# Form 10QSB for DAG MEDIA INC

**13-Nov-2007**

## Quarterly Report

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of our results of operations should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-QSB. The discussion and analysis 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.



DAG through its subsidiaries provides short term non banking commercial loans, as well as solutions to the online yellow pages industry and to local search .

On May 15, 2007, the Company formed a new wholly-owned subsidiary named DAG Funding Solutions, Inc. ("DAG Funding"). DAG Funding was formed to carry out a new business initiative centered on money lending services to businesses. More specifically, DAG Funding offers secured commercial short term funding solutions and loan services generally against collateral such as real estate, receivables and marketable securities, accompanied, in most cases, by personal guarantees from the principals. Since the commencement of operations in May 2007 to September 30, 2007, DAG Funding has made loans in the aggregate amount of $2,488,618 bearing interest at effective rates ranging from 13% to 16% with additional points in certain cases. New loans are generated through loan brokers, who generally receive a commission equal to 1% (charged to the borrower) of the face amount of the loan and through internet and print advertising.

On December 5, 2005, following the execution of a web-site development and services agreement signed between us, and Ocean-7 Development, Inc., a company experienced in Internet and software development, we announced the formation of DAG Interactive, a subsidiary of DAG Media, Inc., through which we operate our new Internet business, nextyellow.com. The objective of DAG Interactive is to introduce our unique and innovative software solution to the online Yellow Pages industry. DAG Interactive's new business, nextyellow.com, utilizes a new, patent pending application which facilitates highly accurate and instant automated matching between consumers' needs and businesses' capabilities. To utilize this application, a customer visits our website and describes, as necessary, a certain need that the customer has for goods or services. Upon completing this description, our application characterizes the consumers' requests by geographic location as well as by a DAG Interactive-developed category index and ultimately locates businesses or vendors which provide the sought after services or goods. Our application then automatically matches those businesses or vendors with the customer's request. Upon completing the match, an automated message is sent from our system to those matching businesses or vendors who are ultimately responsible for following up on the lead and contacting the customer. In simple terms, businesses, service providers and retailers register and receive leads for prospective customers in their geographic coverage area and categories for a monthly fee and generate business in response to inquiries submitted by customers who visit our website.

The application, which covers the typical Yellow Pages index and more, transforms the old-fashioned "Let your fingers do the walking" way of thinking into a new paradigm: "Let the business do the walking" (a trademark of DAG Interactive), where businesses contact customers in response to customers' inquiries.

On October 11, 2006, we entered into a stock agreement with Mr. Guy Mushkat, the founder and Chief Executive Officer of Shopila. Pursuant to the terms of the stock agreement, we purchased 80% of the issued and outstanding common shares of Shopila from him. The purchase price was approximately $318,000 which includes liabilities assumed.

In July of 2007 the Company decided to discontinue Shopila's operations since Shopila was struggling financially and facing insufficient operating cash flow. Consequently, Shopila can not repay its liabilities, including a promissory note and a line of credit, and thus the Company wrote-off Shopila's liabilities.



As of June 30, 2007, the Company wrote-off its goodwill and other intangible assets relating to the acquisition of Shopila.

Accordingly, the Company has reflected Shopila's operations as discontinued operations in the accompanying financial statements. As a result, sales, cost of goods sold, and related expenses have been reclassified in the statement of operations and are shown separately as a net amount under the caption income
(loss) from discontinued operations for all periods presented. Accordingly, we recorded an income (loss) from discontinued operation totaling $113,915 and ($259,089) for the three and nine month period ended September 30, 2007, respectively. Net sales from the discontinued operations were $2,346 and $71,001, for the three and nine month periods ended September 30, 2007, respectively.

**Results of Operations**

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Subscription revenues

Subscription revenues for the three months ended September 30, 2007 were $1,324 compared to $7,821 for the same period in 2006. These revenues are attributable to nextyellow.com operations.

Interest income from short term notes

Interest income from short term notes for the three month period ended September 30, 2007 were $60,504 compared to $0 for the same period in 2006. Interest income consists of interest on the short term notes issued by DAG Funding.

Web Development costs

Web development costs for each of the three month period ended September 30, 2007 and 2006 were $12,336. These costs are attributable to the amortization of capitalized web development costs of nextyellow.com.

**Marketing Expenses**

Marketing Expenses for the three months ended September 30, 2007 were $4,034 compared to $41,303 for the same period in 2006. These marketing expenses are primarily attributable to the operation of nextyellow.com. The decrease in marketing expenses is due to management's decision to reduce marketing activities until such time a strategic partner or an investor is found.

