ANNUAL REPORT

December 2001

DAG MEDIA Inc.

Dear Shareholders:

2001 was a tough year. It started with a sharp decline in the Stock Market. The decline in asset valuation caused a decrease in cash positions - percipitating a recession. In this climate, advertising budgets of New York and New Jersey companies were severly scaled down.

Then came the tragedy of September 11, which made it impossible to operate an advertising business in Manhattan and its surrounding area. I know that many investors wondered if DAG Media would be able to survive this critical period. My answer to them was a loud and clear “Yes.”

DAG Media with its strong and experienced management as well as its very dedicated and professional employees is capable of overcoming any challenge and fulfilling any mission. We have managed to get through this recession and become a much stronger and healthier organization. We have kept our impressive tradition of never being late in publishing a directory and, shortly after the end of 2001, managed to get back to a positive cash flow as reported in the financial results of the first quarter of 2002.

Despite the recent downturn, I am confident that we will get back to our tradition of growth and that the decline in revenue in 2001 was only temporary. I consider this a delay in our growth plan. I am positive that we are on the right track to become the market leader in Manhattan’s yellow pages.

Our ethnic directories are also gaining sales. Therefore, I am very optimistic with regards to the future of DAG Media particularly as the United States’ economy improves.

On behalf of DAG Media’s management and employees, I offer condolences to the families and friends of the victims of the September 11th terror attacks.

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 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 communities. Our principal source of revenue derives from the sale of ads in our print and on-line directories.

Industry background

In 2001, yellow page advertising revenues in the United States were estimated by the Yellow Pages Publishers Association ("YPPA") to be \$13.6 billion up from \$13.2 billion in 2000 of which approximately 90% was estimated to be in publications issued by the major telephone companies. This represents a growth of approximately 2.8 percent over the previous year. The data is based on the aggregate results provided to the institute by Yellow Pages publishers in the United States. It includes local and national spending in the more than 6,000 Yellow Pages directories published domestically.

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. *NewYellow* is published semi-annually and distributed door-to-door in New York City. The first printed edition of *NewYellow* was distributed in March 2000 and the fifth edition was printed and distributed in April 2002. 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 approximately 70% less than the Verizon rates and we provide three added value 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 *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, edit 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 Master Guide. 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* generally in the same manner as we do the *Jewish Israeli Yellow Pages*, including printing it in Israel. The *Master Guide* differs from the *Jewish Israeli Yellow Pages* in that the *Master Guide* 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 *Master Guide* are lower than those for the *Jewish Israeli Yellow Pages* because the market that it serves is smaller. Distribution of the *Master Guide* 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 *Master Guide* reflects our strategy to expand by identifying and pursuing niche markets for yellow page directories. The *Master Guide* 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 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 specified 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. The third and fourth editions were printed and distributed during 2001. After the successful establishment 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 consolidate 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* is 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 *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;
- 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;
- acquiring a company with high level of synergy.

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 *NewYellow* in 2002, during fiscal year 2001 we hired and trained many new sales representatives to promote and sell *NewYellow.* In 2001 we produced a special training video for our sales representatives that is currently being implemented in our sales force training program.

We may also explore opportunities for publishing and introducing the *Jewish Israeli Yellow Pages* and *Master Guide* 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, E.G.Y., Inc., Tel Aviv New York Media Inc., J.Y.I. Inc. and M.I.Y. Inc. The sales representatives operated by us work out of our offices in Queens, Manhattan and Long Island City in New York and Fairlawn in New Jersey. E.G.Y. is located in Brooklyn, New York; Tel Aviv New York Media is located in Long Island, New York; J.Y.I. is located in Long Island City, New York and M.I.Y. is located in Manhattan, New York. In 2001, we opened a new office in Manhattan, New York, dedicated to the *NewYellow* directory.

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, 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 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.

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 that 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 yellow page advertising market 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, 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 claim 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, 2001, we employed 8 people, all of whom are full-time employees, filling executive, managerial or administrative positions. 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 101 sales representatives, 30 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 is 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 communities. 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 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. 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.

