master Guide,* 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 that cannot afford to advertise in the other mainstream Yellow Pages directories.

We have been focusing our efforts on increasing *Blackbook*'s sales volume and expanding its market share. By continually supporting the Company's sales force and expediting a marketing plan through the restructuring of *Blackbook*'s operations, we believe that we will increase the customer support and industry appreciation and will be able to maintain *Blackbook* as the most respected original source books for finding professional photographers, illustrators and graphic designers. As part of our restructuring and marketing plan of the *Blackbook* we recently launched a new *Blackbook*'s directory, "The Complete Industry Directory", as well as a launch of a new web site dedicated to stock sales "*Blackbook*stock.com". We believe that both new products will shortly increase the sales volume of the *Blackbook* and its profitability.

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 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 our markets, the yellow pages advertising market is dominated by Verizon, Bell South, SBC and Yellow book. 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 directories in the area. By focusing on the special needs of the Hebrew speaking, we believe that we have identified niche markets that allow us to compete effectively with our larger rivals.

Even though both the *Jewish Israeli Yellow Pages* and the *Master /Kosher Guide* directories have no direct competition there are virtually no barriers to entry in this market, and any company with a reasonable amount of capital, is a potential competitor. 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 super pages, owned by Verizon. Finally, strategic alliances could give rise to new or stronger competitors. Many of our competitors, can reduce advertising rates, particularly where other revenues can subsidize its directory operations and 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.

The *Blackbook*'s primary competitor is The Workbook, which publishes four directories of designers and illustrators. In addition, *Blackbook* competes directly with other smaller directories as American Showcase, Alternative Pick and New York Gold. The *Blackbook* also faces competition throughout the Internet and competitors' web sites. Since there are relatively no barriers to entry in both the directory and web sites markets we are expecting even more competition in the future. In order to get prepared to the greater competition expected, we are focusing extra attention on our sales team, expediting new marketing plan as well as marketing strategies, strengthening our brand names and working to improve the technology provided by our web sites.

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, 2003 we employed in both companies, DAG Media, Inc. and *Blackbook Photography* Inc. a total of 25 people, all of whom are full-time employees, filling executive, managerial and administrative positions. In addition, we retained the services of 20 additional administrative, accounting and production personnel, all of whom are independent contractors. Finally, we had a network of 110 sales representatives, 7 contracted by us and 103 hired by the sales agencies that sell ads for our directories. We believe that our relationships with our employees and contractors are good. None of our employees is represented by a labor union.

Description of Property

Our executive and principal operating office is located in Queens, New York in 3,000 square feet. This space is occupied under a lease that expires November 31, 2008. The monthly rent is $5,058. Through 2003, we have been maintaining a sales office at 7th Avenue, Manhattan. The space is leased under a lease agreement that expires on May 2004 for $2,150 per month.

Blackbook principal office is located in Manhattan, New York in approximately 2,600 square feet. The monthly rent is $4,180 under a lease agreement that expires December 2004.

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and notes thereto contained elsewhere in this report. This discussion contains forward-looking statements based on current expectations 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 business directories in print and online. We also operate several web sites that complement our directories. The principal source of revenues is derived from the sales of ads in our print and online services. Our yellow pages directories target the niche of the Jewish and Israeli communities living in the New York metropolitan area, New Jersey and Florida. As a sale incentive the Company may also provide added values to the Yellow Pages communities such as referral services and consumer discount club. Our photography and illustration directories target advertising agencies, art directors, designers, design firms and the creative community of advertisers mainly located in the North America and West Europe.

We operate several websites: *JewishYellow.com*, targeting worldwide Jewish communities, *JewishMasterguide.com*, targeting the ultra-orthodox and Hasidic communities, *Blackbook.com* targeting the advertising agencies and advertisers communities and *Blackbookstock.com* which its search capability enable creative professionals to find stock images fast and easily. Our principal source of revenue derives from the sale of ads in our print and online directories as well as production charges, entry fees and reprint fees pertaining to the publication in the *Blackbook*'s 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 ad 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. 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. Administrative and general 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 workers (other than sales representatives).

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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.

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 the accompanying balance sheet and are recognized when the directory to which they relate is published. All other costs are expensed as incurred.

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to operations. The allowances for doubtful accounts is evaluated based on management's periodic review of accounts receivable and is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application.

There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. See our audited consolidated financial statements and notes thereto which begin on page F-4 of this Annual Report on Form 10-KSB, which contain accounting policies and other disclosures required by generally accepted accounting principles.