**General and Administrative Expenses**

General and administrative expenses for the three months ended September 30, 2007 were $155,296 compared to $205,647 for the same period in 2006, a decrease of $50,351 or 24.5%. This decrease is primarily attributable to a decrease in professional fees of approximately $26,000 mainly due to a decrease in legal fees, a decrease in payroll expenses of approximately $15,000 due to the decrease in the CEO's Salary and a decrease in shared based compensation expenses of approximately $11,000. We expect general and administrative expenses to increase as a result of ongoing expenses related to reporting obligations and compliance, such as those mandated by the Sarbanes-Oxley Act.



**Other Income (loss)**

For the three month period ended September 30, 2007, we had other income consisting of dividends, interest and realized gains of $87,990 compared to other income of $61,603 for the three month period ended September 30, 2006. The increase is attributable primarily to the fluctuation in performance of our portfolio and marketable securities and to the higher interest rates.

**Discontinued Operations**

On April 20, 2006, we completed the sale of The Jewish Israeli Yellow Pages and The Jewish Master Guide (also known as the Kosher Yellow Pages, referred to herein as the Jewish directory business), to DAG-Jewish Directories, Inc., a buying entity that was established by a group of sales agencies' owners and a few of our employees. In each of the three month periods ended September 30, 2007 and 2006 we had other income in the amount of $72,918 which represents installment payments from the sale of the directories.

In July of 2007 the Company decided to discontinue Shopila's operations since Shopila was struggling financially and facing insufficient operating cash flow. Consequently, Shopila can not repay its liabilities, including a promissory note and a line of credit, and thus the Company wrote-off Shopila's liabilities.

As of June 30, 2007, the Company wrote-off its goodwill and other intangible assets relating to the acquisition of Shopila.

Accordingly, the Company has reflected Shopila operations as a discontinued operations in the accompanying financial statements. As a result, sales, Cost of goods sold, and related expenses have been reclassified in the statement of operations and are shown separately as a net amount under the caption loss from discontinued operation for all periods presented. Accordingly, we recorded an income from discontinued operations totaling $113,915 for three month period ended September 30, 2007 mainly due to the write-off of Shopila's outstanding liabilities in the amount of $114,664 which Shopila does not have the financial ability to pay.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Subscription revenues

Subscription revenues for the nine months ended September 30, 2007 were $4,305 compared to $7,821 for the same period in 2006. These revenues are attributable to nextyellow.com operations.

Interest income from short term notes

Interest income from short term notes for the nine month period ended September 30, 2007 were $65,471 compared to $0 for the same period in 2006. Interest income consists of interest on the short term notes issued by DAG Funding.

Web Development costs

Web development costs for the nine months ended September 30, 2007 were $37,008 compared to $125,330 for the same period in 2006. In 2007 these costs are attributable to the amortization of nextyellow.com web development expenses while, in 2006 these costs were attributable to nextyellow.com web development expenses which includes issuance of shares and options and to the amortization of nextyellow.com web development expenses.

**Marketing Expenses**

Marketing expenses for the nine months ended September 30, 2007 were $7,537 compared to $56,832 for the same period in 2006. These marketing expenses are primarily attributable to the operation of nextyellow.com. The decrease in marketing expenses is due to management's decision to reduce marketing activities until such time a strategic partner or an investor is found.

**General and Administrative Expenses**

General and administrative expenses for the nine months ended September 30, 2007 were $541,831 compared to $584,161 for the same period in 2006, a decrease of $42,330, or 7.2%. This decrease is primarily attributable to a decrease in professional fees of approximately $42,000 due to decrease in legal expenses and accounting expenses, a decrease in shared based compensation expenses of approximately $25,000 and a decrease in public relations expenses of approximately $18,000 mainly due to less filings made by the Company in 2007, offset by an increase in rental expenses of approximately $22,000 due to the new lease agreement in July 2006 and an increase in hosting and maintenance expenses of the nextyellow.com website of approximately $18,000, which started operation in June of 2006. We expect general and administrative expenses to increase as a result of ongoing expenses related to reporting obligations and compliance, such as those mandated by the Sarbanes-Oxley Act.

**Other Income**

For the nine month period ended September 30, 2007, we had other income mainly consisting of dividend, interest and realized gains of $230,224 compared to other income of $111,342 for the nine month period ended September 30, 2006. The increase is attributable primarily to the fluctuation in performance of our portfolio and marketable securities and to the higher interest rates.