	2001	2000
Advertising revenues	100.0%	100.0%
Publishing costs	26.9%	22.8%
Gross profit	73.1%	77.2%
Selling expenses	35.0%	33.8%
Administrative and general expenses	49.0%	47.4%
Total operating costs and expenses	84.0%	81.2%
	7.2%	6.8%
Earnings before provisions for income taxes and equity income	-3.6%	2.8%
(Benefit) provision for income taxes	-1.5%	1.4%
Cumulative effect of change in accounting	-	-8.2%
Net loss	-2.1%	-6.8%

YEARS-ENDED DECEMBER 31, 2001 AND 2000

ADVERTISING REVENUES

Advertising revenues in 2001 and 2000 were $5,586,000 and $6,237,000, respectively, representing a decrease of $651,000, or 10.4% in 2001. This decrease was primarily attributable to the general slowdown in business activity and particularly to the decrease in sales of the October edition of our *NewYellow* directory subsequent to the September 11th event. In addition, the decrease also reflects that only five directories were published in 2001 whereas six directories were published in 2000. The second edition of the Jewish Master Guide, which was scheduled to be published at December 2001, was rescheduled to be published in the middle of 2002.

PUBLISHING COSTS

Publishing costs for 2001 and 2000 were $1,502,000 and $1,422,000, respectively, representing an increase of $80,000, or 5.6%, in 2001. As a percentage of advertising revenues, publishing costs were 26.9% in 2001 compared to 22.8% in 2000. The increase in publication costs primarily reflects the retention of a more expensive distributor to obtain broader distribution of *NewYellow*, as well as minor increases in the overall publication costs.

SELLING EXPENSES

Selling expenses for the year ended December 31, 2001 and 2000 were $1,953,000 and $2,109,000, respectively, representing a decrease of $156,000, or 7.4%, in 2001. As a percentage of advertising revenues, selling expenses increased to 35.0% from 33.8%. The decrease in selling expenses is primarily a result of the decrease in sales. The increase in selling expenses as a percentage of revenues results from the fact that more sales were through sales agencies compared to sales from the in-house offices. The Company pays a higher commision rate to its sales agencies than to the in-house offices.

ADMINISTRATIVE AND GENERAL COSTS

Administrative and general expenses for 2001 and 2000 were $2,737,000 and $2,958,000, respectively, representing a decrease of $221,000, or 7.4%, in 2001. This decrease is primarily attributable to (1) decreased write-offs of uncollectible accounts due to decreasing sales and a more stringent Company policy with respect to collecting debtor's balances and (2) a decrease in investors' relations expenses.

OTHER INCOME, NET

For the year ended December 31, 2001 we had other income of $405,000 and $425,000, respectively. This decrease of $20,000 was primarily attributable to a decrease in intererst and dividend income due to a decrease in the interest rate offset by a realized gain on preferred stocks and other marketable securities.

EARNINGS BEFORE PROVISION FOR INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Losses before provision for income taxes for the year ended December 31, 2001 was $(201,000) compared to earnings of $173,000 for the year ended December 31, 2000. The decrease of $374,000 was primarily attributable to the decrease in advertising revenues partially offset by the decrease of selling expenses, administrative and general expenses.

(BENEFIT) PROVISION FOR INCOME TAXES

(Benefit) provision for income taxes in 2001 and 2000 was $(84,000) and $88,000, respectively. The decrease in provision for income taxes reflects the decrease in earnings. The change from provision to benefit is due to the fact that during 2000 the Company operated in a gain position before the cumulative effect of a change in accounting principal while in 2001 the Company operated in a loss position and could utilize tax benefits.

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 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 last year, effective from January 1, 2000.

NET LOSS AVAILABLE TO COMMON SHAREHOLDERS

Net loss was $(117,000) compared to $(425,000) in 2001 and 2000, respectively. This decrease in net loss is primarily attributable to the cumulative effect of change in accounting principle in fiscal year 2000, the decrease in bad debt expenses in fiscal year 2001 associated with a more stringent policy with respect to collecting debtors' balances as well as a decrease in selling, administrative and general expenses.

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 $6.7 million, which also increased our availability to pay operating expenses. We have no debt to third parties or credit facilities. As of December 31, 2001 the funds from the initial public offering are being invested as follows: $3,098,000 (representing 46.0% of the total funds) in money market and $3,634,000 (representing 54.0% of the total funds) in preferred stocks.

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. This agreement calls for an annual salary of $125,000. 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.

At December 31, 2001 we had cash and cash equivalents, preferred stocks and other marketable securities of $6,941,000 and working capital of $6,562,000 compared to cash and cash equivalents of $7,149,000 and working capital of $6,633,000 at December 31, 2000. The decrease is primarily attributable to the use of cash in operating and investing activity.

Net cash used in operating activities was $232,000 for the year ended December 31, 2001 compared to net cash provided by operating activities of $66,000 for the year ended December 31, 2000. The decrease in net cash provided by operating activities is due to a decrease in corporate earnings in 2001.