RESULTS OF OPERATIONS

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

	2003	2002
Advertising revenues	100.0%	100.0%
Publishing costs	23.3%	26.4%
Gross profit	76.7%	73.5%
Selling expenses	36.5%	35.8%
General and administrative expenses	35.6%	46.8%
Total operating costs and expenses	72.0%	82.6%
Other income, net	16.1%	3.7%
Income (loss) before provisions for income taxes and equity income	20.8%	-5.4%
Provision (benefit) for income taxes	-3.2%	-2.4%
Cumulative effect of change in accounting	---	-13.7%
Net Income (loss)	17.6%	-16.7%

Years ended December 31, 2003 and 2002

Advertising revenues

Advertising revenues in 2003 and 2002 were $ 9,086,000 and $ 6,530,000, respectively, representing an increase of $ 2,556,000, or 39.1%. This increase is primarily attributable to: (i) general increase in sales, (ii) publishing three Blackbook's business directories compared to only one in 2002 in which had the effect of recognizing revenues of $2,165,000 compared to $ 364,000 in 2002.

Publishing costs

Publishing costs for 2003 and 2002 were 2,118,000 and $ 1,730,000, respectively, representing an increase of $ 388,000, or 22.4 %. This increase reflects the added $ 839,000 publishing costs of the three published *Blackbook*'s directories offset by decreased printing costs of the Company's Yellow Pages directories mainly due to decrease in the paper and distribution costs of the Company's Yellow Pages directories. As a percentage of advertising revenues, publishing costs were 23.3 % in 2003 compared to 26.4% in 2002. The difference in publishing costs can vary as it corresponds to the particular requirements of the directory being published and on the prevailing paper costs.

Selling expenses

Selling expenses for the years ended December 31, 2003 and 2002 were $ 3,314,000 and $ 2,337,000, respectively, representing an increase of $ 977,000, or 41.8 %. As a percentage of advertising revenues, selling expenses increased to 36.5 % from 35.8 %. The increase in selling expenses was attributable to the general increases in sales commissions and promotions due to the general increase in the Company's sales. In addition, increased selling expenses attributable to the *Blackbook*'s three directories published in 2003 and its related commission payments, compared to the same period in 2002.

General and administrative costs

Administrative and general expenses for 2003 and 2002 were $ 3,234,000 and $ 3,057,000, respectively, representing an increase of $ 177,000, or 5.8%, in 2003. This increase is primarily attributable to an additional full year of general and administration cost related to the *Blackbook* included this year compared to five months only in 2002 offset with a slight decrease in the Company's other administrative costs.

Gain from the sale of the New Yellow directory

On August 22, 2003, we sold the New Yellow directory to Yellow Book USA, Inc. for $1.3 million in cash. Our net profit before provision for income taxes totaled $1,208,000 due to a finder's fee, compensation to sales franchisees and payments to legal advisors.

Other income

For the year ended December 31, 2003 we had other income consist of dividend, interest and realized gains of $259,000 compared to other income of $241,000 for the year ended December 31, 2002.

Income before provision for income taxes and cumulative effect of change in accounting principle

Income before provision for income taxes for the year ended December 31, 2003 was $ 1,887,000 compared to loss of $ 353,000 for the year ended December 31, 2002. This increase of $ 2,240,000 mainly attributable to the $1,208,000 gain from sale of the New Yellow directory as well as a better performances and earnings derives from the Company and it subsidiary income from operation. Additionally, in 2002 we had a one time goodwill write off charge of $895,000.

Provision for income taxes

Provision for income taxes in 2003 were $ 288,000 and benefit of $ 155,000 for the year ended December 31, 2002. The increase in provision for income taxes reflects income increase due to the sale of the New Yellow directory as well as increased net operation income for both the Company and its subsidiary. Effective for the calendar year 2003, we changed from a cash basis to an accrual basis of accounting and began preparing and filing out tax returns according to the accrual basis. We utilized tax asset for the expected future tax consequences between the carrying amounts and the tax basis of assets and liabilities and net operating loss carry forward.

Net income available to common shareholders

Net income was $ 1,599,000 compared to net loss of $ 1,092,000 in 2003 and 2002, respectively. This increase in net income is primarily attributable to the added $ 1,208,000 gain from the sale of the *New Yellow* directory as well as to the cumulative effect of change in accounting principles in fiscal year 2002 totaled $ 895,000. In addition, for the year ended December 31, 2003 both the Company and its subsidiary ended with a net operation income after provision for income taxes, totaled $391,000 (excluding the gain from the sale of *New Yellow* directory included in other income) compared to a net loss of $198,000 before cumulative effect of change in accounting principal and after benefit for income taxes for the year ended December 31, 2002.

