

SALON CITY, INC.
Balance Sheet
At March 31, 2007

Assets:	
Current assets	
Cash	\$ 82,771
Accounts receivable	139,230
Loans to officer	232,219
Other current assets	39,000
	493,220
Total current assets	493,220
Fixed assets	
Equipment	25,272
Accumulated depreciation	(17,250)
	8,022
Total fixed assets	8,022
Total assets	\$ 501,242
Liabilities and Stockholders' Equity	
Current liabilities	
Accounts payable and accrued expenses	\$ 228,797
	228,797
Total current liabilities	228,797
Long-term bank loans payable	90,335
	319,132
Total liabilities	319,132
Stockholders' Equity	
Common stock, (1,000,000,000 shares authorized, 992,223,658 shares issued and outstanding, par value \$.001 per share)	992,224
Additional paid-in capital	92,488
Stock subscriptions receivable	(107,551)
Retained deficit	(795,051)
	182,110
Total stockholders' equity	182,110
Total liabilities and stockholders' equity	\$ 501,242

SALON CITY, INC.
Statements of Operations
For the Three Months Ended March 31, 2007 and 2006

	Quarter ended <u>3/31/2007</u>	Quarter ended <u>3/31/2006</u>
Advertising income	\$ 103,115	\$ 120,666
Distributors, conference and other income	<u>140</u>	<u>-</u>
Total revenue	103,255	120,666
Cost of goods sold	<u>(95,404)</u>	(66,790)
Gross Profit	7,851	53,876
Selling, general and administrative expenses	<u>96,591</u>	<u>43,444</u>
Net ordinary income (loss)	(88,740)	10,432
Interest expense	<u>(7,201)</u>	<u>(4,803)</u>
Net income (loss)	<u>\$ (95,941)</u>	<u>\$ 5,629</u>

Statements of Cash Flows
For the Three Months ended March 31, 2007 and 2006

	<u>Quarter ended</u> <u>3/31/2007</u>	<u>Quarter ended</u> <u>3/31/2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (95,941)	\$ 5,629
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,250	767
Common stock issued for services rendered	45,000	-
(Increase) decrease in operating assets:		
Accounts receivable	(34,163)	74,635
Other current assets	10,000	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	10,420	17,921
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(63,434)</u>	<u>98,952</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(8,883)	-
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(8,883)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock to investors	13,000	-
Repayment of loans to officer	10,909	-
Proceeds from bank loans	48,456	-
Repayments of bank loans	-	(513)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>72,365</u>	<u>(513)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 48	 98,439
CASH AND CASH EQUIVALENTS:		
Beginning of period	<u>82,723</u>	<u>27,507</u>
 End of period	 <u>\$ 82,771</u>	 <u>\$ 125,946</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES AND NON-CASH FINANCING INFORMATION:		
Cash paid during the quarter for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid during the quarter for income taxes	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

NOTES TO CONDENSED FINANCIAL STATEMENTS
OF
SALON CITY, INC.
MARCH 31, 2007 (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the unaudited condensed financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position at March 31, 2007 and the results of operations for the period ended March 31, 2007.

Management's Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, disclosures 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 results could differ from those estimates.

Fair Value of Financial Instruments – The carrying amounts of financial instruments including accounts receivable, other current assets, equipment and related depreciation, accounts payable and accrued expenses and bank loans payable approximated fair value because of the immediate short-term maturity of these instruments.

Income Taxes – Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of deferred taxes related primarily to differences between the basis of certain assets and liabilities for financial and tax reporting and net operating loss-carry forwards. Deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

The income tax benefit consists of taxes currently refundable due to net operating loss carry back provisions less the effects of accelerated depreciation for the federal government. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Earnings (Loss) Per Share - The Company reports earnings (loss) per share in accordance with Statement of Financial Accounting Standard (SFAS) No.128. This statement requires dual presentation of basic and diluted earnings (loss) with a reconciliation of the numerator and denominator of the loss per share computations. Basic earnings per share amounts are based on the weighted average shares of common outstanding. If applicable, diluted earnings per share assume the conversion, exercise or issuance of all common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. Accordingly, this presentation has been adopted for the periods presented. There were no adjustments required to net income for the period presented in the computation of diluted earnings per share. There were no common stock equivalents (CSE) necessary for the computation of diluted loss per share.

