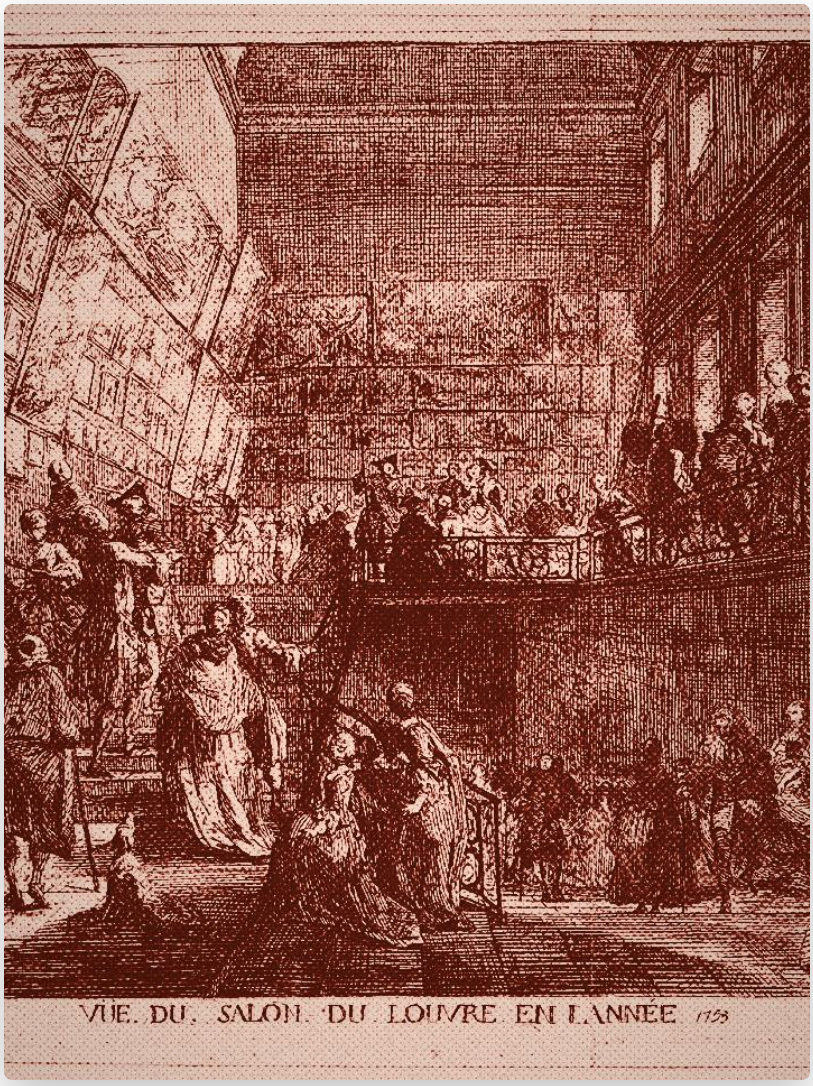
FORM S-1 · REGISTRATION STATEMENT

Salon Media Group Inc

IPO priced 1999-06-23 · $10.50 a share · SALN



From S1 Directory · www.s1directory.com/s1/salon-media-group-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1084332/000092962499000683/0000929624-99-000683.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 19, 1999 REGISTRATION NO. 333- SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549 FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 SALON INTERNET, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

California	7373	94-3228750
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Number)	(I.R.S. Employer Identification No.)

706 MISSION STREET, SAN FRANCISCO, CALIFORNIA 94103 (415) 882-8720 (ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES) MICHAEL O'DONNELL CHIEF EXECUTIVE OFFICER AND PRESIDENT SALON INTERNET, INC. 706 MISSION STREET, SAN FRANCISCO, CALIFORNIA 94103 (415) 882-8720 (NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE) COPIES TO:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

IF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 OF THE SECURITIES ACT, PLEASE CHECK THE FOLLOWING BOX. [_] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), PLEASE CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, CHECK THE FOLLOWING BOX. [_]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
COMMON STOCK ($0.001 PAR VALUE).....	$38,812,500	$10,790

(1) ESTIMATED SOLELY FOR THE PURPOSES OF DETERMINING THE REGISTRATION FEE PURSUANT TO RULE 457(O) PROMULGATED UNDER THE SECURITIES ACT.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

++ +THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY + +NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE + +SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN + +OFFER TO SELL THESE

SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE + +SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED. +

++

INITIAL PUBLIC OFFERING PROSPECTUS SUBJECT TO COMPLETION, APRIL 19, 1999 2,500,000 SHARES OF COMMON STOCK $ PER SHARE

[LOGO OF SALON.COM]

SALON.COM IS A LEADING SALON.COM INTERNET MEDIA COMPANY 706 MISSION STREET, 2ND THAT PRODUCES A FLOOR NETWORK OF TEN SAN FRANCISCO, CALIFORNIA SUBJECT-SPECIFIC, 94103 DEMOGRAPHICALLY- TARGETED WEB SITES AND A VARIETY OF ONLINE COMMUNITIES DESIGNED TO ATTRACT PREMIUM INTERNET ADVERTISERS AND ELECTRONIC COMMERCE PARTNERS.

THE OFFERING

PER SHARE TOTAL

Public Price.....	$	$
Underwriting discounts and commissions.....	$	$
Proceeds to Salon.....	$	$

THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR OUR SHARES. WE EXPECT THAT THE PRICE WILL BE BETWEEN $10.50 AND $13.50 PER SHARE. THIS PRICE MAY NOT REFLECT THE MARKET PRICE OF OUR SHARES AFTER THIS OFFERING.

PROPOSED TRADING SYMBOL: THE NASDAQ NATIONAL MARKET - SALN THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD TO LOSE YOUR ENTIRE INVESTMENT. SEE "RISK FACTORS" BEGINNING ON PAGE 5.

THE SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

WE HAVE ENTERED INTO A FIRM COMMITMENT UNDERWRITING AGREEMENT WITH THE UNDERWRITERS FOR THE SALE OF THE SHARES IN THIS OFFERING. WE HAVE GRANTED THE UNDERWRITERS A 30-DAY OPTION TO PURCHASE UP TO AN ADDITIONAL 375,000 SHARES OF OUR COMMON STOCK TO COVER OVER-ALLOTMENTS. THE UNDERWRITERS EXPECT TO DELIVER SHARES OF OUR COMMON STOCK TO PURCHASERS ON , 1999.

WR HAMBRECHT+CO DAIWA SECURITIES AMERICA INC.

, 1999

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF OUR COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF OUR COMMON STOCK.

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"Salon" and the Salon logo are trademarks of Salon.com. All other trademarks or tradenames referred to in this prospectus are the property of their respective owners.

Prospectus Summary

This summary highlights information described more fully elsewhere in this prospectus. This summary is not complete and may not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully. This prospectus contains forward-looking statements based on our current expectations, assumptions, estimates and projections about our business and industry. These forward-looking statements involve risks and uncertainties. Our

actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, which are more fully described in the "Risk Factors" section beginning on page 5 and elsewhere in this prospectus. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Salon.com

Our Business: We are a leading Internet media company that produces a network of ten subject-specific, demographically-targeted Web sites and a variety of online communities designed to attract premium Internet advertisers and electronic commerce partners. We believe that our network of Web sites combines the thoughtfulness of print, the timeliness of television and the interactivity of talk radio.

Our Strategy: Our strategy is to build a premier network of Internet destination sites through compelling content that appeals to users with high-value demographics. To establish our network of premier Internet destinations, we intend to:

. broaden our revenue base in advertising and electronic commerce;

. expand our content and communities;

. expand our network of distribution partners;

. grow our brand recognition through advertising and syndication; and . enhance our technology to improve production, user experience, advertising delivery and circulation analysis.

Our Market: The Internet is becoming one of the most important mediums for global communication and business. Industry analysts estimate that the number of Internet users worldwide will increase to 319.8 million in 2002 from 68.7 million in 1997. The dramatic increase in Internet use provides a tremendous opportunity for both online advertising and electronic commerce, which industry experts believe will realize significant revenue growth in the near future.

Our Network: Our network of subject-specific Web sites includes:

.Salon News .Salon Books .Salon Technology .Salon Media .Salon Arts & Entertainment .Salon Travel .Salon Mothers Who Think .Salon People .Salon Health & Body .Salon Comics Our other media offerings consist of Table Talk and The Well, our interactive Web communities; and Salon Shopping, an electronic commerce destination aimed at marketing upscale Salon branded and third party products to our high-value demographic base. The main entry and navigation point for our network is www.salon.com.

We believe the scope of our product offerings and the high- value demographics of our user base offer the opportunity to build a premier Internet destination capable of highly targeted advertising and electronic commerce marketing.

We were incorporated in California in July 1995 and intend to reincorporate in Delaware and change our name to "Salon.com" prior to the closing of this offering. We currently employ 74 people in five offices in San Francisco, New York, Washington, D.C., Chicago and Los Angeles. Our headquarters are located at 706 Mission Street, 2nd Floor, San Francisco, California 94103 and our telephone number is (415) 882-8720. Our principal Web site is located at www.salon.com. Information contained on our Web sites does not constitute a part of this prospectus.

Unless otherwise indicated, all information contained in this prospectus assumes that:

. the underwriters will not exercise their over-allotment option;

. all outstanding convertible preferred stock will be converted to common stock before this offering is completed;

. we will reincorporate in Delaware and change our name to Salon.com before this offering is completed; and . we will complete a 1 for 2 split of our common stock before this offering is completed.

The Offering

Type of security..... Common stock Common stock offered..... 2,500,000 shares Common stock to be outstanding after this offering..... 10,730,623 shares Use of proceeds..... For expansion of our sales force, marketing and distribution activities, expansion of our business operations and general corporate purposes. See "Use of Proceeds" for more information.

Proposed Nasdaq National Market Symbol..... SALN The method of distribution being used by the underwriters in this offering differs somewhat from that traditionally employed in firm commitment underwritten public offerings. In particular, the public offering price and allocation of shares will be determined primarily by an auction process conducted by the underwriters and other securities dealers participating in this offering. A more detailed description of this process is included in "Plan of Distribution."

Summary Financial Data

Summary Financial Information (In thousands, except per share data)

	Fiscal Year Ended March 31,		For the Nine Months Ended December 31,	
July 27, 1995 (inception) to March 31, 1996	1997	1998	1997	1998

Statement of Operations Data: Net revenues..... $ 196 $ 280 $ 1,156 $ 689 $ 2,058 Operating expenses: Production, content, and product..... 463 1,555 2,832 2,071 3,135 Sales and marketing... 124 419 1,655 1,107 2,580 Research and development..... 52 176 276 203 305 General and administrative..... 43 129 291 221 338 Total operating expenses..... 682 2,279 5,054 3,602 6,358 Loss from operations.... (486) (1,999) (3,898) (2,913) (4,300) Other income, net..... 10 55 73 52 2 Net

loss..... $ (476) $(1,944) $(3,825) $ (2,861) $ (4,298) Basic and diluted net loss per share..... $(1.26) $ (3.84) $(10.20) $ (7.63) $ (11.20) Weighted average shares of common stock outstanding used in computing basic and diluted net loss per share..... 376 507 375 375 384 Pro forma basic and diluted net loss per share..... $ (1.20) $ (1.05) Shares of common stock used in computing pro forma basic and diluted net loss per share..... 3,190 4,075 As of December 31, 1998 Pro Actual forma As adjusted (unaudited)

Balance Sheet Data:			
Cash and cash equivalents.....	$1,607	$12,562	$39,862
Working capital.....	1,522	12,477	39,777
Total assets.....	3,386	14,341	41,641
Long-term liabilities.....	137	137	137
Total stockholders' equity.....	2,011	12,966	40,266

The pro forma information above reflects the net proceeds from the sale of 2,967,782 shares of Series C preferred stock on April 14, 1999.

The as adjusted information above is adjusted to give effect to our receipt of the estimated net proceeds from the sale of 2,500,000 shares of common stock in this offering at an assumed public offering price of $12 per share.

Risk Factors

You should carefully consider the following risks before you decide to buy our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties may also adversely affect our business. If any of the following risks actually occur, our business could be harmed. If our business is harmed, the trading price of our common stock could decline, and you could lose all or part of the money you paid to buy our common stock.

Risks Related to Our Operations

BECAUSE WE HAVE A LIMITED OPERATING HISTORY, IT IS DIFFICULT TO EVALUATE OUR BUSINESS AND PROSPECTS We originally incorporated in July 1995 and launched our initial Web sites in November 1995. Because we have a limited operating history, you must consider the risks and difficulties frequently encountered by early-stage companies like us in new and rapidly evolving markets, including the market for advertising and commerce on the Internet. These risks include whether we will be able to:

. attract a larger number of users to our Web sites and online communities;

. increase banner advertising, sponsorship and electronic commerce transaction revenues;

. increase awareness of the Salon brand;

. strengthen user loyalty;

. offer compelling content;

. maintain current and develop new strategic sponsorship and distribution relationships;

. respond effectively to competitive pressures;

. continue to utilize current and newly-developed technologies effectively; and . attract, retain and motivate qualified personnel.

We may not be able to successfully address these risks. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for detailed information on our limited operating history.

WE LACK SIGNIFICANT REVENUES, WE HAVE A HISTORY OF LOSSES AND WE ANTICIPATE INCREASED LOSSES We have not achieved profitability and expect to incur operating losses for the foreseeable future. We incurred net losses of $3.8 million in the fiscal year ended March 31, 1998 and $4.3 million in the nine months ended December 31, 1998. As of December 31, 1998, our accumulated deficit was $10.5 million. We expect these operating losses to increase for at least the foreseeable future. We will need to generate significant revenues to achieve and maintain profitability, and we may not be able to do so. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues grow more slowly than we anticipate or if our operating expenses exceed our expectations, our financial results would be harmed. See "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more detailed information.

OUR QUARTERLY OPERATING RESULTS FLUCTUATE AND MAY CONTINUE TO FLUCTUATE, WHICH MAY ADVERSELY AFFECT OUR STOCK PRICE Our future revenues and operating results are likely to vary significantly from quarter to quarter due to a number of factors, many of which are outside our control, and any of which could harm our business. These factors include:

. our ability to attract and retain banner advertisers, advertising sponsors and electronic commerce sponsors;

. our ability to attract and retain a large number of users;

. the introduction of new Web sites, services or products by us or by our competitors;

. the timing and uncertainty of our advertising and sponsorship sales cycles;

. the mix of banner advertisements and sponsorships sold by us or our competitors;

. seasonal declines in advertising sales, which typically occur in the first and third calendar quarters;

. the level of Internet usage;

. our ability to attract, integrate and retain qualified personnel;

. our ability to successfully integrate operations and technologies from acquisitions or other business combinations;

. technical difficulties or system downtime affecting the Internet generally or the operation of our Web sites; and . the amount and timing of operating costs and capital expenditures relating to the expansion of our business operations and infrastructure.

In order to attract and retain a larger user base, we plan to significantly increase our expenditures on sales and marketing, content development, technology and infrastructure. Many of these expenditures are planned or committed in advance and in anticipation of future revenues. If our revenues in a particular quarter are lower than we anticipate, we may be unable to reduce spending in that quarter. As a result, any shortfall in revenues would likely adversely affect our quarterly operating results.

Due to the factors noted above and the other risks discussed in this section, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. It is possible that in some future periods our results of operations may be below the expectations of public market analysts and investors. If this occurs, the price of our common stock may decline. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for detailed information on our quarterly operating results.

We depend on banner advertising and sponsorship sales for substantially all of our revenues, and our inability to increase banner advertising and sponsorship revenues would harm our business Our revenues for the foreseeable future will depend substantially on sales of advertising and sponsorships. In the fiscal year ended March 31, 1998, advertising and sponsorship sales accounted for 99% of our net revenues, and in the nine months ended December 31, 1998 they accounted for 93% of our net revenues. In order to increase our revenues, we will need to attract additional significant banner advertisers, advertising sponsors and electronic commerce sponsors on an ongoing basis. We may not be able to attract or retain a sufficient number of banner advertisers or advertising sponsors in the future, and if we cannot, our business would likely be harmed. Increasing our advertising and sponsorship revenues depends upon many factors, including whether we will be able to:

. successfully sell and market our network to advertisers and sponsors;

. increase our user base;

. increase the amount of revenues we receive per sponsorship;

. increase awareness of the Salon brand;

. target advertisements and electronic commerce opportunities to users with appropriate interests;

. accurately measure the number and demographic characteristics of our users; and . attract and retain sales personnel.