Liquidity and 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. As a result of our initial public offering in May 1999, we received proceeds of approximately $6.4 million, which has increased our availability to pay operating expenses. We have no debt to third parties or credit facilities. As of December 31, 2003, we invested approximately $5.6 million (representing 87.9% of the total funds), in introduction of the *New Yellow* directory and the purchase of the *Blackbook* business. The remaining $0.7 million are currently invested in money market, preferred stocks and other marketable securities.

Our lease commitments are as follows:

2004	94,438
2005	62,520
2006	62,677
2007	64,558
2008	60,801
Total	$344,994

In addition, the Company has an employment agreement with Assaf Ran. The agreement calls for annual salary of $ 75,000. Mr. Ran's employment term renews automatically on July 1st of every year for successive one-year periods unless either party gives 180 days written notice of its intention to terminate the agreement. As of March 2003, the compensation committee approved an increase in Mr. Ran's compensation to an annual base salary of $225,000. Ted Rubin, the president of *Blackbook*, is being paid 4% of the cash deposits up to $200,000 a month plus 10% of the cash deposits of any amount above $200,000 a month but in any case not less then an annual salary of $125,000.

At December 31, 2003 we had cash, cash equivalents and marketable securities of $ 8,781,000 and working capital of $ 6,813,000 compared to cash and cash equivalents of $ 7,303,000 and working capital of $ 5,763,000 at December 31, 2002. The increase in cash and cash equivalents is primarily attributable to the $1.3 million cash provided by the sale of the *New Yellow* directory as well as cash provided from our other operating and finance activities. The increase in working capital is primarily reflects the general growth in business activity and better collection rate of our trade account receivable.

Net cash provided by operating activities was $ 601,000 for the year ended December 31, 2003 compared to net cash used in operating activities of $ 235,000 for the year ended December 31, 2002. The increase in net cash provided by operating activities reflects the sale of the *New Yellow* directory as well as increase in corporate sales in 2003 and collections.

Net cash provided by investing activities was $ 327,000 for the year ended December 31, 2003 compared to net cash used in investing activities of $ 3,282,000 for the year ended December 31, 2002. Net cash provided by investing activities in 2003 is primarily the result of our purchase of marketable securities and a change in our investment strategy.

Net cash provided by financing activities was $ 72,000 for the year ended December 31, 2003 compared to net cash provided by financing activities of $21,000 for the year ended December 31, 2002. Net cash provided by financing activities in 2003 reflects proceeds received due to exercise of the company's stock options.

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 sites 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 the four directories of *Blackbook* and to expand our on-line services.

Recent Technical Accounting Pronouncements

Management does not believe that any recently issue, but not yet effected, accounting standards if currently adopted would have a material effect on the Company's consolidated financial statements.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning 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.

DAG MEDIA, INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2003

Assets	
Current Assets:	
Cash and cash equivalents	$ 1,201,819
Marketable securities	6,560,805
Short term investment – insurance annuity contract – at fair value	1,018,536
Total cash and cash equivalents, marketable securities and short terms investments	8,781,160
Trade accounts receivable, net of allowance for doubtful accounts of $567,000	2,330,555
Directories in progress	1,833,903
Other current assets	218,118
Total current assets	13,163,736
Property and equipment, net	286,633
Goodwill	458,131
Trademarks and other intangibles, net	419,274
Other assets	123,412
Total assets	$ 14,451,186
Liabilities & Shareholders' Equity	
Current Liabilities:	
Accounts payable and accrued expenses	$ 734,961
Commissions payable	782,254
Advanced billing for unpublished directories	4,000,483
Dividends payable	744,113
Income taxes payable	89,000
Total current liabilities	6,350,811
Deferred income taxes	76,216
Total liabilities	6,427,027
Commitments and contingencies (Note 8)	
Shareholders' equity:	
Preferred shares - $.01 par value; 5,000,000 shares authorized; no shares issued	----
Common shares - $.001 par value; 25,000,000 authorized; 3,045,190 issued and 2,976,460 outstanding	3,045
Additional paid-in capital	8,054,827
Treasury stock, at cost- 68,730 shares	(231,113)
Deferred compensation	(81,000)
Accumulated other comprehensive income	102,185
Retained earnings	176,215
Total shareholders' equity	8,024,159
Total liabilities and shareholders' equity	$ 14,451,186