Net cash used in investing activities was $3,687,000 for the year ended December 31, 2001 compared to net cash used in investing activities of $118,000 for the year ended December 31, 2000. Net cash used in investing activities in 2001 is primarily the result of the company's investment in preferred stocks and other marketable securities.

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 (loss) income	$(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)
Net (loss) income	$ (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 (loss) income	$ (0.05)	$ (0.09)	$ 0.04

RECENT TECHNICAL PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 will be effective for financial statements of fiscal years beginning after December 15, 2001. DAG Media expects the adoption of SFAS No. 144 will not have a material impact on the Company's financial position, results of operations or cash flows.

In June 2001, the FASB issued SFAS No. 141 and 142 entitled, "Business Combination" and "Goodwill and Other Intangible Assets," respectively, SFAS No. 141 among other things, eliminates the pooling of interest method of accounting for business acquisitions entered into after June 30, 2001. SFAS No. 142 requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill. SFAS No. 142 is effective beginning January 1, 2002. The Company is in the process of evaluating the effect these changes in accounting principles will have on the Company's financial position, results of operations and cash flows.

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.

DAG Media, Inc.
Balance Sheet
Year Ended December 31, 2001

Assets	
Current Assets:	
Cash and cash equivalents	$3,229,179
Preferred stocks and other marketable securities	3,711,892
Total cash and cash equivalents, preferred stocks and other marketable securities	6,941,071
Trade accounts receivable, net of allowance for doubtful accounts of $632,633	2,328,917
Directories in progress	1,501,961
Deferred tax asset	190,972
Other current assets	109,754
Total current assets	11,072,675
Fixed assets, net of accumulated depreciation $124,041	258,987
Goodwill & trademarks, net of accumulated amortization of $141,855	1,209,126
Other assets	19,462
Total assets	$12,560,250
Liabilities & Shareholders' Equity	
Current Liabilities:	
Accounts payable & accrued expenses	$100,105
Commissions payable	595,000
Advanced billing for unpublished directories	3,549,940
Income tax payable	266,348
Total current liabilities	4,511,393
Commitments & 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; 2,976,190 issued and 2,907,460 outstanding	2,976
Additional paid-in capital	7,896,953
Treasury stock, at cost- 68,730 shares	(231,113)
Deferred compensation	(49,678)
Unrealized gains on preferred stocks and other marketable securities, net of taxes	15,361
Retained earnings	414,358
Total shareholders' equity	8,048,857
Total liabilities & shareholders' equity	$12,560,250

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

DAG Media, Inc.
Statements of Operations
Years Ended December 31

	2001	2000
Advertising revenues	$ 5,585,640	$ 6,237,173
Publishing costs	1,501,574	1,421,994
Gross profit	4,084,066	4,815,179
Operating costs and expenses:		
Selling expenses	1,952,939	2,109,136
General and administrative expenses	2,736,847	2,957,637
Total operating costs and expenses:	4,689,786	5,066,773
Loss from operations	(605,720)	(251,594)
Interest income	313,223	425,021
Realized gain on preferred stocks and other marketable securities	91,667	--
Other income	404,890	425,021
(Loss) income before provision for income taxes	(200,830)	173,427
Benefit (provision) for income taxes	83,752	(87,667)
(Loss) income before cumulative effect of change in accounting principle	(117,078)	85,760
Cumulative effect of change in accounting principle, net of tax benefit of $ 435,356	--	(511,071)
Net loss	$ (117,078)	$ (425,311)
Earnings per common share:		
Basic -		
(Loss) income before cumulative effect of change in accounting principle	$ (0.04)	$ 0.03
Cumulative effect of change in accounting principle	--	(0.18)
Net loss	$ (0.04)	$ (0.15)
Diluted -		
(Loss) income before cumulative effect of change in accounting principle	(0.04)	$ 0.03
Cumulative effect of change in accounting principle	--	(0.18)
Net loss	$ (0.04)	$ (0.15)
Weighted average number of common shares outstanding		
- Basic	2,907,460	2,907,460
- Diluted	2,907,460	2,915,430

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

DAG Media, Inc
Statements of Changes in Shareholders' Equity
Years Ended December 31, 2001 and 2000