If we do not sell a sufficient number of advertisements or sponsorships or do not engage a sufficient number of advertisers or sponsors during a particular period, our business could be harmed.

Our revenues depend on a limited number of advertisers and sponsors who are not subject to long-term agreements Historically, we have relied on a small number of banner advertisers and advertising sponsors for a significant percentage of our revenues. In the fiscal year ended March 31, 1998, Borders

accounted for approximately 37% and IBM accounted for approximately 16% of our revenues. In the nine month period ended December 31, 1998, Borders accounted for approximately 18% of our revenues. The loss of any of our significant banner advertisers or advertising sponsors could adversely affect our business. We anticipate that our financial results in any given period will continue to significantly depend on revenues from a small number of banner advertisers and advertising sponsors. In addition, particularly because few banner advertisers and advertising sponsors are contractually obligated to purchase any advertising in the future, we are unable to anticipate our mix of banner advertisers and advertising sponsors in future fiscal periods.

The length of our sales cycles is uncertain and can lead to shortfalls in revenue Our dependence on banner advertising and sponsorships subjects us to risk because the sales cycles for advertising and sponsorships vary significantly. If sales are delayed or do not occur, our financial results for a particular period may be harmed. The time between the date of initial contact with a potential banner advertiser or sponsor and receipt of a purchase order from the advertiser may range from as little as one week to up to nine months. Sales of banner advertising and sponsorships are subject to factors over which we have little or no control, including:

. advertisers' and sponsors' budgets;

. internal acceptance reviews by advertisers and their agencies;

. the timing of completion of advertisements and sponsorships; and . the possibility of cancellation or delay of projects by advertisers or sponsors.

During these sales cycles, we may expend substantial funds and management resources but not obtain advertising or sponsorship revenues.

We must increase our user base to generate additional revenue Increasing the size of our user base is critical to selling advertising and sponsorships and to increasing our revenues. If we cannot increase the size of our user base we may not be able to generate additional revenues, which could leave us unable to maintain or grow our business. To increase our user base, we must:

. expand our content and communities;

. expand our network of distribution partners;

. grow Salon brand recognition through advertising and syndication;

. enhance our technology to improve the functionality of our network of Web sites; and . offer attractive electronic commerce opportunities to electronic commerce sponsors and users.

If we do not achieve these objectives to increase our user base, our business could be harmed. Additionally, a significant element of our business strategy is to build loyal online communities because we believe communities help retain actively engaged users. However, the concept of developing these communities on the Web is unproven, and if it is not successful, then it may be more difficult to increase the size of our user base.

We must establish and maintain distribution relationships to attract more users to our network We depend on establishing and maintaining distribution relationships with high-traffic Web sites to increase our user base. There is intense competition for relationships with these sites, and we may not be able to enter into such relationships on favorable terms or at all. Even if we enter into distribution relationships with these Web sites, their sites may not attract significant numbers of users, and our Web sites may not attract additional users from these relationships. Moreover, we have paid and may in the future pay significant fees to establish these relationships.

We must continually develop compelling content to attract Internet users Our success depends upon our ability to attract and retain a large number of users by delivering original and compelling Internet content and services. If we are unable to develop content and services that allow us to attract, retain and expand a loyal user base possessing high-value demographic characteristics, we will be unable to generate advertising revenues or enter into sponsorships, and our revenues and operating results will be severely harmed. The content and services we provide on our Web sites may not appeal to a sufficient number of Internet users to generate banner advertising revenues or attract sponsorships. Our ability to develop compelling content depends on several factors, including:

. the quality and number of writers and artists who create content for Salon;

. the quality of our editorial staff; and . the technical expertise of our production staff.

Consumer tastes and preferences change rapidly and we may not be able to anticipate, monitor, and successfully respond to these changes to attract and retain a sufficient number of users for our network of Web sites. Internet users can freely navigate and instantly switch among a large number of Web sites, many of which offer content and services that compete with Salon. In addition, many Web sites offer very specific, highly targeted content that could have greater appeal than our network to particular subsets of our target user base.

The new design of our network of Web sites may not appeal to users We recently made significant changes to the design of our network of Web sites. If the new design of our network does not appeal to our existing users or new users, the amount of traffic on our network could be reduced, which would make it more difficult for us to enter into agreements with banner advertisers, advertising sponsors and electronic commerce sponsors, because these agreements are based on the quantity and quality of users that visit our network. A loss of advertisers or sponsors could harm our business.

The controversial content of our Web sites may limit our revenues from banner advertising, advertising sponsorships or electronic commerce sponsorships Many of our Web sites contain, and will continue to contain, content that is politically and culturally controversial. As a result of this content, current and potential advertisers and sponsors may refuse to do business with us. Our outspoken stance on political issues, including the investigation and impeachment of President Clinton, as well as much of our other published content, has and may continue to result in negative reactions from some users, commentators and other media outlets.

Our promotion of the Salon brand may not be successful The success of the Salon brand depends largely on our ability to provide high quality content and services. If Internet users do not perceive our existing content and services to be of high quality, or if we introduce new content and services or enter into new business ventures that are not favorably perceived by users, we may not be successful in promoting and maintaining our brand. Any expansion of the focus of our operations creates a risk of diluting our brand, confusing consumers and decreasing the value of our user base to advertisers. In order to attract and retain users, and to promote the Salon brand, we may need to increase our budgets for content and services or otherwise substantially increase our financial commitment to establishing and maintaining loyalty for the Salon brand name. If we are unable to establish the Salon brand or are forced to substantially increase our expenditures to promote the Salon brand, our business could be severely harmed.

We may not be able to hire, integrate or retain qualified editorial and design personnel Our success significantly depends on the continued services of our key editorial and design personnel. In addition, because the content of our Web sites must be perceived by our users as having been created by credible and notable sources, our success also depends on the name recognition and reputation of our editorial staff, in particular David Talbot, Salon's editor- in-chief. The loss of these individuals or other key editorial or design personnel would likely harm our business.

We have recently hired a chief financial officer and a senior vice president of sales. If we cannot integrate each of these persons into our management team, we may not be able to retain their services, and may have to search for other persons to fill these positions.

We expect that we will need to hire additional personnel in all areas in 1999. Competition for personnel in the Internet industry is intense. We may be unable to retain our current key employees or attract, integrate or retain other qualified employees in the future. If we do not succeed in attracting new personnel or integrating, retaining and motivating our current personnel, our business could be harmed.

We have limited protection of our content and other intellectual property. Others could misappropriate our intellectual property and we may not be able to enforce our rights Our success and ability to compete are significantly dependent on our proprietary content. We rely exclusively on copyright law to protect our content. While we actively take steps to protect our proprietary rights, these steps may not be adequate to prevent the infringement or misappropriation of our content. Infringement or misappropriation of our content or intellectual property could materially harm our business. We also license content from various freelance providers and other third-party content providers. While we attempt to insure that this content may be freely licensed to us, other parties may assert claims of infringement against us relating to this content.

We may need to obtain licenses from others to refine, develop, market and deliver new services. We cannot assure you that we will be able to obtain any such licenses on commercially reasonable terms or at all or that rights granted pursuant to any licenses will be valid and enforceable.

We recently acquired the Internet address www.salon.com. Because www.salon.com is the address of the main home page to our network of Web sites and incorporates our company name, it is a vital part of our intellectual property assets. We do not have a registered trademark on the address, and therefore it may be difficult for us to prevent a third party from infringing our intellectual property rights in the address. If we fail to adequately protect our rights in the address, or if a third party infringes our rights in the address or otherwise dilutes the value of www.salon.com, our business could be harmed.

Our technology development efforts may not be successful in improving the functionality of our network We have recently developed a proprietary online publishing system. If this system does not work as intended, or if we are unable to continue to develop this system to keep up with the rapid evolution of technology for content delivery on the Internet, our network of Web sites may not operate properly which could harm our business. Additionally, software product development schedules are difficult to predict because they involve creativity and the use of new development tools and learning processes. Delays in our software development process could harm our business. Moreover, complex software products like our online publishing system frequently contain undetected errors or shortcomings, and may fail to perform or scale as expected. Although we have tested and will continue to test our publishing system, errors or deficiencies may be found in the system.

We rely on third parties for several critical functions relating to delivery of advertising and our Web site performance We rely on a number of third party suppliers for various services, including Web hosting, banner advertising delivery software, Internet traffic measurement software and electronic commerce fulfillment services. While we believe that we could obtain these services from other qualified suppliers on similar terms and conditions, a disruption in the supply of these services by our current suppliers could materially harm our business.

We have recently begun to use new third-party software to manage the delivery of banner advertising on our network of Web sites. If this software malfunctions or does not deliver the correct banner advertisements to our network, our advertising revenues could be reduced, and our business could be harmed.

We have also recently begun to use new third-party software to measure traffic on our network of Web sites. If this software malfunctions or does not accurately measure our user traffic, we may not be able to justify our advertising rates, and our advertising revenues could be reduced.

We must manage our potential growth We have experienced and are currently experiencing a period of significant growth. If we cannot manage our growth effectively, we may not be able to coordinate the activities of our technical, accounting, finance, marketing, sales and production staffs, and our business could be harmed. We intend to add new subject-specific Web sites to our network, hire additional staff in all departments, expand existing offices and open new offices. As part of this growth, we will have to implement new operational procedures and controls to train and manage our employees and to expand and coordinate the operations of our various departments. If we acquire new businesses, we will also need to integrate new operations, technologies and personnel. If we cannot manage the growth of our network of Web sites, staff, offices and business generally, our business could be harmed.

We may not be able to successfully integrate our acquisitions Acquisitions and business combinations entail numerous operational risks, including:

. difficulty in the assimilation of acquired operations, technologies or products;

. diversion of management's attention from other business operations;

. risks of entering markets in which we have limited or no experience; and . potential loss of key employees of acquired businesses.

We acquired The Well LLC, an online community provider, in March 1999. We may not be able to successfully integrate The Well LLC or any businesses, products, technologies or personnel that we might acquire in the future, and if we cannot, our business could be harmed.

We will need more working capital to expand our network We believe that our current cash resources, combined with the net proceeds from this offering, will meet our anticipated working capital and capital expenditure requirements for at least the 12 months following the date of this prospectus. We may need to raise additional capital to do the following:

. expand our network of Web sites and interactive communities;

. increase our electronic commerce opportunities;

. aggressively promote awareness of the Salon brand;

. make payments under distribution relationships;

. respond to competitive pressures; or . acquire complementary businesses or technologies.

If we raise additional capital by issuing equity or convertible debt securities, the percentage ownership of our then-current stockholders will be reduced, and such securities may have rights, preferences or privileges senior to those of our current stockholders. Additionally, we may not be able to obtain additional financing on favorable terms, or at all. If adequate capital is not available on acceptable terms, our ability to expand, take advantage of unanticipated opportunities, develop or enhance services or otherwise respond to competitive pressures would be significantly limited. This limitation could harm our business. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for a discussion of our working capital and capital expenditures.

Provisions contained in our charter documents may delay or prevent a takeover of Salon We intend to reincorporate in Delaware prior to the completion of this offering. Provisions of our Delaware certificate of incorporation and bylaws and of the Delaware general corporation law could make it more difficult for a third-party to acquire us, even if a change-in-control would be beneficial to our stockholders. These provisions also may prevent changes in the management of Salon. See "Description of Capital Stock" for more detailed information.

Risks Related to Our Internet Business and Prospects Acceptance and effectiveness of Internet advertising and electronic commerce is unproven Our success is highly dependent on an increase in the use of the Internet for advertising and electronic commerce. If the markets for Internet advertising or

electronic commerce do not develop, our business may be severely harmed.

The Internet advertising market is new and rapidly evolving, and the effectiveness of Internet advertising cannot be accurately measured. As a result, demand and market acceptance for Internet advertising is uncertain and may not increase as necessary for our business to grow or succeed. Many advertisers have little or no experience using the Internet for advertising purposes. The adoption of Internet advertising, particularly by companies that have historically relied on traditional media, requires the acceptance of a new way of conducting business, exchanging information and advertising products and services. Potential advertisers may believe Internet advertising to be undesirable or less effective for promoting their products and services relative to traditional advertising media. If the Internet advertising market fails to develop or develops more slowly than we expect, our business could be harmed.

Different pricing models are used to sell Internet advertising. It is difficult to predict which pricing models, if any, will emerge as the industry standard. This uncertainty makes it difficult to project our future advertising rates and revenues. Any failure to adapt to pricing models that develop or respond to competitive pressures could reduce our advertising revenues. Moreover, "filter" software programs that limit or prevent advertising from being delivered to an Internet user's computer are commonly available. Widespread use of this software could adversely affect the commercial viability of Internet advertising and our business.

Many retailers have little or no experience using the Internet for electronic commerce. The adoption of electronic commerce, particularly by companies that have historically relied on traditional channels to sell their products and services, requires the acceptance of a new way of conducting business, exchanging information and completing commercial transactions. Potential electronic commerce partners may believe electronic commerce to be undesirable or less effective for selling their products and services relative to traditional channels. If the electronic commerce market fails to develop or develops more slowly than we expect, our business could be harmed.

Tracking and measurement standards for advertising may not evolve to the extent necessary to support Internet advertising There are currently no standards for the measurement of the effectiveness of advertising on the Internet, and the industry may need to develop standard measurements in order to sustain advertising volume or attract new advertisers. Standardized measurements may not develop and if they do not, our business could be harmed. In addition, currently available software programs that track Internet usage and other tracking methodologies are rapidly evolving. The development of such software or other methodologies may not keep pace with our information needs, particularly to support our internal business requirements and those of our advertisers and sponsors. The absence or insufficiency of this information could limit our ability to attract and retain advertisers and sponsors.

It is important to our advertisers and sponsors that we accurately measure the demographics of our user base and the delivery of advertisements on our Web sites. We depend on third parties to provide certain of these measurement services. If they are unable to provide these services in the future, we would need to perform them ourselves or obtain them from another provider, if available. This could cause us to incur additional costs or cause interruptions in our business while we are replacing these

services. Companies may choose to not advertise on Salon or may pay less for advertising or sponsorships if they do not perceive our measurements or measurements made by third parties to be reliable.

If use of the Internet does not grow, our business could be harmed Our success is highly dependent upon continued growth in the use of the Internet generally and in particular as a medium for content, advertising and electronic commerce. If Internet usage does not grow, we may not be able to increase revenues from advertising and sponsorships and this may harm our business. Internet use by consumers is in an early stage of development, and market acceptance of the Internet as a medium for content, advertising and electronic commerce is highly uncertain. A number of factors may inhibit the growth of Internet usage, including:

. inadequate network infrastructure;

. security concerns;

. inconsistent quality of service; and . limited availability of cost-effective, high-speed access.

If these or any other factors cause use of the Internet to slow or decline, our results of operations could be adversely affected.

Increasing competition among Internet content providers could harm our business The market for Internet content is relatively new, rapidly changing and intensely competitive. We expect competition for Internet content to continue to increase and if we cannot compete effectively our business could be harmed. Additionally, we expect the number of Web sites competing for the attention and spending of users, advertisers and sponsors to continue to increase, because there are so few barriers to entry on the Internet.

Increased competition could result in advertising or sponsorship price reductions, reduced margins or loss of market share, any of which could harm our business. Competition is likely to increase significantly as new companies enter the market and current competitors expand their services. Many of our present and potential competitors are likely to enjoy substantial competitive advantages, including the following:

. larger numbers of users;

. larger numbers of advertisers;

. greater brand recognition;

. more fully-developed electronic commerce opportunities;

. larger technical, production and editorial staffs; and . substantially greater financial, marketing, technical and other resources.