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

DAG MEDIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2002	2001
Advertising revenues	$ 9,085,670	$ 6,529,605
Publishing costs	2,117,907	1,729,993
Gross profit	6,967,763	4,799,612
Operating costs and expenses:		
Selling expenses	3,313,867	2,336,710
General and administrative expenses	3,233,817	3,056,713
Total operating costs and expenses	6,547,684	5,393,423
Income (loss) from operations	420,079	(593,811)
Interest income	233,099	246,540
Gain from the sale of the New Yellow directory	1,207,997	---
Realized gain (loss) on marketable securities	26,043	(5,854)
Total other income, net	1,467,139	240,686
Income (loss) before income taxes	1,887,218	(353,125)
Provision (benefit) for income taxes	288,254	(155,131)
Income (loss) before cumulative effect of change in accounting principle	1,598,964	(197,994)
Cumulative effect of change in accounting principle	---	(895,000)
Net income (loss)	$ 1,598,964	$ (1,092,994)
Income (loss) per common share:		
Basic -		
Income (loss) before cumulative effect of change in accounting principle	$ 0.55	$ (0.07)
Cumulative effect of change in accounting principle	---	(0.30)
Net income (loss)	$ 0.55	$ (0.37)
Diluted-		
Income (loss) before cumulative effect of change in accounting principle	$ 0.53	$ (0.07)
Cumulative effect of change in accounting principle	---	$ (0.30)
Net income (loss)	$0.53	$ (0.37)
Weighted average number of common shares outstanding		
- Basic	2,933,164	2,917,973
- Diluted	3,037,155	2,917,973

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

DAG MEDIA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHARHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Common Stocks		Additional Paid-in	Treasury Shares		Deferred Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Totals
	Shares	Amount	Capital	Shares	Cost				
Balance December 31, 2001	2,976,190	$2,976	$7,896,953	68,730	$(231,113)	$(49,678)	$15,361	$414,358	$8, 048,857
Stock option exercise	20,000	20	21,180						21,200
Issuance of options to consultants			152,843			(152,843)			---
Amortization of deferred compensation						18,606			18,606
Cancellation of options issued to consultants			(58,029)			58,029			---
Unrealized gains on preferred stocks and other marketable securities, net of taxes							7,057		7,057
Net loss for the year ended December 31, 2002								(1,092,994)	(1,092,994)
Balance, December 31, 2002	2,996,190	$2,996	$8,012,947	68,730	$(231,113)	$(125,886)	$22,418	$(678,636)	$7,002,726
Stock Option exercise	49,000	49	71,531						71,580
Amortization of deferred compensation						15,235			15,235
Cancellation of options issued to consultants			(29,651)			29,651			---
Unrealized gains on preferred stocks and other marketable securities, net of income taxes							79,767		79,767
Dividend declared to be paid at 1/5/2004 ($0.25 per share)								(744,113)	(744,113)
Net income for the year ended December 31, 2003								1,598,964	1,598,964
Balance, December 31, 2003	3,045,190	$3,045	$8,054,827	68,730	$(231,113)	$(81,000)	$102,185	$176,215	$8,024,159