**Discontinued Operations**

On April 20, 2006, we completed the sale of The Jewish Israeli Yellow Pages and The Jewish Master Guide (also known as the Kosher Yellow Pages, referred to herein as the Jewish directory business), to DAG-Jewish Directories, Inc., a buying entity that was established by a group of sales agencies' owners and a few of our employees. For the nine month period ended September 30, 2007 we had other income in the amount of $194,444 which represents installment payments from the sale of the directories, compared to a gain on the sale of the Jewish directories business amounting to $605,589 for the nine month period ended September 30, 2006, which includes net liabilities assumed and payments received, net of professional fees.

In July of 2007 the Company decided to discontinue Shopila's operations since Shopila was struggling financially and facing insufficient operating cash flow. Consequently, Shopila can not repay its liabilities, including a promissory note and a line of credit, and thus the Company wrote-off Shopila's liabilities.

As of June 30, 2007, the Company had written-off its goodwill and other intangible assets relating to the acquisition of Shopila.

Accordingly, the Company has reflected Shopila's operations as a discontinued operations in the accompanying financial statements. As a result, sales, cost of goods sold, and related expenses have been reclassified in the statement of operations and are shown separately as a net amount under the caption loss from discontinued operations for all periods presented. Accordingly, we recorded a loss from discontinued operations totaling $259,089 for the nine month period ended September 30, 2007. The $259,089 loss for the nine month period includes Shopila's losses for the period in the amount of $59,020 and a write-off of goodwill and other intangible assets in the amount of $449,057. The write-off of goodwill and other intangible assets had previously been recognized as an impairment loss in connection with the filing of the Company's Form 10QSB for the six month period ended June 30, 2007. In addition, a previously recorded deferred tax liability related to other intangible assets in the amount of $67,600, previously recorded as an income tax benefit in the six month period ended June 30, 2007, has been reclassified in connection with the discontinued operations. The loss from discontinued operations for the nine month period ended September 30, 2007 also includes income from minority interest in the amount of $66,724 and the write-off of liabilities in the amount of $114,664 which Shopila does not have the financial ability to pay.

**Liquidity and Capital Resources**

At September 30, 2007, we had cash and cash equivalents, marketable securities and short term investments of approximately $4,300,000 and working capital of $6,535,000 as compared to cash and cash equivalents, marketable securities and short term investments of $7,014,000 and working capital of approximately $6,529,000 at December 31, 2006. The decrease in cash and cash equivalents and marketable securities primarily reflects the loss from operations and issuance of short term notes of $2,489,000 which were issued by DAG Funding, offset by cash received on the sale of Jewish directories business. The decrease in working capital is primarily attributable to the operating losses recognized during the nine month period ended September 30, 2007.

Net cash used in operating activities was $434,776 for the nine months ended September 30, 2007 compared to $371,097 for the same period ended September 30, 2006.The increase in net cash used in operating activities primarily results from the net loss, a decrease in accounts payable and accrued expenses and amortization of deferred compensation, offset by the gain on the sale of the Jewish directories business and loss from discontinued operations of Shopila.

Net cash used in investing activities was $1,635,342 for the nine month period ended September 30, 2007 compared to net cash provided by investing activities of $176,494 for the nine months ended September 30, 2006. Net cash used in investing activities was primarily the result of issuance of short term notes in the amount of $2,488,618 in 2007 and the investment in marketable securities offset by the proceeds from the sales of marketable securities and cash received from the sale of the Jewish Directories.

Net cash used in financing activities for the nine months ended September 30, 2007 was $0 compared to $308,726 for the same period in 2006. Net cash used in financing activities reflects mainly dividend payments of approximately $314,000 in 2006.



We have not entered into any off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons that are likely to affect liquidity or the availability of or requirements for capital resources.

We anticipate that our current cash balances will be sufficient to fund 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 over the next 12 months as we continue to strive for growth.

**Changes to Critical Accounting Policies and Estimates**

Effective January 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS Statement No. 109, ACCOUNTING FOR INCOME TAXES. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. See Note 5 for additional information regarding income taxes.

Our critical accounting polices and estimates are set forth in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006.

**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) the success of our new business strategy; (ii) potential acquisitions; (iii) our limited operating history; (iv ) potential fluctuations in our quarterly operating results; (v) challenges facing us relating to our growth; and (vi) 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.