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Cost	Deferred Compensation	Unrealized Gain	Retained Earnings	Total
Balance, December 31, 1999	2,976,190	$2,976	$7,799,789	$68,730	$(231,113)	$ -	$ -	$956,747	$8,528,399
Issuance of stock option	-	-	116,912	-	-	(116,912)	-	-	-
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)	-	$531,436	$8,142,939
Issuance of options to consultants	-	-	19,302	-	-	(19,302)	-	-	-
Amortization of deferred compensation	-	-	-	-	-	7,635	-	-	7,635
Cancellation of options issued to consultants	-	-	(39,050)	-	-	39,050	-	-	-
Unrealized gains on preferred stocks and other marketable securities, net of taxes	-	-	-	-	-	-	15,361	-	15,361
Net loss for the year ended December 31, 2001	-	-	-	-	-	-	-	(117,078)	(117,078)
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

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

DAG Media, Inc.
Statement of Cash Flows
Years Ended December 31

	2001	2000
Cash flows from operating activities:		
Net loss	$(117,078)	$(425,311)
Adjustment to reconcile net loss to net cash (used in) provided by operating activities -		
Cumulative effect of change in accounting principle	--	511,071
Depreciation and amortization	110,452	93,445
Amortization of deferred compensation	7,635	39,851
Bad debt expense	1,134,827	1,311,924
Deferred taxes	(14,155)	(303,058)
Realized gains on preferred stocks and other marketable securities	(91,667)	--
Changes in operating assets and liabilities -		
Accounts receivable	(1,164,477)	(1,145,635)
Directories in progress	(32,778)	(13,319)
Other current and non-current assets	(7,164)	60,205
Accounts payable and accrued expenses	24,354	45,797
Commissions payable	41,884	(34,497)
Advanced billings for unpublished directories	4,729	(451,856)
Income taxes payable	(69,597)	377,301
Advances to employees	(59,189)	--
Net cash (used in) provided by operating activities	(232,224)	65,918
Cash flows from investing activities:		
Investment in preferred stocks and other marketable securities	(4,019,305)	--
Proceeds from sale of preferred stocks and other marketable securities	424,681	--
Purchase of fixed assets	(92,637)	(118,111)
Net cash used in investing activities	(3,687,261)	(118,111)
Net decrease in cash and cash equivalents	(3,919,485)	(52,193)
Cash and cash equivalents, beginning of year	7,148,664	7,200,857
Cash and cash equivalents, end of year	$3,229,179	$7,148,664
Supplemental Cash Flow Information:		
Taxes paid during the years	--	$15,579

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

1. THE COMPANY

DAG Media, Inc. ("the Company") currently publishes and distributes 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. The Company sells yellow page advertisements as part of an overall media package that includes print advertising, on-line advertising and other value added services such as a referral service and consumer discount club.

The Company operates 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. The principal source of revenue is derived from the sale of ads in our print and on-line directories.

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.

Preferred Stocks and other Marketable Securities

Preferred stocks and other 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.

The Company's securities consist of the following at December 31, 2001:

	Fair Value	Cost	Sales Proceeds	Gross Unrealized Holding Gains	Gross Realized Holding Gains
Preferred Stocks	3,634,392	3,769,305	147,318	(10,601)	(1,804)
Marketable Securities	77,500	250,000	277,363	(15,000)	(89,863)
Total	3,711,892	4,019,305	424,681	(25,601)	(91,667)

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 expenses are recognized.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is provided on a straight-line basis to distribute costs evenly over the estimated 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 the accompanying 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) 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 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. 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 (loss) income	$(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)
Net (loss) income	$ (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 (loss) income	$ (0.05)	$ (0.09)	$ 0.04

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 earning per share:

	Years Ended December 31	
	2001	**2000**
Basic	2,907,460	2,907,460
Incremental shares for assumed conversion of options	-	7,970
Diluted	2,907,460	2,915,430

292,440 and 103,884 stock options and warrants were not included in the diluted earnings per share calculation for the 2001 and 2000 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, 2001.

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 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 6).

Recent Technical Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 will be effective for financial statements of fiscal years beginning after December 15, 2001. DAG Media expects the adoption of SFAS No. 144 will not have a material impact on the Company's financial position, results of operations or cash flows.

In June 2001, the FASB issued SFAS No. 141 and 142 entitled, "Business Combination" and "Goodwill and Other Intangible Assets," respectively. SFAS No. 141 among other things, eliminates the pooling of interest method of accounting for business acquisitions entered into after June 30, 2001. SFAS No. 142 requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill. SFAS No. 142 is effective beginning January 1, 2002. The Company is in the process of evaluating the effect these changes in accounting principles will have on the Company's financial position, results of operations and cash flows.