If we do not compete effectively or if we experience any pricing pressures, reduced margins or loss of market share resulting from increased competition, our business could be adversely affected.

If the Internet infrastructure continues to be unreliable, access to our network may be impaired and our business may be harmed Our success depends in part on the development and maintenance of the Internet infrastructure. If this infrastructure fails to develop or be adequately maintained, our business would be harmed because users may not be able to access our network of Web sites. Among other things, development and maintenance of a reliable infrastructure will require a reliable network backbone with the necessary speed, data capacity, security and timely development of complementary products for providing reliable Internet access and services.

The Internet has experienced, and is expected to continue to experience, significant growth in number of users and amount of traffic. If the Internet continues to experience increased numbers of users, frequency of use or increased bandwidth requirements, the Internet infrastructure may not be able to support these increased demands or perform reliably. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and could face additional outages and delays in the future. These outages and delays could reduce the level of Internet usage and traffic on our network of Web sites. In addition, the Internet could lose its viability due to delays in the development or adoption of new standards and protocols to handle increased levels of activity. If the Internet infrastructure is not adequately developed or maintained, use of our network of Web sites may be reduced.

Even if the Internet infrastructure is adequately developed and maintained, we may incur substantial expenditures in order to adapt our services and products to changing Internet technologies. Such additional expenses could severely harm our financial results.

We may be held liable for content on our Web sites As a publisher and distributor of content over the Internet, including user- generated content on our online communities, we face potential liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the material that is published or distributed on our network of Web sites. These types of claims have been brought, sometimes successfully, against online services, Web sites and print publications in the past. Although we carry general liability insurance, our insurance may not be adequate to indemnify us for all liability that may be imposed. Any liability that is not covered by our insurance or is in excess of our insurance coverage could severely harm our business.

Concerns about transactional security may hinder our electronic commerce strategy A significant barrier to electronic commerce is the secure transmission of confidential information over public networks. Any breach in our security could expose us to a risk of loss or litigation and possible liability.

We rely on encryption and authentication technology licensed from third parties to provide secure transmission of confidential information. As a result of advances in computer capabilities, new discoveries in the field of cryptography or other developments, a compromise or breach of the algorithms we use to protect customer transaction data may occur. A compromise of our security could severely harm our business. A party who is able to circumvent our security measures could misappropriate proprietary information, including customer credit card information, or cause interruptions in the operation of our network of Web sites.

We may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by these breaches. However, protection may not be available at a reasonable price or at all. Concerns over the security of electronic commerce and the privacy of users may also inhibit the growth of the Internet as a means of conducting commercial transactions.

Our efforts to engage in electronic commerce may expose us to product liability claims We have and continue to foster relationships with manufacturers or other companies to offer certain products to users through our network of Web sites. We have very limited experience in the sale of products online and the development of relationships with manufacturers or suppliers of these products. Users who purchase products may sue us if any of the products sold on our network are defective, fail to perform properly or injure the user. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. As a result, any such claims, whether or not successful, could severely harm our business.

Our systems may fail due to natural disasters, telecommunications failures and other events, any of which would limit user traffic Substantially all of our communications hardware and computer hardware operations for our Web sites are located at Frontier GlobalCenter's facilities in Sunnyvale, California. Fire, floods, earthquakes, power loss, telecommunications failures, break-ins and similar events could damage these systems and cause interruptions in our services. Computer viruses, electronic break-ins or other similar disruptive problems could cause users to stop visiting our network of Web sites and could cause advertisers and sponsors to terminate any agreements with us. If any of these circumstances occurred, our business could be harmed. Our insurance policies may not adequately compensate us for any losses that may occur due to any failures of or interruptions in our systems. We do not presently have a formal disaster recovery plan.

Our Web sites must accommodate a high volume of traffic and deliver frequently updated information. Our Web sites have experienced in the past and may in the future experience slower response times or decreased traffic for a variety of reasons. For example, in March 1999, users were unable to access Table Talk for approximately two weeks as we upgraded our technology to compensate for unexpected growth in user activity. In addition, our users depend on Internet service providers, online service providers and other Web site operators for access to our Web sites. Many of these providers and operators have experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. Any of these system failures could harm our business.

Governmental regulation of the Internet may restrict our business There are currently few laws or regulations that specifically regulate communications or commerce on the Internet. Laws and regulations may be adopted in the future, however, that address issues including user privacy, pricing, and the characteristics and quality of products and services. An increase in regulation or the application of existing laws to the Internet could significantly increase our costs of operations and harm our business. For example, the Communications Decency Act of 1996 sought to prohibit the transmission of certain types of information and content over the Web. Additionally, several

telecommunications companies have petitioned the Federal Communications Commission to regulate Internet service providers and online service providers in a manner similar to long distance telephone carriers and to impose access fees on these companies. Imposition of access fees could increase the cost of transmitting data over the Internet.

Possible state sales and other taxes could affect our results of operations We generally do not collect sales or other taxes in respect of goods sold to users on our network of Web sites. However, one or more states may seek to impose sales tax collection obligations on out-of-state companies, including Salon, which engage in or facilitate electronic commerce. A number of proposals have been made at the state and local level that would impose additional taxes on the sale of goods and services through the Internet. Such proposals, if adopted, could substantially impair the growth of electronic commerce and could reduce our ability to derive revenue from electronic commerce. Moreover, if any state or foreign country were to successfully assert that we should collect sales or other taxes on the exchange of merchandise on our network, our financial results could be harmed.

We may have year 2000 readiness issues We may discover year 2000 readiness problems in our internally developed systems that will require substantial revision. In addition, third-party software, hardware or services incorporated into our systems may need to be revised or replaced, all of which could be time-consuming and expensive. If we cannot fix or replace our internally developed proprietary software or third- party software, hardware or services before January 1, 2000 our operating costs could be increased and we could experience business interruptions which could harm our business. Additionally, if we cannot adequately address year 2000 readiness issues in our internally developed proprietary software, we could be subject to claims of mismanagement, misrepresentation or breach of contract and related litigation, which could be costly and time consuming to defend.

In addition, the software and systems of governmental agencies, utility companies, Internet access companies, third-party service providers and others outside of our control may not be year 2000 ready. If these entities are not year 2000 ready, a systemic failure beyond our control could result, including a prolonged Internet, telecommunications or general electrical failure. This type of failure would make it difficult or impossible to use the Internet or access our network of Web sites and would prevent us from publishing our content. If a prolonged failure of this type occurred, our business would be severely harmed. If our advertisers and sponsors are not year 2000 ready, they may defer or cancel advertising scheduled to appear on our network of Web sites, which could adversely affect our financial results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000 Readiness" for more detailed information.

Risks Related to This Offering Our executive officers, directors and major stockholders will retain significant control over Salon after this offering, which may lead to conflicts with other stockholders over corporate governance matters After this offering, executive officers, directors and holders of 5% or more of our outstanding common stock will, in the aggregate, own approximately 67.7% of our outstanding common stock. These stockholders would be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of

significant corporate transactions. This concentration of ownership may also delay, deter or prevent a change in control of Salon and may make some transactions more difficult or impossible without the support of these stockholders.

Our stock price may be volatile which may lead to losses by investors and securities litigation The stock market has experienced significant price and volume fluctuations and the market prices of securities of technology companies, particularly Internet-related companies, have been highly volatile. Investors may not be able to resell their shares at or above the initial public offering price. See "Plan of Distribution" for more detailed information.

In the past, securities class action litigation has often been instituted against a company following periods of volatility in the company's stock price. This type of litigation could result in substantial costs and could divert our management's attention and resources.

Our management will retain broad discretion in the use of proceeds from this offering We intend to use the net proceeds from the sale of our common stock for expansion of sales and marketing, brand promotion, working capital and general corporate purposes, including content development or expansion of our offices and possible acquisitions. Accordingly, our management will have significant flexibility in applying the net proceeds of this offering. Until the proceeds are needed, we plan to invest them in investment-grade, interest-bearing securities. The failure of our management to apply such funds effectively could harm our business. See "Use of Proceeds" for more detailed information.

Sales of additional shares of our common stock could cause our stock price to decline and could harm our ability to raise funds from stock offerings in the future Sales of a large number of shares of our common stock in the market after the offering, or the belief that such sales could occur, could cause a drop in the market price of our common stock and could impair our ability to raise capital through offerings of our equity securities. Upon completion of this offering, there will be 10,730,623 shares of our common stock outstanding. All of the 2,500,000 shares sold in this offering will be freely tradable without restrictions or further registration under the Securities Act, unless such shares are purchased by our "affiliates," as that term is defined under the Securities Act. The remaining 8,230,623 shares of common stock held by existing stockholders will be "restricted securities" as that term is defined in Rule 144 of the Securities Act. These restricted shares will be available for sale in the public market as follows:

. 75,000 restricted shares will be eligible for sale on the date of this prospectus pursuant to Rule 144(k) of the Securities Act;

. 3,804,361 restricted shares will be eligible for sale 90 days after the date of this prospectus pursuant to Rule 144 and Rule 701 of the Securities Act; and . the remainder of the restricted shares will be eligible for sale from time to time thereafter upon expiration of one-year holding periods and subject to the requirements of Rule 144.

After the completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act to register 2,875,000 shares reserved for issuance under our 1995 stock option plan and 500,000 shares reserved for our issuance under our 1999 employee stock purchase plan. Upon

registration, all of these shares will be freely tradable when issued.

Prior to this offering there has been no public market for our common stock While we have applied to list our common stock on the Nasdaq National Market, a trading market for our common stock may not develop or, if a market does develop, the common stock may still be difficult to trade. You may not be able to resell your shares at or above the initial public offering price. See "Plan of Distribution" for more detailed information.

Investors in this offering will suffer immediate dilution The initial public offering price is expected to be substantially higher than the pro forma net tangible book value per share of the outstanding common stock immediately after the offering. Accordingly, purchasers of common stock in this offering will experience immediate and substantial dilution of approximately $8.06 in net tangible book value per share, or approximately 67% of the assumed offering price of $12 per share. In contrast, existing stockholders paid an average price of $2.87 per share. Investors will incur additional dilution upon the exercise of outstanding stock options and warrants.

Forward-looking Statements

This prospectus contains "forward-looking statements" as defined in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. These statements may include statements about our:

. business strategy;

. timing of and plans for the introduction or phase-out of services;

. enhancements;

. plans for hiring additional personnel;

. entering into sponsorships or distribution partnerships;

. anticipated sources of funds, including the proceeds from this offering, to fund our operations for at least the 12 months following the date of this prospectus; and . plans, objectives, expectations and intentions contained in this prospectus that are not historical facts.

When used in this prospectus, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, actual results could differ materially from those expressed or implied by these forward-looking statements for a number of reasons, including those discussed under "Risk Factors" and elsewhere in this prospectus. We assume no obligation to update any forward- looking statements.

Use of Proceeds

We estimate that we will receive net proceeds of $27.3 million from the sale of the 2,500,000 shares of common stock in this offering, assuming an initial public offering price of $12 per share and after deducting estimated underwriting discounts and offering expenses. While we cannot predict with certainty how the proceeds of this offering will be used, we currently intend to use them approximately as follows:

. $6.0 million for expansion of our sales force, marketing and distribution activities;

. $9.0 million for expansion of our business operations, including increased staffing, content production and technology infrastructure; and . $12.3 million for general corporate purposes including working capital.

Pending these uses, the net proceeds of the offering will be invested in short-term, interest-bearing investments or accounts.

The cost, timing and amount of funds we need cannot be precisely determined at this time and will be based on numerous factors. Our board of directors has broad discretion in determining how the proceeds of this offering will be applied.

Dividend Policy

We have never paid cash dividends on our common stock and do not anticipate paying such dividends in the foreseeable future. We currently intend to retain any future earnings to develop and expand our business.

Capitalization

The following table sets forth our capitalization as of December 31, 1998, (a) on an actual basis, (b) on a pro forma basis to reflect our proposed reincorporation in Delaware and the net proceeds from the sale of 2,967,782 shares of Series C preferred stock at $3.88 per share on April 14, 1999, and the conversion of all outstanding shares of convertible preferred stock to common stock and (c) on an as-adjusted basis after giving effect to our receipt of the estimated net proceeds from the sale of the 2,500,000 shares of common stock in this offering at an assumed public offering price of $12 per share. This table only presents summary information. In reading it, you should refer to our financial statements and related notes, which are included elsewhere in this prospectus.

December 31, 1998		
	Pro	As
Actual	Forma	Adjusted
(in thousands)		

Long-term debt--including current portion..... $ 554 $ 554 $ 554 Stockholders' equity Preferred stock, $0.001 par value; 5,000,000 shares authorized and none outstanding (pro forma and as adjusted)..... -- -- -- Convertible preferred stock, no par value; 8,717,500 shares authorized and 4,351,428 shares outstanding (actual) none authorized and outstanding (pro forma and as adjusted)... 11,162 -- -- Common stock, $.001 par value; 12,500,000 shares authorized and 392,291 issued and outstanding (actual); 50,000,000 authorized (pro forma and as adjusted) 7,711,501 issued and outstanding (as adjusted); 10,211,501 issued and outstanding (pro forma)..... -- 8 10 Additional paid in capital..... 2,495 24,222 51,520 Unearned compensation..... (1,102) (1,102) (1,102) Accumulated deficit..... (10,544) (10,544) (10,544) Total stockholders' equity..... $ 2,011 $ 12,584 $ 39,884 Total capitalization..... $ 2,565 $ 13,138 $ 40,438 The common stock outstanding as shown above is based on shares outstanding as of December 31, 1998 and excludes (a) 1,813,645 shares of common stock reserved for issuance pursuant to outstanding options granted under our 1995 stock option plan; (b) 1,044,065 shares of common stock reserved for issuance pursuant to future grants under our 1995 stock option plan; (c) 500,000 shares of common stock reserved for issuance under our employee stock purchase plan; and (d) 324,564 shares of common stock issuable upon exercise of outstanding warrants or upon conversion of preferred stock issuable upon exercise of outstanding warrants.

Dilution

Pro forma net tangible book value per share represents total assets less total liabilities, after giving effect to our receipt of the net proceeds from our sale of 2,967,782 shares of Series C preferred stock at a price of $3.88 per share on April 14, 1999, divided by the number of shares outstanding as of December 31, 1998, assuming the conversion into common stock of all of our outstanding shares of preferred stock. Our pro forma net tangible book value at December 31, 1998 was approximately $12,966,000 or approximately $1.68 per share.