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

DAG MEDIA, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash flows from operating activities:		
Net income (loss)	$ 1,598,964	$(1,092,994)
Adjustment to reconcile net income (loss) to net cash provided by operating activities -		
Gain on sale of New Yellow directory	(1,207,997)	---
Cumulative effect of change in accounting principle	---	895,000
Depreciation and amortization	159,028	114,493
Amortization of deferred compensation	15,236	18,606
Bad debt expense	883,740	1,232,738
Deferred taxes	515,320	(248,132)
Realized (gain) loss on marketable securities	---	5,854
Changes in operating assets and liabilities -		
Accounts receivable	(548,198)	(1,176,338)
Directories in progress	276,924	(608,867)
Other current and non current assets	(86,783)	28,270
Accounts payable and accrued expenses	(17,244)	(301,406)
Accrued Interest Income	---	(8,782)
Commissions payable	(25,798)	163,092
Advanced billings for unpublished directories	(781,069)	1,231,611
Income taxes payable	(181,549)	4,198
Advances to employees	---	(22,876)
Net cash provided by operating activities	600,574	234,467
Cash flows from investing activities:		
Investment in Dune Medical Devices	(100,000)	(70,537)
Investment in preferred stocks, other marketable securities and annuity contract	(8,573,154)	(6,796,164)
Cash received on sale of New Yellow directory, net of expenses	1,207,997	---
Proceeds from sale of preferred stocks and marketable securities	7,901,498	3,681,343
Sale of property and equipment	46,200	---
Purchase of property and equipment	(155,296)	(97,068)
Net cash provided by (used in) investing activities	327,245	(3,282,426)
Cash flows from financing activities:		
Stock option exercise	71,580	21,200
Net cash provided by financing activities	71,580	21,200
Net increase (decrease) in cash and cash equivalents	999,399	(3,026,759)
Cash and cash equivalents, beginning of year	202,420	3,229,179
Cash and cash equivalents, end of year	$ 1,201,819	$202,420
Supplemental Cash Flow Information:		
Taxes paid during the year	$ 21,936	$88,801
Dividends declared but not paid	$744,113	---
Acquisition of subsidiary company:		
Assets acquired		$ 652,278
Liabilities assumed		$ (991,967)
Goodwill and other intangibles		$ 633,132
		$ 293,443
Less - cash acquired		$ (211,406)
Less – accrued acquisition costs		$ (11,500)
Net cash paid		$ 70,537

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

1. THE COMPANY

Dag Media, Inc. ("the Company") publishes and distributes business directories in print and online, as well as in targeted niche markets nation wide. The principal source of revenue is derived from the sale of ads in our print and online directories. As a sales incentive the Company may also provide added values such as referral services and a consumer discount club.

The Company operates Internet portals, *JewishYellow.com* targeting worldwide Jewish communities and *JewishMasterguide.com*, targeting the ultra-orthodox and Hasidic communities and a mainstream general portal *NewYellow.com*, targeting the general population.

New Yellow, Dag Media's Manhattan directory was sold on August 22nd, 2003 to Yellow Book USA for $1.3 Million in cash. Under the agreement, Dag media published and distributed the October 2003 edition and will publish and distribute the April 2004 edition of the directory.

On August 5th, 2002 the Company purchased the business and assets of the Blackbook from Brandera.com [U.S], Inc. and operated the business through Blackbook Photography Inc., a wholly owned subsidiary of Dag media. The Blackbook is a publisher of photography and illustration source books. The assets included The Blackbook source books which consist of 3 different books: Blackbook Photography, Blackbook Illustration and AR 100 Award Show Book that encompass 3 distinct advertiser groups: photographers, illustrators and select group of more then 100 leading corporate annual reports designers as well as the Blackbook's website, the Blackbook.com. On August 27th, 2003, Blackbook Photography Inc. announced the launch of a new directory, The Complete Industry Directory. The 2004 edition will be specifically designed to meet the needs of professionals that work with every aspect of photo, illustration, design, and creative studio services in the advertising and corporate communities.

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 affect 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.

Marketable Securities

Marketable securities are reported at fair value and are classified as available-for-sale. Unrealized gains and losses from those securities are reported as a separate component of shareholders' equity. Net of the related tax effect, realized gains and losses are determined on a specific identification basis.

The Company's securities consist of the following:

As of 12/31/2003	Fair Value	Cost	Holding Gains
Preferred Stocks	911,019	882,254	28,765
Insurance annuity contract	1,018,536	1,000,000	18,536
Marketable Securities	5,649,786	5,526,779	123,008
Total	7,579,341	7,409,033	170,309
As of 12/31/2002	Fair Value	Cost	Holding Gains
Preferred Stocks	366,875	363,030	3,845
Marketable Securities	6,461,044	6,437,485	23,559
Total	6,827,919	6,800,515	27,404

Directories in Progress/Advanced Billings for Unpublished Directories

Directories in progress mainly include direct production costs and commissions 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.

Property and equipment

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful economic lives of the assets, ranging from three to five years.

Goodwill, trademarks and other intangibles

Under the provision of SFAS 142 the Company's Goodwill is no longer amortized. Other intangibles include trademarks, artist and customers lists which are amortized over their estimated useful live which ranges between 1.5-25 years.