Fixed Assets – Fixed assets are recorded at cost and include expenditures that substantially increase the productive lives of the existing assets. Maintenance and repair costs are expensed as incurred. Depreciation is provided using the straight-line method. Depreciation of property and equipment is calculated over the management prescribed recovery periods, which range from 5 years for equipment to 7 years for furniture and fixtures.

When a fixed asset is disposed of, its cost and related accumulated depreciation are removed from the accounts. The difference between undepreciated cost and proceeds from disposition is recorded as a gain or loss.

Advertising Costs - Advertising costs are expensed as incurred. The Company does not incur any direct-response advertising costs.

Revenue Recognition - Revenue is recognized when advertising services are earned and measurable based upon performed.

Comprehensive Income (Loss) - The Company adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 130, “*Reporting Comprehensive Income*”, which establishes standards for the reporting and display of comprehensive income and its components in the financial statements. There were no items of comprehensive income (loss) applicable to the Company during the year covered in the financial statements.

Long-Lived Assets - In accordance with SFAS No. 144, the Company reviews and evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, including those noted above, the Company compares the assets’ carrying amounts against the estimated undiscounted cash flows to be generated by those assets over their estimated useful lives. If the carrying amounts are greater than the undiscounted cash flows, the fair values of those assets are estimated by discounting the projected cash flows. Any excess of the carrying amounts over the fair values are recorded as impairments in that fiscal period.

Cash and Cash Equivalents - For purposes of the Statements of Cash Flows, the Company considers liquid investments with an original maturity of three months or less to be cash equivalents.

Recent Accounting Pronouncements - In February 2006, FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material impact on the Company's results of operations or financial position.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48") which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income tax assets and liabilities. FIN 48 is effective for fiscal years beginning after December 15, 2006, which will be the Company's calendar year 2007, and is required to be recognized as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The adoption of FIN 48 is not expected to have a material impact on the Company's results of operations or financial position.

In June 2006, the Financial Accounting Standards Board ("FASB") ratified the provisions of Emerging Issues Task Force ("EITF") Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." EITF Issue No. 06-3 requires that the presentation of taxes within revenue-producing transactions between a seller and a customer, including but not limited to sales, use, value added, and some excise taxes, should be on either a gross (included in revenue and cost) or a net (excluded from revenue) basis. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. EITF

Issue No. 06-3 is effective for fiscal years beginning after December 15, 2006, which will be the Company's calendar year 2007. The adoption of EITF Issue No. 06-3 is not expected to have a material impact on the Company's results of operations or financial position.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No.108 ("SAB No. 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements." SAB No. 108 requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for the fiscal year beginning November 15, 2006. The adoption of SAB No. 108 is not expected to have a material impact on the Company's results of operations or financial position.

In March 2006, the FASB issued SFAS No. 156. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective as of the beginning of its first fiscal year that begins after September 15, 2006.

An entity should apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions after the effective date of this Statement.

In September 2006, the FASB issued SFAS No. 157 and No. 158. Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice.

Statement No. 158 is an amendment of FASB Statements No. 87, 88, 106, and 132(R). It improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

The Company does not expect application of SFAS No. 156, 157 and 158 to have a material affect on its financial statements.

CERTIFICATION

I, Steven Casciola, Chief Executive Officer of Salon City, Inc., hereby certify that the unaudited financial statements and related footnotes hereto present fairly, in all material respects, the financial position of Salon City, Inc. and the results of its operations and cash flows as of and for the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States, consistently applied.

May 11, 2007

SALON CITY, INC.

By:



Steven Casciola, Chief Executive Officer