After giving effect to our sale of the 2,500,000 shares of common stock in this offering at an assumed initial public offering price of $12 per share, after deducting the estimated fee payable to the underwriters and offering expenses payable by us, our as adjusted net tangible book value as of December 31, 1998 would have been approximately $40,266,000 million, or $3.94 per share. This represents an immediate dilution of $8.06 per share to new investors purchasing shares in this offering. The following table illustrates this per share dilution:

```
Assumed initial public offering price per share...................       $12.00
  Pro forma tangible book value per share as of December 31,
   1998.......................................................... $1.68
  Increase per share attributable to new investors................ $2.26
  As adjusted net tangible book value after this offering.........       $ 3.94
Dilution per share to new investors in this offering..............       $ 8.06
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The following table summarizes, on a pro forma basis as of December 31, 1998, assuming conversion into common stock of all of our outstanding shares of preferred stock including 2,967,782 shares of preferred stock issued on April 14, 1999, and after giving effect to this offering, the number of shares

purchased from us, the total consideration paid and the average price per share paid by existing stockholders and by the new investors purchasing the shares offered hereby assuming an initial public offering price of $12 per share:

Shares Purchased Total Consideration ---------- ---------- Average Price Number Percent Amount Percent Per Share

Existing stockholders.....	7,711,501	76%	$22,121,000	42%	$ 2.87
New public investors.....	2,500,000	24%	30,000,000	58%	$12.00
Total.....	10,211,501	100%	$52,121,000	100%	

This information is based on pro forma shares outstanding as of December 31, 1998 and excludes (a) 1,813,645 shares of common stock reserved for issuance pursuant to outstanding options granted under our 1995 stock option plan; (b) 1,044,065 shares of common stock reserved for issuance pursuant to future grants under our 1995 stock option plan; (c) 500,000 shares of common stock reserved for issuance under our employee stock purchase plan; and (d) 324,564 shares of common stock issuable upon exercise of outstanding warrants or upon conversion of preferred stock issuable upon exercise of outstanding warrants.

Selected Financial Data

Our selected financial data set forth below as of March 31, 1997 and 1998 and for the period July 27, 1995 (inception) to March 31, 1996, and the fiscal years ended March 31, 1997 and 1998 are derived from our financial statements that have been audited by PricewaterhouseCoopers LLP, independent accountants, and are included elsewhere in this prospectus. Our selected financial data set forth below as of March 31, 1996 are derived from our audited financial statements not included elsewhere in this prospectus. Our selected financial data as of December 31, 1998 and for the nine months ended December 31, 1997 and 1998 are derived from our unaudited financial statements that include, in our opinion, all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the financial condition and results of operations for such period. The results of operations for the nine months ended December 31, 1998 or any other period are not necessarily indicative of our future results. The following information is qualified by reference to, and should be read in connection with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes, included in this prospectus.

	FISCAL YEAR ENDED MARCH 31,		FOR THE NINE MONTHS ENDED DECEMBER 31,	
JULY 27, 1995 (INCEPTION) TO MARCH 31, 1996	1997	1998	1997	1998
STATEMENT OF OPERATIONS DATA: Net revenues.....	$ 196	$ 280	$ 1,156	$ 689	$ 2,058
Operating expenses: Production, content, and product.....	463	1,555	2,832	2,071	3,135
Sales and marketing.....	124	419	1,655	1,107	2,580
Research and development..	52	176	276	203	305
General and administrative.....	43	129	291	221	338
Total operating expenses.....	682	2,279	5,054	3,602	6,358
Loss from operations.....	(486)	(1,999)	(3,898)	(2,913)	(4,300)
Other income,					

net..... 10 55 73 52 2 Net loss..... $ (476) $(1,944) $(3,825) $(2,861) $(4,298) Basic and diluted net loss per share..... $(1.26) $ (3.84) $(10.20) $ (7.63) $(11.20) Weighted average shares of common stock outstanding used in computing basic and diluted net loss per share..... 376 507 375 375 384 Pro forma basic and diluted net loss per share..... $ (1.20) $ (1.05) Shares of common stock used in computing pro forma basic and diluted net loss per share..... 3,190 4,075

	AS OF MARCH 31,			AS OF DECEMBER 31, 1998		
						AS
	1996	1997	1998	ACTUAL	PRO FORMA	ADJUSTED
BALANCE SHEET DATA (IN THOUSANDS):					(UNAUDITED)	
Cash and cash equivalents.....	$1,231	$2,638	$1,926	$1,607	$12,562	$39,862
Working capital.....	1,150	2,560	1,894	1,522	12,477	39,777
Total assets.....	1,340	2,834	2,707	3,386	14,341	41,641
Long-term liabilities.....	--	--	95	137	137	137
Total stockholders' equity....	1,247	2,697	2,194	2,011	12,966	40,266

The pro forma information above reflects the net proceeds from the sale of 2,967,782 shares of Series C preferred stock on April 14, 1999.

The as adjusted information above is adjusted to give effect to our receipt of the estimated net proceeds from the sale of 2,500,000 shares of common stock in this offering at an assumed public offering price of $12 per share.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the financial statements and related notes included elsewhere in this prospectus. In addition to historical information, the discussion in this prospectus contains certain forward-looking statements that involve risks and uncertainties. Salon's actual results could differ materially from those anticipated by these forward-looking statements due to factors discussed under "Risk Factors," "Business" and elsewhere in this prospectus.

Overview

Salon.com is a leading Internet media company that produces a network of ten subject-specific, demographically-targeted Web sites and a variety of online communities. Salon was incorporated in July 1995 and launched its initial Web sites in November 1995. Circulation of Salon's original content has grown consistently since inception to a total of approximately 1.2 million unique users and 13.2 million page views in March 1999. As of March 1999, Salon's online communities included approximately 109,500 registered users, including approximately 102,500 for Table Talk and 7,000 for The Well.

Salon has incurred significant net losses and negative cash flows from operations since its inception. As of December 31, 1998, Salon had an accumulated deficit of approximately $10.5 million. Salon intends to continue to make significant financial investments in content, marketing and promotion and the

development of technology and infrastructure. As a result, Salon believes that it will incur additional operating losses and negative cash flows from operations for the foreseeable future.

During the period from its inception in July 1995 to date, Salon's activities have primarily involved the following:

. recruiting editorial and business personnel;

. creating and expanding content;

. licensing content to distribution partners;

. establishing relationships with advertisers and sponsors;

. developing and enhancing Salon's technical infrastructure;

. developing Salon's online retail capabilities; and . raising capital.

To date, Salon's revenues have been derived primarily from the sale of banner advertising, advertising sponsorships and electronic commerce sponsorships. To a lesser extent, Salon has derived revenues from the sale of goods and services through its online store, Salon Shopping, and from the syndication of its original content to other media outlets.

Salon's advertising rates vary depending primarily on the particular content site on which advertisements are placed, the total number of impressions purchased and the length of the advertiser's commitment. Advertising revenue is recognized in the period in which the advertisement is displayed, provided that no significant obligations remain and collection of the resulting receivable is probable. Revenues related to upfront or slotting fees in connection with advertising sponsorships and electronic commerce sponsorships are recognized ratably over the sponsorship term. Electronic commerce sponsorships may provide that Salon receive commissions from electronic commerce transactions. These commissions are recognized by Salon upon notification from the sponsor.

Advertising revenues include barter revenues, which are the exchange by Salon of advertising space on Salon's Web sites for reciprocal advertising space on other Web sites or the exchange of goods and services. Revenues from these barter transactions are recorded as advertising revenues at the estimated fair value of the advertisements received or delivered, whichever is more reliably measurable, and are recognized when the advertisements are run on Salon's Web sites. Barter expenses are recorded when Salon's advertisements are run on the reciprocal Web sites, which is typically in the same period as when advertisements are run on Salon's Web sites. Salon believes that these barter transactions have been important to the establishment of the Salon brand and expects to continue to engage in these transactions in the future.

Revenues related to the sale of goods from Salon Shopping are recognized when goods are shipped. Revenues related to the syndication of Salon content to other media outlets are recognized on receipt of payment. Subscription revenues are recognized ratably over the period that services are to be provided.

Substantially all of Salon's content, as well as participation in Table Talk and Salon's third-party sponsored Internet communities are free of charge to users. In October 1998, Salon launched Salon Members, a paid membership program that provides subscribers with discounts on purchases through Salon, access to a members-only live chat session, free e-mail and other benefits. In March 1999, Salon acquired The Well, a paid online community that charges its participants a monthly subscription fee. Salon expects to continue to derive a portion of its revenues from fees charged to Salon Members and subscribers to The Well.

Recent Events

Sale of Series C Convertible Preferred Stock In April 1999, Salon completed the sale of 2,967,782 shares of Series C preferred stock at a price of $3.88 per share, with total proceeds of approximately $11.5 million. Each share of Series C preferred stock is convertible into one share of common stock upon closing of this offering. The Series C preferred stock has identical anti-dilution and dividend preferences to Salon's Series A and Series B preferred stock, and priority as to liquidation over common stock and all other series of preferred stock. Upon the closing of the sale of the Series C preferred stock on April 14, 1999, Salon's cash and cash equivalents totaled approximately $12.3 million.

Acquisition of The Well LLC Salon acquired The Well LLC in March 1999. Through this acquisition, Salon obtained a long-standing online community business, increased its presence as a provider of established online communities and created a stronger platform for future growth in the development of online communities.

Salon's acquisition of The Well LLC was accounted for using the purchase method of accounting. In connection with the acquisition, Salon recorded intangibles and goodwill of approximately $1.9 million which are being amortized on a straight line basis over 24 months. The future operating and financial performance of Salon will depend in part on its ability to integrate and operate The Well LLC successfully and to enhance the operating results of The Well LLC's business.

Salon expects to continue to enter into similar business acquisitions that may result in similar or greater non-cash charges. Because Internet business acquisitions typically involve significant amounts of intangible assets, future operating results may be adversely affected by amortization of the intangible assets acquired.

Salon Results of Operations The following table sets forth Salon's results of operations expressed as a percentage of net revenues:

		Fiscal Year Ended		For the Nine Months Ended	
	July 27, 1995 (inception) to March 31, 1996	March 31,		December 31,	
		1997	1998	1997	1998
Net revenues	100 %	100 %	100 %	100 %	100 %
Operating expenses:					
Production, content and product	235	557	245	300	152
Sales and marketing	63	150	143	160	126
Research and development	27	63	24	30	15

General and administrative....	22	46	25	32	16
Total operating expenses....	347	816	437	522	309
Loss from operations.....	(247)	(716)	(337)	(422)	(209)
Other income, net.....	5	20	6	7	--
Net loss.....	(242)%	(696)%	(331)%	(415)%	(209)%

Nine Months Ended December 31, 1998 and 1997 Net Revenues Salon's net revenues consist of the following:

. Banner advertising revenues and revenues related to sponsorship advertising;

. Electronic commerce sponsorship revenues, including slotting fees and commissions related to sales of products and services offered by online retailing partners through Salon;

. Revenues from the sale of products through Salon Shopping;

. Revenues derived from the syndication of Salon's original content and the development of content for media sources other than Salon's Web sites; and . Fees derived from paid subscription and membership programs.

Salon's net revenues increased 199% to $2.1 million in the nine months ended December 31, 1998 from $688,991 in the nine months ended December 31, 1997. The increase in net revenues is primarily attributable to an increase in revenues derived from banner advertisements, advertising sponsorships and electronic commerce sponsorships. Salon expects that sponsorship and advertising revenues will continue to represent the most significant portion of its net revenues for the foreseeable future. Net revenues derived from subscription fees are expected to increase in future periods as subscription fees related to membership in The Well are recognized by Salon.

Net revenues include revenues recognized from advertising barter transactions of $306,867 in the nine months ended December 31, 1998 and $38,851 in the nine months ended December 31, 1997.

Operating Expenses

Salon's operating expenses consist of the following:

. Production, content and product expenses;

. Sales and marketing expenses;

. Research and development expenses; and . General and administrative expenses.

Salon's operating expenses increased 77% to $6.4 million in the nine months ended December 31, 1998 from $3.6 million in the nine months ended December 31, 1997, but decreased as a percentage of net revenues to 309% from 522% over these respective periods. The increase in operating expenses for the nine months ended December 31, 1998 is primarily attributable to increased production, content and product expenses, as well as increased sales and marketing expenses. The decrease in operating expenses as a percentage of net revenues is primarily attributable to an increase in sales of sponsorships and advertising without a corresponding increase in operational expenses and the fact

that some operating expenses are relatively fixed. Salon expects that operating expenses will continue to increase substantially as it increases the scope of its content and communities, expands its marketing efforts and further develops its technology and infrastructure.

Production, Content and Product Expenses. Production, content and product expenses consist primarily of payroll and related expenses for Salon's editorial, artistic and production staff, payments to freelance writers and artists, and telecommunications and computer related expenses for the support and delivery of Salon's Web sites. Also included in production, content and product expenses are costs associated with electronic commerce transactions, including the costs of product inventory and distribution.

Production, content and product expenses increased 51% to $3.1 million in the nine months ended December 31, 1998 from $2.1 million in the nine months ended December 31, 1997, but decreased as a percentage of net revenues to 152% from 300% in these respective periods. The increase in production, content and product expenses for the nine months ended December 31, 1998 is primarily attributable to increased costs relating to growth in Salon's editorial and production staff and payments to freelance writers and artists. The decrease in production, content and product expenses as a percentage of net revenues is primarily attributable to an increase in sales of sponsorships and advertising, and due to the fact that some production and content expenses are relatively fixed and may be utilized to deliver an expanding number of advertisements. Salon anticipates that its production, content and product expenses will continue to grow substantially as it increases staffing to expand the scope and distribution of its Web sites and online communities and increases its online retailing efforts.

Sales and Marketing Expenses. Sales and marketing expenses consist of payroll and related expenses, including commissions, travel expenses and other costs associated with Salon's advertising and sponsorship sales force, as well as Salon related advertising, promotional and distribution costs. Sales and marketing expenses increased 133% to $2.6 million in the nine months ended December 31, 1998 from $1.1 million in the nine months ended December 31, 1997, but decreased as a percentage of net revenues to 126% from 160% over these respective periods. Sales and marketing expenses include expenses incurred from barter transactions of $306,867 for the nine months ended December 31, 1998 and $38,851 for the nine months ended December 31, 1997. The increase in sales and marketing expenses is primarily attributable to additional hiring of sales and marketing personnel and additional marketing costs associated with promoting the Salon brand. The decrease in sales and marketing expenses as a percentage of net revenues is primarily attributable to increased sales of advertisements and sponsorships. Salon anticipates that sales and marketing expenses will increase substantially in the future as it increases its sales force and undertakes advertising and other marketing campaigns to further promote the Salon brand and attempt to increase revenue.

Research and Development Expenses. Research and development expenses consist of costs associated with the development of technology, including Salon's publishing platform software and archival database. Research and development expenses increased 50% to $304,701 in the nine months ended December 31, 1998 from $203,408 in the nine months ended December 31, 1997, but decreased as a

percentage of net revenues to 15% from 30% over these respective periods. The increase in research and development expenses is primarily attributable to new technological developments undertaken by Salon, including the design and development of a new publishing platform and advertising delivery system, and to a lesser extent, an increase in technical support staff. The decrease in research and development expenses as a percentage of net revenues is primarily attributable to an increase in sales of advertising and sponsorships. Salon expects that research and development expenses will continue to increase substantially in the future as it further develops and refines its publishing platform, advertising delivery technology and online retailing capabilities.

General and Administrative Expenses. General and administrative expenses consist primarily of payroll and related expenses and related costs for general corporate functions. General and administrative expenses increased 53% to $337,908 in the nine months ended December 31, 1998 from $221,082 in the nine months ended December 31, 1997, but decreased as a percentage of net revenues to 16% from 32% over these respective periods. The increase in general and administrative expenses is primarily attributable to salary and related expenses for additional personnel, higher professional fees and recruitment expenses. The decrease in general and administrative expenses as a percentage of net revenues is primarily attributable to an increase in advertising and sponsorship sales and due to the fact that certain general and administrative expenses are relatively fixed. Salon expects that general and administrative expenses will continue to increase as it expands its operations and incurs additional costs related to becoming a public company.

Other Income, Net

Other income consists primarily of interest earned on Salon's cash, cash equivalents and short term investments, offset by interest expense on borrowings. Other income decreased to $1,657 in the nine months ended December 31, 1998 from $51,536 in the nine months ended December 31, 1997. The decrease in other income in the aggregate is primarily attributable to a decrease in the amount of interest earned by Salon due to a decrease in Salon's cash and cash equivalents and an increase in interest expense associated with additional borrowing under Salon's line of credit.