The following summarize the carrying amounts of acquired intangible assets, Goodwill and related amortization:

	As of December 31, 2003	
	Gross Carrying Amounts	Accumulated Amortization
Amortized intangible assets:		
Trademarks	$ 350,981	$ 64,934
Artists List	170,000	37,051
Other	5,000	4,722
Total	$ 525,981	$ 106,707
Unamortized intangible assets:		
Goodwill	458,131	---
Total Goodwill and Trademarks	$ 984,112	$ 106,707

Amortization expenses for years ended December 31, 2003 and 2002 were $ 43,527 and $ 26,325, respectively.

Estimated amortization expenses:

For year ended 12/31/2004 - $40,471
For year ended 12/31/2005 - $40,471
For year ended 12/31/2006 - $40,471
For year ended 12/31/2007 - $40,471
For year ended 12/31/2008 - $40,471

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 the accompanying balance sheet and are recognized when the directory to which they relate is published. All other costs are expensed as incurred.

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. The allowances for doubtful accounts is evaluated based on management's periodic review of accounts and notes receivable and is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Earnings Per Share ("EPS")

Basic and diluted earnings per share are calculated in accordance with 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 includes 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 earnings per share:

	Years Ended December 31,	
	2003	**2002**
Basic	2,933,164	2,917,973
Incremental shares for assumed exercise of options	103,991	---
Diluted	3,037,155	2,917,973

174,440 and 387,440 stock options and 132,500 warrants were not included in the diluted earnings per share calculation for the 2003 and 2002 fiscal years, respectively, as their effect would have been anti-dilutive.

Long-Lived Assets and Impairment of Long-Lived Assets

The Company's long-lived assets include property and equipment, goodwill, trademarks, artists list and other intangibles.

As of January 1, 2002 the Company has adopted SFAS No. 142 "Goodwill and Other Intangible Assets". Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). Pursuant to the adoption, as discussed below, the Company has evaluated its goodwill and other intangibles to identify additional separately identifiable intangibles.

In connection with a reorganization at the consummation of the Company's initial public offering ("IPO") in 1999, the Company acquired the 50% interest of an affiliate, which resulted in the recognition of $1 Million in goodwill and $351,000 in trademarks based on the IPO price. This goodwill was being amortized over 25 years. As a result of the transition impairment test required by SFAS 142, due to the decline in the market value of the Company's share, and considering that this is considered entity level goodwill the Company determined that, as of January 1, 2002 the goodwill has been fully impaired. Accordingly the goodwill has been written off as a cumulative effect of an accounting change in the accompanying Consolidated Financial Statements. The Company is continuing to amortize its trademarks over 25 years estimated life as it believes that they do not have unlimited future life.

As of January 1, 2002, the Company adopted SFAS No. 144, " Accounting for the Impairment or Disposal of Long-lived Assets" which supersedes SFAS No.121 "Accounting for the Impairment of Long-lived Assets to be Disposed Of." SFAS No. 144 requires that identifiable intangible assets that are not deemed to have indefinite lives will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may be impaired. Furthermore, these assets are evaluated for continuing value and proper useful lives by comparison to undiscounted expected future cash flow projections. The Company has determined that no impairment exists as of December 31, 2003. The adoption of SFAS No. 144 had no effect on the Company.

Stock-Based Compensation

At December 31, 2003, the Company has a stock based compensation plan, which is described more fully in Note 6. As permitted by the SFAS No. 123, "Accounting for Stock Based Compensation", the Company accounts for stock-based compensation arrangements with employees in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees". Compensation expense for stock options issued to employees is based on the difference on the date of grant, between the fair value of the Company's stock and the exercise price of the option. No stock based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock at the date of grant. The Company accounts for equity instruments issued to non employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, or in Conjunction With Selling Goods Or Services". All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based compensation:

	Year Ended December 31,	
	2003	2002
Net earnings (loss), as reported	$ 1,598,964	$ (1,092,994)
Less:		
Total stock based employee compensation expenses determined under fair value based method for all awards	(71,231)	(54,801)
Net earnings (loss), pro forma	$ 1,527,733	$ (1,147,795)
Basic earnings (loss) per share, as reported	$ 0.55	$ (0.37)
Diluted earnings (loss) per share, as reported	$ 0.53	$ (0.37)
Basic earnings (loss) per share, pro forma	$ 0.53	$ (0.39)
Diluted earnings (loss) per share, pro forma	$0.50	$ (0.39)

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 2003 and 2002, respectively: (1) expected life of 5 years; (2) no dividend yield; (3) expected volatility 70%; (4) risk free interest rate of 5% and 6%.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. The Company maintains cash and cash equivalents with various major financial institutions, which invest primarily in marketable securities and high quality corporate obligations. The Company believes that concentration of credit risk with respect to trade accounts receivable are limited due to the large number of customers comprising the Company's customer base. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential losses.