3. FIXED ASSETS, NET

Fixed assets, net consisted of the following:

	December 31, 2001
Office equipment	$ 244,171
Automobiles	117,696
Leasehold improvements	21,161
Total fixed assets	383,028
Less: accumulated depreciation	(124,041)
Fixed assets, net	$ 258,987

Depreciation expense was approximately $56,000 and $39,000 for the years ended December 31, 2001 and 2000, respectively.

4. INCOME TAXES

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

	For the Years Ended December 31	
	2001	**2000**
Current Taxes:		
Federal	$ (42,460)	$ 237,725
State	(27,413)	153,000
	$ (69,873)	$ 390,725
Deferred Taxes:		
Federal	(8,466)	(184,000)
State	(5,413)	(119,058)
	(13,879)	(303,058)
(Benefit) provision for income taxes	$ (83,752)	$ 87,667

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

	For the Years Ended December 31	
	2001	**2000**
Accounts receivable	$(1,066,000)	$(1,053,000)
Directories-in-progress	(688,000)	(673,000)
Gross deferred tax liability	(1,754,000)	(1,726,000)
Advanced billing for unpublished directories	1,626,000	1,624,000
Other deferred tax liabilities	318,972	289,058
Gross deferred tax asset	1,944,972	1,913,058
Net deferred tax asset	$ 190,972	$ 187,058

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 different periods from when those items are recognized for accrual basis financial purposes. The (benefit) provision for income taxes on earning 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	
	2001	**2000**
Tax at U.S. federal income tax rate	$ (51,809)	$ 59,000
State income taxes, net of U.S. federal income tax benefit	(22,360)	22,000
Other	(9,583)	6,667
(Benefit) provision for income taxes	$ (83,752)	$ 87,667

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 $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 2001 and 2000 the Company contributed $5,188 and $5,250, 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 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 and at the Company's annual shareholder meeting held on June 22, 2001, an additional 145,000 options were approved. An additional 20,000 options were granted under an individual option grant. At December 31, 2001 and 2000, 141,560 and 34,116 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 will be 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 2001 and 2000 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 are measured using Black-Scholes option pricing model. Accordingly, deferred compensation costs of approximately $19,000 and $117,000 were recorded in 2001 and 2000 respectively. Such costs will be amortized over the option vesting period (generally five years). Compensation costs of $7,635 and $39,857 were charged to operations in 2001 and 2000, respectively. Had compensation costs for all options granted under the Plan been determined in accordance with SFAS No. 123, the Company's net loss and EPS would have been reduced as follows:

		Years Ended December 31	
		2001	**2000**
Net income (loss)	As reported	$ (117,078)	$ (425,311)
	Pro-forma	$ (166,756)	$ (488,697)
Basic EPS	As reported	$ (0.04)	$ (0.15)
Diluted EPS	Pro-forma	$ (0.06)	$ (0.17)

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 2001 and 2000, respectively: (1) expected life of 5 years; (2) no dividend yield; (3) expected volatility 70%; (4) risk free interest rate of 5% and 6%.

The following summarizes stock option activity for 2001 and 2000:

	Shares	**Weighted Average Exercise Price**
Outstanding at December 31, 1999	101,824	$ 4.82
Granted	157,000	$ 2.59
Forfeited	(23,940)	4.32
Outstanding at December 31, 2000	234,884	$ 3.67
Weighted average fair value of options granted at December 31, 2000		$ 1.53
Granted	198,000	$ 1.56
Forteited	(140,444)	$ 3.07
Outstanding at December 31, 2001	292,440	$ 2.53
Weighted average fair value of options granted at December 31, 2001		$ 0.97

As of December 31, 2001 and 2000 there were exercisable options amounting to 143,440 and 144,884 respectively, with a weighted average exercise price of $2.43 and $3.95, 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.

7. 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 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 2001 and 2000.

8. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has various lease and rental commitments ending 2003 for its offices, automobiles and equipment. At December 31, 2001, approximate future minimum rental payments under these commitments are as follows:

Year	Total Commitments
2002	85,886
2003	56,207
Total	$142,093

Rent expense was approximately $108,000 and $109,000 in 2001 and 2000, 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 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. As of March 2001 the compensation committee approved an increase in Mr. Ran's compensation to an annual base salary of $125,000. Mr. Ran's annual compensation was $108,000 and $68,000 during fiscal years 2001 and 2000.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying balance sheet of DAG Media, Inc. (a New York corporation) as of December 31, 2001, and the related statements of operations, changes in shareholders' equity and cash flows for the years ended December 31, 2001 and 2000. 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, 2001 and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2, the Company changed its method of accounting for revenue recognition effective January 1, 2000.

Arthur Andersen LLP

New York, New York
February 28, 2002