Fiscal Years Ended March 31, 1998 and 1997 Net Revenues Net revenues increased 314% to approximately $1.2 million in the fiscal year ended March 31, 1998 from $279,524 in the fiscal year ended March 31, 1997. The increase in net revenues is primarily attributable to an increase in the number of advertisements and sponsorships sold by Salon. Net revenues include revenues recognized from barter transactions of $75,424 for the fiscal year ended March 31, 1998 and zero for the fiscal year ended March 31, 1997.

Operating Expenses

Operating expenses increased 122% to $5.1 million in the fiscal year ended March 31, 1998 from $2.3 million in the fiscal year ended March 31, 1997, but decreased as a percentage of net revenues to 437% from 815% over these respective periods. The increase in operating expenses for the fiscal year ended March 31, 1998 is primarily attributable to increased production, content and product expenses as well as increased sales and marketing expenses. The decrease in operating expenses as a percentage of net

revenues is primarily attributable to an increase in sales of sponsorships and advertising without a corresponding increase in operational expenses and the fact that certain production expenses are relatively fixed.

Production, Content and Product Expenses. Production, content and product expenses increased 82% to $2.8 million for the fiscal year ended March 31, 1998 from $1.6 million in the fiscal year ended March 31, 1997, but decreased as a percentage of net revenues to 245% from 557% in these respective periods. The increase in production, content and product expenses for the year ended March 31, 1998 is primarily attributable to increased costs relating to growth in Salon's editorial and production staff and payments to freelance writers and artists. The decrease in production, content and product expenses as a percentage of net revenues is primarily attributable to an increase in sales of advertising and sponsorships and the fact that some production and content expenses are relatively fixed and may be utilized to deliver an expanding number of advertisements.

Sales and Marketing Expenses. Sales and marketing expenses increased 295% to $1.7 million in the fiscal year ended March 31, 1998 from $418,708 in the fiscal year ended March 31, 1997, but decreased as a percentage of net revenues to 143% from 150% over these respective periods. Sales and marketing expenses include expenses incurred from barter transactions of $75,424 for the fiscal year ended March 31, 1998 and zero for the fiscal year ended March 31, 1997. The increase in sales and marketing expenses is primarily attributable to additional hiring of sales and marketing personnel and additional marketing costs associated with promoting the Salon brand.

Research and Development Expenses. Research and development expenses increased 57% to $276,112 in the fiscal year ended March 31, 1998 from $175,614 in the fiscal year ended March 31, 1997, but decreased as a percentage of net revenues to 24% from 63% over these respective periods. The increase in research and development expenses is primarily attributable to new technological developments undertaken by Salon. The decrease in research and development expenses as a percentage of net revenues is primarily attributable to an increase in sales of advertising and sponsorships.

General and Administrative Expenses. General and administrative expenses increased 126% to $291,446 in the fiscal year ended March 31, 1998 from $129,189 in the fiscal year ended March 31, 1997, but decreased as a percentage of net revenues to 25% from 46% over these respective periods. The increase in general and administrative expenses is primarily attributable to payroll and related expenses for additional personnel and higher professional fees. The decrease in general and administrative expenses as a percentage of net revenues is primarily attributable to an increase in sales of advertising and sponsorships and the fact that some general and administrative expenses are relatively fixed.

Other Income, Net

Other income increased 33% to $72,768 in the fiscal year ended March 31, 1998 from $54,886 in the fiscal year ended March 31, 1997. The increase in other income is primarily attributable to an increase in the amount of interest earned by Salon due to an increase in Salon's cash and cash equivalents.

Income Taxes

No provision for federal and state income taxes has been recorded as Salon has incurred net operating losses through the fiscal year ended March 31, 1998. As of March 31, 1998, Salon had approximately $6.2 million of federal and state net operating loss carryforwards available to offset future taxable income. Due to the change in Salon's ownership interests in connection with this offering and prior private placements, Salon's use of these federal and state net operating loss carryforwards may be subject to certain annual limitations.

Fiscal Year Ended March 31, 1997 and Period from Inception to March 31, 1996 Net Revenues Net revenues in the fiscal year ended March 31, 1997 were approximately $279,524 as compared to $196,500 in the period from inception until March 31, 1996. Substantially all of Salon's net revenues in each of these periods were derived from advertising revenues. The increase in net revenues is primarily attributable to an increase in the number of advertisements sold by Salon and also the fact that the fiscal year ended March 31, 1997 contains twelve months as opposed to the fiscal year ended March 31, 1996, which contains approximately eight months, due to Salon's inception in July 1995.

Operating Expenses

Operating expenses increased to $2.3 million and 815% of net revenues in the fiscal year ended March 31, 1997 from $682,469 and 347% of net revenues in the period from inception until March 31, 1996. The increase in operating expenses is primarily attributable to increased production, content and product expenses associated with the establishment of Salon's Web sites.

Production, Content and Product Expenses. Production, content and product expenses increased to $1.6 million and 557% of net revenues in the fiscal year ended March 31, 1997 from $463,045 and 235% of net revenues in the period from inception until March 31, 1996. The increase in production, content and product expenses is primarily attributable to increased costs relating to growth in Salon's editorial and production staff and payments to freelance writers and artists.

Sales and Marketing Expenses. Sales and marketing expenses increased to $418,708 and 150% of net revenues in the fiscal year ended March 31, 1997 from $124,090 and 63% of net revenues in the period from inception until March 31, 1996. The increase in sales and marketing expenses is primarily attributable to additional hiring of sales and marketing personnel and additional marketing costs associated with promoting the Salon brand.

Research and Development Expenses. Research and development expenses increased to $175,614 and 63% of net revenues in the fiscal year ended March 31, 1997 from $52,374 and 27% of net revenues in the period from inception until March 31, 1996. The increase in research and development expenses is primarily attributable to technological developments related to the establishment of Salon's Web sites.

General and Administrative Expenses. General and administrative expenses increased to $129,189 and 46% of net revenues in the fiscal year ended March 31, 1997 from $42,960 and 22% of net revenues in period from inception until March 31, 1996. The increase in general and administrative expenses is primarily attributable to salary and related expenses for additional personnel and higher professional fees.

Other Income, Net

Other income increased to $54,886 in the fiscal year ended March 31, 1997 from $9,919 in the period from inception until March 31, 1996. The increase in other income is primarily attributable to an increase in the amount of interest earned by Salon due to an increase in Salon's cash and cash equivalents.

The Well LLC Results of Operations The following table sets forth The Well LLC's and its predecessor business' results of operations expressed as a percentage of net revenues. For purposes of the following discussion, results of operations for the predecessor business for the period January 1, 1997 through June 30, 1997 and for The Well LLC for the period July 1, 1997 through December 31, 1997 are combined.

	Predecessor Business, period from January 1 to June 30, 1997	The Well LLC, period from July 1 to December 31, 1997	Combined, year ended December 31, 1997	The Well LLC, year ended December 31, 1998
Subscription revenues...	100%	100%	100%	100%
Operating expenses				
Cost of subscription revenues.....	44	46	46	45
Selling and marketing.....	19	17	18	16
General and administrative.....	53	62	57	53
Total operating expenses.....	116	125	121	114
Net loss.....	(16)%	(25)%	(21)%	(14)%

Fiscal Years Ended December 31, 1998 and 1997 Subscription Revenues Subscription revenues consists of conferencing service revenues derived from monthly subscription fees charged to members of The Well LLC's online community. Net revenues decreased 6% to $484,660 in the year ended December 31, 1998 from $517,602 in the year ended December 31, 1997. The decrease in subscription revenues is primarily attributable to a decrease in subscription fees resulting from a decrease in registered members of The Well LLC's online community.

Cost of Subscription Revenues Cost of subscription revenues consists primarily of telecommunications and computer expenses. Cost of revenues decreased to $217,537 or 45% of subscription revenues in the year ended December 31, 1998 from $236,529 or 46% of subscription revenues in the year ended December 31, 1997. The decrease in cost of subscription revenues is primarily attributable to reduced fees from The Well LLC's server maintenance provider.

Selling and Marketing Expenses Selling and marketing expenses consist of payroll and related expenses, including commissions and other costs associated with The Well LLC's advertising and promotional costs. Sales and marketing expenses decreased to $78,044 or 16% of subscription revenues in the year ended December 31, 1998 from $92,546 or 18% of subscription revenues in the year ended December 31, 1997. The decrease in selling and marketing expenses in the aggregate and as a percentage of subscription revenues is primarily attributable to reduced expenses for community development and promotional materials.

General and Administrative Expenses General and administrative expenses consist primarily of payroll and related expenses for general corporate functions. General and administrative expenses decreased to $258,067 or 53% of subscription revenues in the year ended December 31, 1998 from $296,900 or 57% of subscription revenues in the year ended December 31, 1997. The decrease in general and administrative expenses in the aggregate and as a percentage of subscription revenues is primarily attributable to operating efficiencies in general corporate functions.

Selected Quarterly Results of Operations The following table presents Salon's results of operations for each of the last six quarters. The quarterly information is unaudited, but management believes that the information regarding these quarters has been prepared on the same basis as the audited financial statements appearing elsewhere in this prospectus. In the opinion of management, all necessary adjustments have been included to present fairly the unaudited quarterly results when read in conjunction with the financial statements and related notes appearing elsewhere in this prospectus.

Salon Quarterly Results of Operations September 30, December 31, March 31, June 30, September 30, December 31, 1997 1997 1998 1998 1998 1998

Net revenues.....	$ 212	$ 381	$ 467	$ 408	$ 619	$ 1,031
Production, content and product.....	715	684	764	913	1,032	1,190
Sales and marketing.....	416	396	446	747	850	983
Research and development.....	70	66	75	88	101	116
General and administrative.....	75	72	79	98	111	129
Total operating expenses.....	1,276	1,218	1,364	1,846	2,094	2,418
Loss from operations....	(1,064)	(837)	(897)	(1,438)	(1,475)	(1,387)
Other income (expense), net.....	27	10	19	13	(9)	(2)
Net loss.....	$(1,037)	$ (827)	$ (878)	$(1,425)	$(1,484)	$(1,389)

Salon has experienced seasonal and quarterly fluctuations in sales, operating expenses and net loss. Because Salon manages its business to achieve long-term strategic objectives, it may make decisions that it believes will enhance its long-term growth and profitability, even if such decisions adversely affect quarterly earnings. Salon believes that advertising sales in traditional media, such as television, generally are lower in the first and third calendar quarters of each year, and that advertising expenditures fluctuate significantly with economic cycles. Depending on the extent to which the Internet is accepted as an advertising medium, seasonality and cyclicality in the level of Internet advertising expenditures could become more pronounced. These factors could have a material adverse affect on Salon's business, results of operations and financial condition. The results of operations for any quarter are not necessarily indicative of the results of any future period. The market price of Salon's common stock may fluctuate significantly in response to these quarter-to-quarter variations.

Liquidity and Capital Resources Salon has funded its capital requirements primarily through the sale of preferred stock and a mix of short-term and long-term borrowing. Cash and cash equivalents totaled approximately $1.6 million at December 31, 1998, as compared to $1.9 million at March 31, 1998.

Net cash used for operations was $3.8 million in the nine months ended December 31, 1998, as compared to $2.6 million in the nine months ended December 31, 1997. Net cash used for operations was $3.5 million in the fiscal year ended March 31, 1998, as compared to $1.8 million in the fiscal year ended March 31, 1997. The principal use of cash from operations was the net loss generated from operations due to the expansion of Salon's editorial, marketing, sales and production staff.

Net cash used for investing activities totaled $394,152 in the nine months ended December 31, 1998, as compared to $295,030 for the nine months ended December 31, 1997. Net cash used for investing activities was $381,665 in the fiscal year ended March 31, 1998, as compared to $81,022 for the fiscal year ended March 31, 1997. Net cash used for investing activities in each of these respective periods consisted primarily of purchases of certain property and equipment, including computer equipment.

Net cash provided by financing activities was $3.8 million in the nine months ended December 31, 1998, as compared to $3.2 million in the nine months ended December 31, 1997. Net cash provided by financing activities was $3.2 million in the fiscal year ended March 31, 1998 as compared to $3.3 million in the fiscal year ended March 31, 1997. The principal sources of cash provided by financing activities in each of these respective periods was the sale of shares of Salon's preferred stock, as described below. To a lesser extent, cash provided by financing activities also resulted from borrowings under Salon's line of credit in the fiscal year ended March 31, 1998 and the nine months ended December 31, 1997 and 1998.

In September and November 1998 and April 1999, Salon raised approximately $2.75 million, $750,000 and $11.5 million through the issuance of 3,869,844 shares of its Series C preferred stock at a price of $3.88 per share. Each share of Series C preferred stock is convertible into one share of common stock. The Series C preferred stock has anti-dilution and dividend preferences similar to Salon's Series A and Series B preferred stock, and priority as to liquidation over common stock and all other series of preferred stock. The Series C preferred stock will convert into common stock upon closing of this offering.

In November 1997, Salon raised approximately $3.0 million through the issuance of 949,365 shares of its Series B preferred stock at a price of $3.16 per share. Each share of Series B preferred stock is convertible into one share of common stock. The Series B preferred stock has anti-dilution and dividend preferences similar to Salon's Series A and Series C preferred stock, and shares liquidation preferences with shares of Salon's Series A preferred stock. The Series B preferred stock will convert into common stock upon closing of this offering.

In December 1995, August 1996, and February 1997 Salon raised an aggregate of approximately $5.0 million through the issuance of 2,500,000 shares of its Series A preferred stock at a price of $2.00 per share. Each share of Series A Preferred stock is convertible into one share of common stock. The Series A preferred stock has anti-dilution and dividend preferences similar to Salon's Series B and Series C preferred stock, and shares liquidation preferences with shares of Salon's Series B preferred stock. The Series A preferred stock will convert into common stock upon closing of this offering.

Salon's capital requirements depend on numerous factors, including the success of Salon's strategies for generating revenues and the amount of resources it devotes to investments in its network, sales, marketing and brand promotion. Salon's expenditures have substantially increased since inception as its operations and staff have grown and Salon anticipates that its expenditures will continue to increase substantially for the foreseeable future. In addition, Salon will continue to evaluate possible investments in businesses, products and technologies complementary to its existing business.

Salon currently anticipates that its available cash resources, combined with the net proceeds of this offering, will be sufficient to meet its anticipated needs for working capital and capital expenditures for at least the 12 months following the date of this prospectus. Salon may need to raise additional funds, however, in order to fund more rapid expansion, to develop new or enhance existing services, to respond to competitive pressures or to acquire complementary businesses, products or technologies. If Salon raises additional funds by selling equity securities, the percentage ownership of Salon's stockholders will be reduced and its stockholders may experience additional dilution. Salon cannot be sure that additional financing will be available on terms favorable to Salon, or at all. If adequate funds are not available on acceptable terms, Salon's ability to fund expansion, react to competitive pressures, or take advantage of unanticipated opportunities would be substantially limited. If this occurred, Salon's business would be significantly harmed.

Year 2000 Readiness

Many currently installed computer systems and software products are coded to accept or recognize only two digit entries in the date code field. These systems and software products will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, computer systems and software used by many companies and governmental agencies may need to be upgraded to comply with these year 2000 requirements or risk system failure or miscalculations that could cause disruptions of normal business activities.

State of Readiness

Salon has made a preliminary assessment of the year 2000 readiness of its operating financial and administrative systems, including the hardware and software that support Salon's systems. Salon's assessment plan consists of:

. quality assurance testing of its internally developed proprietary software;

. contacting third-party vendors and licensors of material hardware, software and services that are both directly and indirectly related to the delivery of Salon's services to its users;

. contacting vendors of third-party systems;

. assessing repair or replacement requirements;

. implementing repair or replacement; and . creating contingency plans in the event of year 2000 failures.

Salon's year 2000 task force is currently conducting an inventory of and developing testing procedures for all software and other systems that it believes might be affected by year 2000 issues. Since third parties developed and currently support many of the systems that Salon uses, a significant part of this effort will be to ensure that these third-party systems are year 2000 ready. Salon plans to confirm this compliance through a combination of the representation by these third parties of their products' year 2000 readiness, as well as specific testing of these systems. Salon plans to complete this process prior to the end of the third calendar quarter of 1999. Until such testing is completed and such vendors and providers are contacted, Salon will not be able to completely evaluate whether its systems will need to be revised or replaced.

Costs