Fair Value of Financial Instruments

For cash and cash equivalents, accounts receivable and account payable the carrying amount approximates fair value due to the short-term nature of such investments.

Other Comprehensive Income

Other comprehensive income (loss) consists of unrealized gains on marketable securities net of the related tax effect. The Company's comprehensive net income is $ 1,678,731 and net loss of $1,085,937 for the years ended December 31, 2003 and 2002.

Recent Accounting Pronouncements

Management does not believe that any recently issued, but not yet effected, accounting standards if currently adopted would have a material effect on the Company's consolidated financial statements.

3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following at December 31, 2003:

Office equipment	$ 313,516
Automobiles	131,118
Leasehold improvements	54,912
Total property and equipment	499,546
Less: accumulated depreciation	(212,913)
Property and equipment, net	$286,633

Depreciation expense was approximately $115,500 and $88,000 for the years ended December 31, 2003 and 2002, respectively.

4. INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	Year Ended December 31,	
	2003	2002
Current Taxes:	$(175,976)	$ 56,730
Federal	(51,090)	36,270
State	(227,066)	93,000
Deferred Taxes:	399,373	(151,359)
Federal	115,947	(96,772)
State	515,320	(248,131)
Provision (benefit) for income taxes	$ 288,254	$ (155,131)

Deferred income taxes are comprised of the following at December 31, 2003:

Unrealized gains on marketable securities	$68,124
Intangible assets	$8,092
	$76,216

The provision (benefit) for income taxes on earnings differs from the amount computed using the federal statutory rate of 34% as a result of the following:

	Year Ended December 31,	
	2003	2002
Federal Statutory Rate	34%	(34%)
State income taxes, net of U.S. federal income tax benefit	(6%)	(12%)
Utilization of net operating loss	(11%)	---
Other	(2%)	2%
Provision (benefit) for income taxes	15%	(44%)

The Company, effective for the calendar year 2003, changed from a cash basis to an accrual basis of accounting and began preparing and filing its tax return according to the accrual basis.

5. 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 $8,000), with the Company matching on a dollar-for-dollar basis up to 3% of the employees' compensation (with a cap of $8,000). 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 2003 and 2002 the Company contributed $8,000 and $7,000 respectively, as a matching contribution to the IRA Plan.

6. 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 shareholders meeting held on July 18, 2000, an amendment to the Company's Stock Option Plan to increase the maximum number of options issuable thereunder by 145,000 options was proposed and passed as of December 31, 2000 and at both Company's annual shareholder meeting held on June 22, 2001 and July 10, 2002, an additional 145,000 and 140,000 options were approved, respectively. An additional 122,000 options were granted under individual option grant outside of the Plan. At December 31, 2003 and 2002, 85,560 and 166,560 options were available for future grants under the plan, respectively.

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 is granted 7,000 options upon first taking office, and then upon each additional year in 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 to employees during 2003 and 2002 have been granted at the fair market value of the Company's common stock. Options granted to consultants are accounted for under SFAS No. 123 and EITF No. 96-18 and are measured using Black-Scholes option pricing model. Accordingly, a deferred compensation cost of approximately $153,000 was recorded in 2002 whereas none were recorded in 2003. Such costs will be amortized over the option vesting period (generally five years). Compensation costs of $15,236 and $18,606 were charged to operations in 2003 and in 2002, respectively.

The weighted average fair value of options granted during the year ended December 31, 2003 and 2002 was $ 1.10 and $ 0.70, respectively.

The following summarizes stock option activity for 2003 and 2002:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2001	292,440	$2.53
Granted	195,000	$1.35
Exercised	(20,000)	$1.06
Forfeited	(80,000)	$3.53
Outstanding at December 31, 2002	387,440	$1.81
Granted	155,000	$2.46
Exercised	(49,000)	$1.46
Forfeited	(25,000)	$1.66
Outstanding at December 31, 2003	468,440	$2.67

As of December 31, 2003 and 2002 there were exercisable options amounting to 302,587 and 202,587 respectively, with a weighted average exercise price of $2.12 and $2.04, respectively. As of December 31, 2003 and 2002 the weighted average remaining contractual life of options outstanding are 3.17 and 3.64, respectively.

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 exercisable over a four-year period beginning on the first anniversary of the offering through 2003. As of December 31, 2003 all of the warrants are outstanding.