To date, Salon has spent an immaterial amount on year 2000 readiness issues, but expects to incur an additional $350,000 to $500,000 in the future in connection with identifying, evaluating and addressing year 2000 readiness issues. Most of Salon's expenses have related to, and are expected to continue to relate to, the operating costs associated with time spent by employees and consultants in the evaluation process and year 2000 readiness matters generally. Such expenses, if higher than anticipated, could have a material adverse effect on Salon's business, results of operations and financial condition.

Risks

Salon is not currently aware of any year 2000 readiness problems relating to its internally-developed proprietary systems that would have a material adverse effect on Salon's business. Salon may discover year 2000 readiness problems in these systems that will require substantial revision. In addition, third-party software, hardware or services incorporated into Salon's material systems may need to be revised or replaced, all of which could be time-consuming and expensive. The failure of Salon to fix or replace its internally developed proprietary software or third-party software, hardware or services on a timely basis could result in lost revenues, increased operating costs, the loss of users, advertisers or sponsors and other business interruptions, any of which could have a material adverse effect on Salon's business, results of operations and financial condition. Moreover, the failure to adequately address year 2000 readiness issues in its internally developed proprietary software could result in claims of mismanagement, misrepresentation or breach of contract and related litigation, which could be costly and time-consuming to defend.

Salon is heavily dependent on a significant number of third-party vendors to provide both network services and equipment. A significant year 2000-related disruption of the services or equipment that third-party vendors provide to Salon could cause Salon's users, advertisers or sponsors to consider seeking alternate content providers or cause an unmanageable burden on its technical support, which in turn could materially and adversely affect Salon's business.

In addition, governmental agencies, utility companies, Internet access companies, third-party service providers and others outside of Salon's control may not be year 2000 ready. The failure by such entities to be year 2000 ready could result in a systemic failure beyond the control of Salon, such as a

prolonged Internet, telecommunications or electrical failure, which could also prevent Salon from delivering its services to its customers, decrease the use of the Internet or prevent users from accessing its Web sites which could have a material adverse effect on Salon's business.

Contingency Plan

As discussed above, Salon is engaged in an ongoing year 2000 assessment and has not yet developed any contingency plans. The results of Salon's year 2000 simulation testing and the responses received from third-party vendors and service providers will be taken into account in determining the nature and extent of any contingency plans Salon adopts.

Recent Accounting Pronouncements In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, Disclosure About Segments of an Enterprise and Required Information, which established standards for reporting information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic area and major customers. SFAS No. 131 has been adopted by Salon at March 31, 1999. Salon does not expect the adoption of SFAS No. 131 to have an impact on Salon's results of operations, financial position or cash flows.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use. SOP 98-1 is effective for financial statements for years beginning after December 15, 1998. SOP 98-1 provides guidance over accounting for computer software developed or obtained for internal use including the requirement to capitalize specified costs and amortization of such costs. Salon does not expect the adoption of this standard to have a material impact on Salon's results of operations, financial position or cash flows.

In April 1998, the AICPA issued SOP 98-5, Reporting on the Costs of Start-up Activities. SOP 98-5, which is effective for fiscal years beginning after December 15, 1998, provides guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. As Salon has historically expensed these costs, the adoption of SOP 98-5 is not expected to have a significant impact on Salon's results of operations, financial position or cash flows.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, which are collectively referred to as derivatives, and for hedging activities. SFAS No. 133 is effective for all fiscal quarters for fiscal years beginning after June 15, 1999. Salon is assessing the potential impact of this pronouncement on its financial statements; however, Salon does not expect any significant impact since Salon currently does not have any derivative instruments and does not anticipate acquiring any.

Business

Overview

Salon.com is a leading Internet media company that produces a network of ten subject-specific, demographically-targeted Web sites and a variety of online communities. Salon believes that its network of Web sites combines the thoughtfulness of print, the timeliness of television and the interactivity of talk radio. Salon's ten content sites provide news, features, interviews and regular columnists on specific topics, from arts and entertainment to parenting and health. The main entry and navigation point to Salon's various content sites is Salon's home page at www.salon.com. Salon's online communities allow users to interact and discuss Salon content and other topics via electronic messaging. Salon's online communities include Table Talk, a free interactive forum, and The Well, a paid subscription community. Because of Salon's reputation for community building, Salon also has agreed with third parties to host communities within its network. Salon's users can access Table Talk or The Well through www.salon.com or through Salon's ten content Web sites.

Salon believes that its original, award-winning content and highly regarded interactive communities allow Salon to attract and retain users who are younger, more affluent, better educated and more likely to make online purchases than typical Internet users. Salon believes its user profile makes its network of Web sites and online communities a valuable media property for advertisers and retailers who are increasingly allocating marketing resources to target consumers online.

In March 1999, approximately 1.2 million unique users visited Salon's network of Web sites, generating about 13.2 million page views, compared to approximately 790,000 unique users and 7.7 million page views in March 1998. As of March 1999, Salon's interactive communities consisted of approximately 109,500 registered users. Salon's Table Talk forum had approximately 102,500 registered users as of March 1999, compared to approximately 81,000 registered users as of March 1998. As of Salon's acquisition of The Well in March 1999, The Well had approximately 7,000 paid subscribers.

As of March 1999, Salon had more than 175 advertisers and advertising sponsors. Salon has also recently begun to extend its electronic commerce efforts throughout its network and to develop electronic commerce sponsorships and its own online retailing capabilities through Salon Shopping. Salon believes that the online spending habits of its users present opportunities for Salon to capture additional revenues, both within Salon Shopping and on the Web pages of its commercial partners.

Industry Background

Growth in Internet Usage The Internet is fast becoming one of the most important mediums for global communication and business, allowing millions of people to gather and transfer information instantly. International Data Corporation, a market research firm, predicts that worldwide Internet use will grow to 319.8 million users in 2002 from 68.7 million users in 1997, representing 366% growth over this period. The growth in Internet users is driven by numerous factors, including:

. increased public awareness of the Internet;

. the growing base of personal computers and improved Internet access;

. increased quantity and quality of Web content; and . growing selection and acceptance of electronic commerce.

The Internet provides a unique opportunity for content providers to reach a broad base of readers on a real-time basis with a diverse body of information. Unlike traditional media, the Internet permits dissemination of content without geographic limits, print production costs or broadcast capacity constraints.

Growth in Online Advertising The Internet is an attractive medium for advertisers because it allows more flexibility, interactivity and measurement capabilities than traditional media, including print, television and radio, and provides users with immediate access to information about advertisers and their products. For example, the Internet allows advertisers to change messages frequently in response to market developments or current events. The Internet also allows advertisers to gather demographic information about users and to deliver targeted messages to specific consumer groups. According to Jupiter Communications, an independent industry research firm, total Internet advertising revenues grew from $300 million in 1996 to $1.9 billion in 1998. Jupiter Communications projects total Internet advertising revenues will grow to $7.7 billion in 2002, representing an average annual growth rate of 45% from 1998 to 2002.

[GRAPH OF TOTAL INTERNET ADVERTISING REVENUES] Source: Jupiter Communications According to International Data Corporation, of the $187 billion spent on advertising in 1997, 0.3% was spent on Internet media. In 1998, 0.8% of all dollars spent on advertising were spent on Internet media. Salon believes that the potential to shift advertising spending away from traditional media to the Internet presents a significant growth opportunity for Internet advertising.

Growth in Electronic Commerce The growing popularity of the Internet represents a substantial opportunity for companies to take advantage of the potential for conducting commercial transactions online, or "electronic commerce." IDC estimates that commerce over the Internet will increase from over $12 billion worldwide at the end of 1997 to approximately $425 billion worldwide by the end of 2002. Jupiter Communications predicts that by 2002, 44% of Internet users will make purchases online, as compared to the 22% who did so in 1998. While electronic commerce is expected to have broad application, industry experts believe that the most significant growth in electronic commerce activity will be in the markets for computer products, travel, entertainment, apparel, financial services and information services.

The Need for Compelling Internet Destinations As Internet companies compete to attract and retain users, unique content has become increasingly valuable. Salon believes compelling, original content produced by talented editorial staff is a principal feature that distinguishes Web sites from each other.

Web sites built around focused, proprietary content provide advertisers with targeted channels for reaching their desired market. To date, online advertisers and retailers have spent most of their marketing budgets on Web sites with the highest traffic volume, including "portals," which bring together and organize a wide variety of content, and "search engines," which allow users to search for

specific information. As Internet advertising and electronic commerce mature, however, Salon believes online advertisers and retailers will increasingly spend their marketing dollars on more focused Web sites to reach specific demographic groups, as has occurred in traditional advertising media.

According to a 1998 study by Forrester Research, a market research firm, a major shift in online advertising spending will occur as advertisers move media campaigns from generalized portals toward more narrowly targeted Web sites. Targeted sites provide content on designated topics, and therefore attract users looking for subject-specific information. Because targeted sites are usually the direct source of information the user wants, rather than simply a gateway to other collections of information like a portal or search engine, these sites are frequently referred to as "destination sites." Forrester estimates that portals currently receive 59% of all Internet advertising dollars while only accounting for 15% of Web traffic. However, Forrester predicts that by 2002, destination sites will attract 70% of online advertising dollars. Destination sites are attractive to advertisers and retailers because these sites allow more seamless integration of marketing campaigns and product sales with related content, and more effectively target the advertisers' and retailers' most likely customers. In addition, destination sites tend to have longer use periods, or "stickiness," further enhancing marketing and retailing opportunities.

To address the perceived lack of compelling content available through portals, a number of skillfully produced destination sites have been developed to target specific demographic groups. Examples of such sites include technology-oriented sites such as C/Net and ZDNet, financial news sites including MarketWatch.com and TheStreet.com, sports-related sites such as Sportsline.com and ESPN.com and women-oriented sites including iVillage and Women.com.

While Internet destinations like these provide advertisers and retailers with targeted marketing opportunities, they also lack the varied appeal necessary to facilitate broad-based marketing campaigns. Salon believes that the best opportunity for matching users' needs with those of advertisers and retailers on the Internet is to develop a network of destination sites that combines the quality and depth of subject-specific destination sites with the broad reach of portals and search engines. Salon believes its network of ten subject-specific Web sites and communities offers advertisers and retailers these benefits.

Salon's Strategy: To Build a Network of Premier Destination Sites Salon's strategy is to build a network of leading destination sites with compelling content and engaging interactive communities that will attract demographically valuable users, premier Internet advertisers and electronic commerce partners. To establish itself as a leading Internet network, Salon is pursuing the following goals:

Broaden Revenue Base in Advertising and Electronic Commerce As of March 1999, Salon derived revenues from a customer base of approximately 175 online advertisers. Salon believes it can substantially increase its advertiser base by targeting the more than 4,000 companies that currently advertise online. Salon intends to increase its revenue from advertising and electronic commerce through new editorial, marketing and technological initiatives.

Salon has and intends to continue to develop content-driven, long-term advertising sponsorships with leading corporate clients. These sponsorships go beyond simple banner advertising to focus on the advertiser's broader marketing objectives including branding or product introduction. Salon's sponsorships also occasionally involve offline marketing events in addition to advertising on the Salon network. Salon believes that forming these types of arrangements forges more valuable relationships between Salon and its advertisers.

To increase its electronic commerce revenues, Salon has developed strategic arrangements with sponsors including Visa International, barnesandnoble.com, Microsoft Expedia, drkoop.com and 911gifts.com. Salon will continue to pursue electronic commerce sponsorships with premier online retailers to expand the breadth of its electronic commerce offerings. Salon has created a marketplace designed to sell Salon-branded products as well as high-quality third-party products through Salon Shopping.

Expand Content and Communities With the recent launch of its Web sites Salon Health & Body and Salon People, Salon has expanded its network to ten subject-specific Web sites. Salon believes that by regularly introducing new editorial categories it will continue to draw and retain new users and advertisers. In addition, Salon recently changed its publishing cycle. Instead of publishing new items only once each day, Salon now posts headline stories, features, columns, reviews and news updates throughout the day on all ten of its Web sites. This dynamic publishing strategy is designed to attract a more consistent flow of users during the daily news cycle, and to significantly increase traffic to Salon's network of sites.

Salon has recently expanded its online community offerings through its acquisition of The Well, a paid membership community. Salon intends to further its focus on developing online communities by aggregating its community offerings under a primary gateway URL. This new structure will consist of The Well along with Table Talk, Salon's existing free interactive forum. Salon also intends to use its expertise in developing interactive communities to custom- build forums for corporate, professional and educational clients.

Expand Salon's Distribution Partnerships Building on its strength as a premier Internet content producer, Salon has established distribution relationships with major portals including America Online, Lycos, Go.com, AltaVista, @Home and Snap! These arrangements typically place Salon's logo and content on the distribution partner's site, and provide links back to Salon's network. Salon also has distribution arrangements with other major content sites and distributors, including CNN.com and Reuters. Online and print versions of leading technology publications including Wired Digital and the Industry Standard also link or refer to Salon content. In order to further broaden awareness of the Salon brand and drive more users to Salon's network, Salon continues to pursue distribution arrangements with additional portals and other leading Internet destination sites.

Grow Salon's Brand Recognition Through Advertising and Syndication Salon believes that the further establishment of the Salon brand is critical to drawing more users to its network. Salon believes it has derived considerable publicity through its award-winning content and can significantly grow its brand awareness through increased advertising and syndication.

To date, Salon has made limited investments in advertising to promote the Salon brand. In April 1999, Salon launched its first national marketing campaign to increase its brand awareness within key consumer groups and urban markets. Salon's efforts will include online, radio and print advertising introducing the slogan "Salon. . . Makes You Think." Salon believes this campaign will capitalize on its appeal to high-value users.

Salon currently licenses its content to magazines around the world through Salon's own syndication efforts and to daily newspapers through United Features Syndicate. In addition, Salon has arranged for the publication of two books derived from Salon's original content: Mothers Who Think: Tales of Real-Life Parenthood, published in April 1999, and The Salon Readers Guide to Contemporary Literature, expected to be published in 2000. Salon believes that continued exposure through these and other traditional media outlets will be crucial to increasing awareness of the Salon brand.

Enhance Salon Technology to Improve Production, User Experience, Advertising Delivery and Circulation Analysis Salon has begun to substantially invest in personnel and software development tools to create a state-of-the-art online publishing system. This system is designed to optimize the Salon network's user experience and advertising performance. Salon believes its new custom-built, Linux-based platform will give Salon the ability to store Salon's content in a database and automatically assemble pages. This system facilitates easier navigation of Salon's Web sites as well as printing, bookmarking and e-mailing of Salon content for users. Salon's technological upgrade also includes new circulation management software to improve user traffic analysis and reporting as well as an enhanced advertising delivery system.

The Salon Network

Salon's network consists of ten subject-specific destination sites as well as free and subscription-based interactive communities. The main gateway to these Web sites and communities is the Salon home page at www.salon.com.

Destination Sites

Salon's subject-specific Web sites provide a continuously updated array of news, features, interviews and regular columnists.

News Salon News provides headline stories, investigative features and commentary on daily events. Salon's news operation distinguished itself in 1998 by breaking national news stories on the independent counsel's investigation of President Clinton and the resulting impeachment proceedings. Salon is investing further in its news-gathering operations by opening a Washington news bureau and adding experienced political reporters to its staff.

Technology Salon Technology posts news stories, exclusive features and commentary on the business and culture of the digital world. Salon believes its technology site offers users an understandable perspective on major trends, including the Linux "open source" movement, the MP3 format for digital music and Microsoft's antitrust case. Salon believes that its technology coverage goes beyond the headlines and "trade talk" content of other technology Web sites, and is an important reason that popular sites like C/Net link to Salon content on a regular basis.

Arts & Salon Arts & Entertainment publishes up-to-the-minute Entertainment coverage of movies, television and music. Salon's staff of entertainment critics and reporters is based in Salon's New York office, and was assembled from established publications including The New Yorker, Vanity Fair and the Boston Phoenix. Salon believes its coverage of popular culture is more insightful and edgy than that of other online and traditional media.

Mothers Who Salon Mothers Who Think is a critically acclaimed Think parenting site that features the work of well-known writers including Anne Lamott, Jayne Anne Phillips, Bobbie Ann Mason, Julia Alvarez, Katie Roiphe and Sallie Tisdale. Salon Mothers Who Think publishes essays and reporting with an honest, unsentimental view of family life and related social issues. An anthology of Salon Mothers Who Think stories was published in April 1999 by Random House/Villard.

Health & Body Salon Health & Body features reporting, commentary and headline news on the healthcare industry, biomedical research, alternative medicine, sexual health, nutrition and fitness. In addition, Salon Health & Body users can access a database of health information, as well as buy pharmaceutical products online through Salon's partnership with drkoop.com, the health services Web site developed by the former U.S. Surgeon General.

Books Salon Books publishes daily reviews of fiction and non- fiction titles as well as author interviews and exclusive news coverage of the publishing industry. Salon believes its presence in the book industry is highlighted and reinforced each year by the Salon Book Awards, an online and offline event recognizing Salon editors' choices for the ten best books of the year. Salon Books is sponsored by barnesandnoble.com, Salon's electronic commerce partner for book retailing.

Media Salon Media covers the broadcast, print and electronic press in a critical and irreverent manner. The site features the work of three columnists who offer scoops as well as timely analysis on the media industry.

Travel Salon Travel is an award-winning site known for its literary quality, featuring well-known writers including Paul Theroux, Peter Mayle, Isabel Allende and Jan Morris. Salon Travel also offers service features including a traveler's advice column, a readers' tips department and a flight attendant's diary. In addition, the site provides users the opportunity to buy airline tickets and hotel accommodations through Salon's electronic commerce partnership with Microsoft Expedia.

People Salon People focuses on the world of celebrities, covering notable figures in entertainment, politics, business, technology and other fields that compel public interest. Salon People includes a weekly profile series, Brilliant Careers, sponsored by Lexus, as well as a daily column of celebrity "dish," obituaries and interviews.

Comics Salon Comics serves as a showcase for regular Salon cartoonists including Tom Tomorrow and Ruben Bolling, as well as Bob Callahan and Spain Rodriguez's original comic serial, "Dark Hotel."

Online Communities

Salon's online communities allow users to discuss Salon content, as well as to interact with other users and Salon's editorial staff. Salon's network of communities is accessible through www.salon.com and Salon's ten subject- specific sites. These communities help foster user loyalty and stickiness, qualities valued by Internet advertisers and online retailers.

Table Talk

Salon's Table Talk is a free interactive community where Salon users can share their opinions on a wide variety of topics with Salon editors and with each other. Salon also frequently arranges for featured guests, including well- known commentators and writers, to join Table Talk discussions. Salon's Table Talk is one of the most popular communities on the Web, according to a survey conducted in May 1998 by Forum One, an Internet community measurement service, which ranked online discussion groups by their number of postings. As of March 1999, Table Talk had approximately 102,500 registered members and more than 4,000 different ongoing Table Talk discussions on a wide range of subjects.

The Well

The Well, a community which Salon acquired in March 1999, has been operating since 1985 and is one of the most established Internet community brands, with approximately 7,000 registered users as of March 1999. In contrast to Table Talk, The Well is a paid subscription community that provides Salon with direct revenues from its users. Active members of The Well pay a fee of $10 to $15 per month to participate in private discussion groups. Salon intends to build on The Well's established reputation as a premier interactive community and promote The Well on Salon's network to its established user base as a forum for highly focused and engaged discussion.

Community Partnerships Salon's reputation for building online communities creates opportunities to establish communities for other content providers. Recently, Salon entered into agreements to establish communities for National Public Radio and Go.com. Salon believes that building third-party communities provides it with attractive cross-marketing opportunities. It also gives Salon the opportunity to derive additional advertising, sponsorship and electronic commerce transaction revenues by providing user-driven forums outside of Salon's natural user base. Salon intends to develop additional community partnerships to establish Salon as the preferred destination for compelling online discussions.

Distribution Agreements Salon has entered into a number of distribution agreements to generate traffic and to promote the Salon brand name. Many of these agreements are "content-for-carriage," in which Salon provides its proprietary content to a distribution partner and receives prominent placement of its logo and content on the distribution partner's site, as well as links back to Salon's network.

Salon has entered into distribution and content relationships with many of the major portal and content aggregation sites on the Web, including:

- America Online
- AltaVista
- Lycos
- TheStreet.com
- CNN.com
- @Home
- EchoStar
- PointCast
- WebTV

. Go.com	. C/Net	. Snap!
. Netscape	. Rocket eBook	. Reuters

In August 1998, Salon entered into a two-year interactive services agreement with America Online. Under the agreement, Salon has an anchor tenancy position on the AOL service, including a dedicated Salon home page. Salon pays AOL a carriage fee and AOL guarantees Salon a minimum number of impressions per year.

In September 1998, Salon entered into a three-year content distribution arrangement with One Zero Media Inc. Under the agreement, Salon receives top- level positioning within AltaVista's entertainment channel, and is guaranteed a minimum number of click-throughs from the AltaVista service. Salon pays One Zero Media a carriage fee, consisting of a combination of cash and barter advertising.

In March 1999, Salon entered into a one-year content distribution agreement with Lycos. Under the agreement, Salon content is co-branded and marketed throughout the Lycos site. The resulting traffic is directed to Salon's servers. Salon receives a percentage of advertising revenue generated on these co-branded pages and numerous links from top level pages on Lycos' site to Salon's network.

In November 1998, Salon entered into a one-year content distribution arrangement with Go.com. Under the agreement, Salon became the anchor tenant of Go.com's books area, providing book-oriented content that appears on co-branded pages on the Go.com site. In addition, Salon arranges for and moderates guest "chats" in the co-branded area. Salon receives a percentage of advertising revenue generated on these co-branded pages and numerous links from top level pages on Go.com to Salon's network.

In April 1998, Salon entered into a one-year agreement with Netscape. Under the agreement, Salon receives prominent placement in Netscape's In-Box Direct program. Netscape users can subscribe to an e-mail version of Salon featuring links to Salon's network. In March 1999, Salon extended its relationship with Netscape to provide headlines to Netscape's My Netscape area. In exchange, Salon receives links back to Salon's network.

In March 1999, Salon entered into a one-year agreement with TheStreet.com. Under the agreement, Salon receives TheStreet.com content and presents it in Salon News. Salon receives a percentage of advertising revenue generated on these co-branded pages.

In October 1998, Salon entered into a month-to-month agreement with CNN Interactive. Under the agreement, Salon Books content is co-branded on CNN.com's books area. Salon also receives links back to Salon's network.

In December 1996, Salon entered into an agreement with @Home under which Salon content and headlines appear on the @Home service, and Salon receives links back to Salon's network.

In February 1999, Salon entered into a three-month, renewable agreement with C/Net. Under this agreement, links to two Salon Technology stories per week are presented on C/Net's News.com site, and Salon links to one News.com story per day.

In December 1998, Salon entered into a two-year agreement with NuvoMedia's Rocket eBook. Under the agreement, Salon content is distributed to users of the Rocket eBook service via a Web site operated by Rocket eBook. Salon receives prominent branding on the NuvoMedia Web site and has the right to sell Rocket eBooks from Salon's network. Salon will receive a percentage of sales of Rocket eBooks sold on Salon's network.

In January 1999, Salon entered into a three-year data broadcasting agreement with EchoStar. Under the agreement, Salon content, including multimedia components, will be distributed via satellite as a paid "interactive channel" available to EchoStar's 1.7 million subscribers through PCs and televisions. Salon receives a share of the subscription revenue generated by the paid interactive channel.

In July 1997, Salon entered into a agreement with PointCast under which Salon content is "pushed" to PointCast users via headlines provided by Salon to PointCast on a daily basis.

In June 1997, Salon entered into a month-to-month agreement with WebTV, under which Salon content is distributed on WebTV's entertainment channel.

In July 1997, Salon entered into a month-to-month agreement with Snap!, under which Salon provides headlines which are featured on Snap!'s Web site, in exchange for links back to Salon's network.

In April 1999, Salon entered into an two-year agreement with Reuters, under which Salon provides technology-related content to Reuters' new digital news service in exchange for links back to Salon's network.

Revenue Sources

Salon has derived a significant amount of its revenues to date from Internet advertising and sponsorships from electronic commerce partners and advertisers. For the fiscal year ended March 31, 1998, advertising and sponsorship revenues accounted for 99% of Salon's net revenues, and for the nine months ended December 31, 1998, advertising and sponsorship revenues accounted for 93% of Salon's net revenues.

Advertising Sponsorships and Banner Advertising Salon has adopted a strategy of selling long-term advertising sponsorships in addition to short-term banner advertising. Salon's sponsorship arrangements differ from traditional banner advertising in that they are designed to achieve broad marketing objectives including brand awareness, product introduction and occasional editorial content integration. Salon's sponsors often place their advertising adjacent to related editorial content to enhance their marketing campaigns. Salon's sponsorship arrangements generally have longer terms than typical banner advertising placements and provide for value-added components. Salon also offers exclusive category opportunities to sponsors, including Lexus' sponsorship of Salon's Brilliant Careers editorial series.

Salon has a large and growing base of advertisers and consistently sells a high percentage of its advertising space. Due to the high-value demographics of its users, Salon believes that it is able to attract premier Internet advertisers willing to pay higher CPM's, or cost per thousand impressions,

than are paid to other Internet destinations. Salon's average CPM of $23 per contract is approximately 53% higher than most portals, for which Jupiter Communications estimates a CPM average of $15.

According to a user survey conducted by Cyber Dialogue, an independent research firm, the Salon user base includes the following valuable demographics:

. 90% are between the ages of 18 and 49;

. 44% earn $60,000 or more per year;

. 32% earn $75,000 or more per year;

. 19% earn $100,000 or more per year;

. 98% have earned a college degree, or are pursuing one;

. 45% have earned a post-graduate degree, or are pursuing one;

. 69% have professional, managerial or technical positions; and . At least 77% have conducted electronic commerce transactions.

Additionally, the Cyber Dialogue survey also found that Salon users spend an average of 23 minutes on Salon's network each time they visit.

For the fiscal year ended March 31, 1998, IBM accounted for approximately 16% of Salon's revenues and Borders accounted for approximately 37% of Salon's revenues. For the nine months ended December 31, 1998, Borders accounted for approximately 18% of Salon's revenues. Some of Salon's 175 premier advertisers and sponsors include:

. Mercedes-Benz	. Visa International	. Starbucks	. Apple
. Lexus	. Discover Brokerage	. Macy's	. IBM
. Ford	. Ameritrade	. PolyGram	. Intel
. Budget Rent-a-Car	. AT&T	. JCPenney's	. Microsoft

In April 1999, Salon significantly revised the design of its network of Web sites to increase advertising space per page, including new space for network- wide and content-specific sponsorships. Salon believes the increased advertising inventory provided by the redesign of its network will enable it to deliver significantly more advertising impressions and revenue opportunities in the future.

Electronic Commerce Sponsorships and Transactions Salon believes that the buying patterns of its user base make its network of Web sites uniquely suited to online retailing. According to Cyber Dialogue, at least 77% of Salon's users have made purchases over the Internet, compared to an industry average of 22% in 1998, as estimated by Jupiter Communications.

Salon's strategy for capturing electronic commerce revenues is to enter into sponsorships with premium online retailers that provide for slotting fees and revenue-sharing on transactions. Slotting fees are paid to Salon by a particular retailer for a measure of exclusivity in the retailer's industry segment.

In April 1999, Salon entered into a one-year agreement with 911gifts.com, under which 911gifts.com was granted the right to become the exclusive third- party gift product retailer for Salon. The agreement requires Salon to provide a guaranteed number of impressions and links to 911gifts.com. In addition to slotting fees, Salon receives a percentage of net profits from the sale of gift products through a co-branded storefront on Salon's site, and a percentage of advertising revenue on co-branded pages.

In March 1999, Salon entered into a three-year agreement with drkoop.com. Under the agreement, Salon Health & Body content is presented in a co-branded fashion on both Salon's and drkoop.com's sites. Salon receives a percentage of net sales of pharmaceutical products through a co-branded storefront on Salon's site, and a percentage of advertising revenues from the co-branded pages on Salon's site. Salon guarantees a minimum number of impressions over the term of the agreement.

In November 1998, Salon entered into a two-year agreement with barnesandnoble.com under which barnesandnoble.com was granted the right to become the exclusive book retailer for Salon. The agreement requires Salon to provide a guaranteed number of impressions and links to the barnesandnoble.com site. In addition to slotting fees, barnesandnoble.com has agreed to provide Salon with a percentage of all purchases made through Salon beyond a minimum amount of purchases.

In October 1998, Salon entered into a six-month agreement with online travel service Microsoft Expedia, under which Expedia was granted the right to become the exclusive Internet travel agency for Salon. The agreement requires Salon to provide a guaranteed number of transfers to Expedia and the establishment of accounts. In addition to slotting fees, Expedia has agreed to pay Salon a royalty for each Expedia account opened through Salon and a fee for airline tickets purchased by Salon users.

Salon intends to continue to develop similar electronic commerce partnerships with retailers that provide goods and services tied closely to specific areas of its content. Salon's architectural design provides each of its destination sites with opportunities for electronic commerce tie-ins.

In addition to electronic commerce sponsorships, Salon has established its own online store, Salon Shopping. Salon Shopping offers an expanding range of upscale Salon-branded and third party products, as well as goods offered by its retailing partners. As Salon expands its relationships with online retailing sponsors, it expects Salon Shopping to provide a destination where Salon users can benefit from the range of commerce opportunities available throughout the Salon network.

Syndication and Licensing Since its inception, Salon has syndicated and licensed its content to media companies worldwide for publication on Web sites, and in newspapers and magazines. In addition to revenues, syndication and licensing provide Salon with valuable exposure for the Salon brand and additional traffic to Salon's network. These arrangements also require prominent placement of Salon's logo and primary Internet address in reproductions of its content.

Since 1997, Salon has maintained a worldwide agreement with United Features Syndicate to distribute Salon content to newspapers, both in print and on the Internet. As of March 1999, Salon content had been syndicated in 72 newspapers. Salon also directly licenses and syndicates to publications not

associated with United Features Syndicate. Salon has generated syndication revenues from more than 53 domestic and international magazines and other reprint vehicles.

In addition to its syndication efforts, Salon has entered into agreements with publishers to produce two books created by Salon's editors. Mothers Who Think: Tales of Real-Life Parenting was published by Random House/Villard in April 1999 and The Salon Readers Guide to Contemporary Literature is to be published by Viking/Penguin in 2000. In addition to creating additional revenues from previously produced content, Salon believes that such arrangements are tremendously valuable in promoting the Salon brand beyond its traditional user base.

Subscription Services Salon derives revenue from two paid subscription services: The Well and Salon Members. The Well, a paid subscription online community, was acquired by Salon in March 1999. As of March 1999, The Well had approximately 7,000 registered users and generated approximately $485,000 in revenues in its fiscal year ended December 31, 1998. Salon intends to generate additional subscription revenues from The Well by promoting the community on Salon's network as a forum for highly focused and engaging discussions.

Salon has also established Salon Members, an annual membership program, to provide specific products and services to its user base. Salon Members receive discounts on purchases from Salon Shopping, Salon's online store, access to the Members Lounge, a live chat session, free e-mail and Salon merchandise. As of March 1999, there were approximately 1,050 members enrolled in the Salon Members program.

Sales and Marketing

Sales

In order to reach a broad range of potential sponsors, advertisers and electronic commerce partners, Salon has built its own direct sales organization of 13 employees located in San Francisco, New York City, Chicago and Los Angeles. Salon believes its direct sales approach allows it to form stronger relationships with its advertisers and sponsors. The sales force consists of regional sales managers, account executives, sales planners and sales operations staff, under a senior vice president of sales. Salon's sales organization consults regularly with advertisers, sponsors and their agencies on design and placement of advertisements and the production and management of sponsorship campaigns. Salon hires and continues to seek out sales force representatives with experience in selling advertising in a variety of media. Salon intends to continue to expand its sales force to establish additional advertising and sponsorship arrangements.