7. SHAREHOLDERS' EQUITY

In August 1999, the Board of 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 years. As of December 31, 2000, 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. In September 20, 2001 the Board of the Directors of the Company authorized a stock repurchase program that allows the Company additional purchase up to 200,000 common shares of the Company, out of the available funds of the Company, in the open market within the ensuing year. 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 years 2003 and 2002.

8. COMMITMENTS AND CONTINGENCIES

Operating leases-

The Company has various lease and rental commitments ending 2008 for its offices, automobiles and equipment. At December 31, 2003, approximate future minimum rental payments under these commitments are as follows:

2004	94,438
2005	62,520
2006	62,677
2007	64,558
2008	60,801
Total	$344,994

Rent expense was approximately $148,000 and $134,500 in 2003 and 2002, respectively.

Employment Agreements-

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 renews automatically for successive one-year periods unless 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. As of March 2003 the compensation committee approved an increase in Mr. Ran's compensation to an annual base salary of $225,000. Mr. Ran's annual compensation was $202,500 and $125,000 during fiscal years 2003 and 2002.

Contingencies-

From time to time, the Company is a party to litigation arising in the normal course of its business operations. In the opinion of management and counsel, it is not anticipated that the settlement or resolution of any such matters will have a material adverse impact on the Company's financial position, liquidity or results of operations.

9. RELATED PARTIES TRANSACTIONS

During 2003 and 2002, the Company has paid $71,000 each year in legal fees to Morse, Zelnick Rose & Lander LLP for legal advice and representation. Stephen A. Zelnick, a director of the Company, is a partner of Morse, Zelnick, Rose & Lander LLP.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and shareholders
Dag Media, Inc.

We have audited the accompanying consolidated balance sheet of Dag Media, Inc and subsidiary as of December 31, 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dag Media, Inc. as of December 31, 2003 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Goldstein Golub Kessler LLP

New York, New York
January 23, 2004

Goldstein Golub Kessler, LLP

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of DAG Media, Inc.:

We have audited the accompanying consolidated balance sheet (not presented herein) of DAG Media, Inc. and subsidiary as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of DAG Media, Inc. and subsidiary as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") on January 1, 2002.

Grant Thornton LLP

Grant Thornton, LLP

New York, New York
February 28, 2003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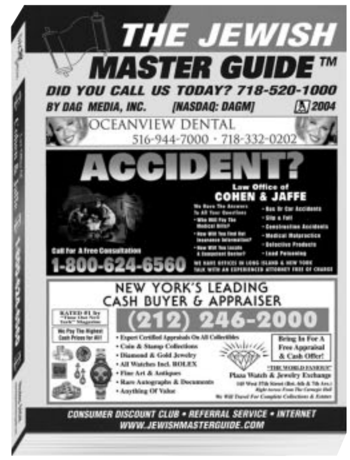
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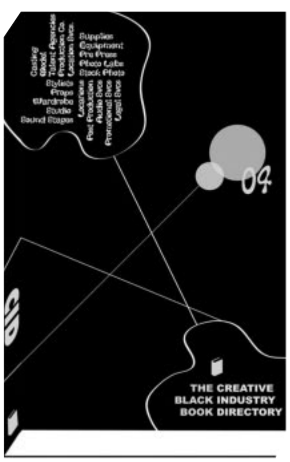
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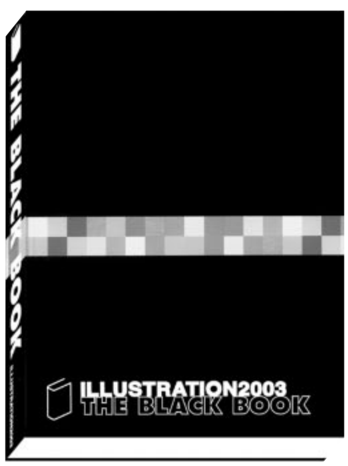
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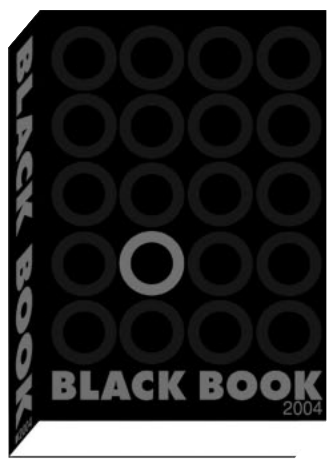
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