The majority of Salon's banner advertising and advertising sponsorship sales are conducted through media buying divisions of advertising agencies. These agencies determine whether to recommend advertising on Salon's network. In some instances, Salon may conduct its sales activities directly with banner advertisers and advertising sponsors. The time between the date of initial contact with a potential banner advertiser or advertising sponsor and receipt of a purchase order from the advertiser may range from as little as one week to up to nine months.

Salon's electronic commerce sponsorships are sold as joint projects by Salon's sales, business development and electronic commerce staff. These agreements are typically negotiated directly with the electronic commerce sponsor, and have a similar sales cycle to advertising sponsorships. Salon's sales staff works closely with electronic commerce sponsors to integrate advertising, branding and buying opportunities throughout the Salon network.

Marketing

Over the last three years, Salon's visibility has increased through extensive publicity. Salon and its staff have been featured on some of the nation's leading media outlets and programs, including:

. ABC	.The Wall Street Journal	.Meet the Press
. MSNBC	.The Washington Post	.Good Morning America
. CNBC	.The New York Times	.Politically Incorrect
. NPR	.Time	.Morning Edition
. CNNfn	.Newsweek	.Crossfire

Salon also uses event marketing to build awareness among influential opinion leaders in the publishing, advertising and entertainment industry. In January 1999, Salon sponsored the Third Annual Salon Book Awards, celebrating top books selected by Salon editors. For its new Brilliant Careers editorial series, Salon will host, with advertising sponsor Lexus, an event honoring successful individuals from different fields including science, technology, arts and culture.

Salon has increased its investment in building brand awareness on and off the Internet and currently has five employees dedicated to marketing. Salon intends to utilize online advertising, traditional print, radio and television advertising as well as local and national events to communicate its marketing message and has engaged an advertising firm to assist in this effort. As part of its efforts to increase awareness for the Salon brand and drive additional users to its network, Salon has developed a significant media plan for the promotion of the Salon brand. This media effort will include online, radio and print advertising introducing the slogan "Salon . . . Makes You Think."

Competition

The market for Internet content is relatively new, rapidly changing and intensely competitive. Traditional media companies, such as television broadcasters, magazine publishers and radio stations, are constantly refining their content and strategies to increase their audiences and advertising and sponsorship revenues. Additionally, the number of Web sites competing for the attention and spending of users, advertisers and sponsors has increased, and Salon expects it to continue to increase, particularly because there are so few barriers to entry on the Internet. Salon competes for users, advertisers and sponsors with the following types of companies:

. portals, including Excite, Infoseek, Lycos, Yahoo! and Netscape, which are increasingly trying to deepen their sites with content as a way of encouraging user stickiness;

. mass consumer online services including America Online and the Microsoft Network and online services focused on news, politics, technology, parenting, health and pop culture including CNN.com, MSNBC.com, Slate, iVillage, Women.com, Feed, Nerve, Thrive, Entertainment Weekly Online, TimeDigital, C/Net and ZDNet;

. community sites including Cafe Utne, Tripod, Talk City and GeoCities;

. electronic commerce services including Amazon.com, Epicurious Travel and Sharper Image; and . traditional print and broadcast media outlets and programs targeted at high-value audiences, including the New York Times, The Washington Post, Vanity Fair, Time, Newsweek, Entertainment Weekly, the New Yorker, Dateline, Politically Incorrect, Entertainment Tonight and Biography.

Increased competition could result in advertising or sponsorship price reductions, reduced margins or loss of market share, any of which could harm Salon's business. Competition is likely to increase significantly as new companies enter the market and current competitors expand their services. Many of Salon's present and potential competitors are likely to enjoy substantial competitive advantages, including the following:

. larger numbers of users;

. larger numbers of advertisers;

. greater brand recognition;

. more fully-developed electronic commerce opportunities;

. larger technical, production and editorial staffs; and . substantially greater financial, marketing, technical and other resources.

If Salon does not compete effectively or if it experiences any pricing pressures, reduced margins or loss of market share resulting from increased competition, its business could be adversely affected.

Infrastructure and Operations Salon has developed a flexible publishing structure that enables it to develop compelling and original content while responding quickly to news events and taking advantage of the ease of distribution provided by the Internet. Editors work with staff writers as well as with a variety of experienced contributing writers, freelance contributors and columnists. Ideas for Salon content flow from editor to writer and writer to editor, as well as from readers to editors. Weekly editorial meetings serve as a filter for content proposals and determine what content will occupy the featured position on Salon's home page at www.salon.com. All content that appears on Salon's network of Web sites goes through a rigorous editorial process. Site editors work with writers from assignment through final editing of material.

Salon has deployed a versatile technical infrastructure and backend systems to support its mission of providing first-rate content, community and commerce on the Internet. Salon content is developed on a proprietary software platform and captured in an Oracle database for reuse in Web and other formats. This system allows Salon content to be easily redistributed to other Web sites, newspapers and magazines, electronic devices including electronic books, pagers and handheld devices, and other print or electronic media.

Salon's Web sites are served from a mixed environment including a variety of servers using the Windows NT, Solaris and Linux operating systems. Salon's top technical priority is the fast delivery of pages to its users. Salon's systems are designed to handle significant traffic growth through the use of

load- balancing among multiple servers. Salon also relies on server redundancy to help Salon achieve its goal of 24 hour, seven-day-a-week site availability. Regular automated backups protect the integrity of Salon data.

Salon servers are maintained at Frontier GlobalCenter's media distribution center in Sunnyvale, California. Salon's contract with Frontier GlobalCenter provides bandwidth on demand to meet the fluctuating needs of Salon's network. Frontier GlobalCenter offers high-speed connections to major Internet network access points, helping ensure fast serving and delivery of Salon's Web sites, and monitors all servers via human or technical means on a continuous basis. Salon follows strict password management procedures to protect access to its servers. Salon technical staff monitors alerts from Frontier GlobalCenter and, where relevant, undertakes recommended actions to address security issues and vulnerabilities. All of Salon's servers are supported by uninterruptable power supplies for protection against power outages.

Frontier GlobalCenter provides the following features to protect against natural disaster, human error, and malicious acts:

. Multi-level card key system to control all areas of its facility;

. Visitor and vendor escorts;

. Redundant air conditioning systems;

. Intruder alarms and fire system alarms, monitored 24 hours a day;

. Dual zone, dual sensor, gas-based suppression system;

. Floors, racks, and other support systems with seismic reinforcements to protect against earthquakes; and . Redundant power systems consisting of uninterruptable power supplies and a high-capacity diesel generator.

Although Salon does not yet have a formal disaster recovery plan, one is currently in development. At Salon's San Francisco and New York offices and Frontier GlobalCenter, nightly, weekly and monthly backups are performed and sent to an off-site facility.

Proprietary Rights

Salon's success and ability to compete are significantly dependent on its proprietary content. Salon relies exclusively on copyright law to protect its content. While Salon actively takes steps to protect its proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of its content. Infringement or misappropriation of Salon's intellectual property could materially harm Salon's business. Salon also licenses content from various freelance providers and other third-party content providers. While Salon attempts to insure that third-party content may be freely licensed to Salon, other parties may assert claims of infringement against Salon relating to this content.

Salon has licensed in the past, and expects to license in the future, proprietary rights such as trademarks and copyrighted material to third parties. While Salon attempts to insure that the quality of its brand is maintained by these licensees, its licensees may take actions that adversely affect the

value of the Salon brand or Salon's other proprietary rights. Any such adverse acts could materially harm Salon's reputation and its business.

Salon recently acquired the Internet address www.salon.com. Because www.salon.com is the address of the main home page to Salon's network of sites and incorporates Salon's company name, it is a vital part of Salon's intellectual property assets. Salon does not have a registered trademark on the address, and therefore it may be difficult for Salon to prevent a third party from infringing its intellectual property rights in the address. If Salon fails to adequately protect its rights in the address, or if a third party infringes its rights in the address or otherwise dilutes the value of www.salon.com, Salon's business could be harmed.

Legal Proceedings

There are no material legal proceedings pending to which Salon is a party. Salon's management knows of no legal actions being contemplated against Salon.

Employees

As of April 15, 1999, Salon had 74 full-time employees, including 45 in production and content, 21 in sales and marketing, three in research and development and five in administration. As of April 15, 1999, 56 employees were located in San Francisco, 13 employees were located in New York City, three were located in Washington, D.C. and one was located in each of Chicago and Los Angeles.

None of Salon's employees are represented by a union. Salon believes that its relationship with its employees is good.

Facilities

Salon leases approximately 9,277 square feet of space at 706 Mission Street, 2nd floor, San Francisco, California. The rent for this space is currently $13,916 per month, and the lease expires on July 31, 2002. Salon has an option to renew its lease for this space for one five-year term.

Salon leases approximately 3,903 square feet of space at 1500 Broadway, Suite 1402, New York, New York. The rent for this space is currently $13,036 per month, and the lease expires in March 2004.

Management

Executive Officers and Directors Salon's executive officers and directors and their ages as of April 15, 1999 are as follows:

Name Age Position

David Talbot..... 47 Chairman of the board, editor-in-chief and director Michael O'Donnell..... 35 Chief executive officer, president and director Andrew Ross..... 52 Vice president of business and strategic development Todd Hagen..... 39 Chief financial officer, vice president of finance and administration and secretary Bruce Roberts..... 41 Senior vice president of sales Patrick Hurley..... 37 Vice president of marketing Chad Dickerson..... 26 Vice president of technology

Ron Celmer..... 37 Director Sada Chidambaram..... 54 Director Norman Lear..... 76 Director Standish O'Grady..... 38 Director Jim Rosenfield..... 69 Director David Talbot co-founded Salon in 1995. He has served as editor-in chief and director since Salon's incorporation. He served as chief executive officer from Salon's incorporation through April 1999. He became chairman of the board in April 1999. From 1990 to 1995, Mr. Talbot was the arts & features editor for the San Francisco Examiner newspaper. Mr. Talbot has co-authored three books and written for numerous publications including The New Yorker, Rolling Stone and Playboy. Mr. Talbot holds a bachelor of arts degree in sociology from the University of California at Santa Cruz.

Michael O'Donnell has served as Salon's president and director since December 1996. He became chief executive officer in April 1999. In 1996, he served as vice president of sales and merchandising at SegaSoft, Inc., a consumer software publisher. From 1995 to 1996, Mr. O'Donnell was vice president of worldwide sales at Rocket Science Games, Inc., a consumer software publisher. From 1993 to 1995, he served as Vice President of Retail Sales at Mindscape, Inc., a consumer software publisher. Mr. O'Donnell holds a bachelor of arts degree in political science from the University of California at Berkeley.

Andrew Ross co-founded Salon in 1995. He has served as vice president of business and strategic development since 1998. From 1995 to 1998, he served as Salon's managing editor. From 1994 to 1995, Mr. Ross was the foreign/national editor of the San Francisco Examiner newspaper. Mr. Ross holds a bachelor of science degree in economics and politics from the University of London and also attended Columbia University's Graduate School of Journalism.

Todd Hagen has served as Salon's chief financial officer, vice president of finance and administration and secretary since April 1999. From 1998 to 1999, he was chief financial officer, vice president, finance and administration at Worldtalk Corp., an Internet security software company. From 1994 to 1998, he was chief financial officer and vice president, finance and administration at HyperMedia Communications, Inc., an Internet publishing company. Mr. Hagen holds a bachelor of science degree in finance and marketing from The Wharton School at the University of Pennsylvania and a master of business administration in finance and accounting from the Anderson Graduate School of Management at the University of California at Los Angeles.

Bruce Roberts has served as Salon's senior vice president of sales since April 1999. From 1995 to 1999, he was the general sales manager of KGO-TV/ABC, Inc., a broadcast affiliate of ABC owned by Disney. From 1989 to 1995 he was a sales manager at KABC-TV/ABC, Inc., a broadcast affiliate of ABC. Mr. Roberts holds a bachelor of science degree in physical education from Springfield College.

Patrick Hurley has served as Salon's vice president of marketing since March 1999. From 1998 to 1999, he served as Salon's marketing director. From 1996 to 1998, he was management supervisor at Hal Riney & Partners, an advertising agency. From 1994 to 1996, he served as account supervisor for the J. Walter Thompson advertising agency. Mr. Hurley holds a bachelor of arts degree in journalism from Marquette University.

Chad Dickerson has served as Salon's vice president of technology since July 1998. From 1997 until joining Salon, Mr. Dickerson served as director of applications development for CNN/SI Interactive, an Internet content provider. From 1996 to 1997, he was the technical product manager for CNN Interactive. From 1995 to 1996, Mr. Dickerson served as webmaster for the Atlanta Journal-Constitution newspaper. Mr. Dickerson holds a bachelor of arts degree in English literature from Duke University.

Ron Celmer has served as a director of Salon since April 1999. Mr. Celmer has been a managing director of Bear, Stearns & Co. Inc., an investment bank, and a general partner of Constellation Ventures, a venture capital firm, since 1998. In 1998 he was president of Airmedia, a software company. From 1994 to 1998 he was a general partner of Prospect Street Ventures, a venture capital firm. Mr. Celmer holds bachelor of arts degrees in economics and psychology from the University of Pennsylvania.

Sada Chidambaram has served as a director of Salon since November 1997. Mr. Chidambaram has served as president and director of ASCII Investment Management, Inc., the venture investment manager for DOTCOM Ventures, L.P., (formerly ASCII Ventures, L.P.), since 1998. From 1988 to 1998, he served as president and director of ASCII of America, Inc., the U.S. representative of ASCII Corporation, an information, entertainment and education publishing company. Mr. Chidambaram holds a bachelor of science degree in chemistry from Loyola College University in Madras, India and a master of science degree in chemical engineering from the Tokyo Institute of Technology in Japan.

Norman Lear has served as a director of Salon since April 1999. Mr. Lear has been the chairman of Act III Communications Holdings, LP, a multimedia entertainment company, since it was founded in 1986. He founded Tandem Productions, Inc. in 1959 and produced television programs including All in the Family, Sanford & Son and The Jeffersons. Mr. Lear is a member of the Television Academy Hall of Fame.

Standish O'Grady has served as a director of Salon since December 1995. Mr. O'Grady has been a managing member of H&Q Venture Associates, LLC, a venture capital firm, since its formation in 1998. From 1996 to 1998, he was a managing director in the venture capital department of Hambrecht & Quist Group, an investment banking firm. Mr. O'Grady holds a bachelor of science degree in chemical engineering from Princeton University and a master of business administration from the Amos Tuck School of Business Administration at Dartmouth College.

Jim Rosenfield has served as a director of Salon since April 1998. Mr. Rosenfield has been the president of JHR & Associates, a media consulting firm, since 1998. From 1994 to 1998, Mr. Rosenfield was managing director at the investment banking firm of Veronis Suhler & Associates. From 1987 to 1994, he was chairman and chief executive officer of John Blair Communications, Inc., a television sales and syndication company. From 1965 to 1985, Mr. Rosenfield held various executive positions at CBS Corporation, a television broadcasting and media company, including executive vice president of the Broadcast Group. Mr. Rosenfield holds a bachelor of arts degree in English from Dartmouth College.

The board of directors is divided into three classes, with each class holding office for staggered three-year terms. The terms of Messrs. O'Grady and Chidambaram will expire upon the election and qualification of directors at the annual meeting of stockholders to be held in 2000, the terms of Messrs. Celmer and Talbot will expire upon the election and qualification of directors at the annual meeting of stockholders to be held in 2001 and the terms of Messrs. O"Donnell, Lear and Rosenfield will expire upon the election and qualification of directors at the annual meeting of stockholders to be held in 2002. Officers are elected by the board of directors and serve at the direction of the board of directors. There are no family relationships among any of Salon's directors or officers.

Audit Committee

The board of directors has established an audit committee consisting of Mr. Chidambaram and Mr. Celmer. The audit committee reviews with Salon's independent auditors the scope and timing of their audit services and any other services that they are asked to perform, the auditor's report on Salon's financial statements following completion of their audit, and Salon's policies and procedures with respect to internal accounting and financial controls. In addition, the audit committee makes annual recommendations to the board of directors for the appointment of independent auditors for the ensuing year.

Compensation Committee The board of directors has established a compensation committee consisting of Mr. O'Grady, Mr. Chidambaram, Mr. Rosenfield and Mr. Celmer. The compensation committee makes recommendations to the board concerning salaries and incentive compensation for Salon's officers and employees and administers Salon's employee benefit plans.

Director Compensation Directors receive no compensation for serving as directors of Salon, except that Mr. Rosenfield receives $2,500 for each board meeting he attends. Salon also granted to Mr. Rosenfield options to purchase 37,500 shares of common stock on April 28, 1998, at an exercise price of $0.32 per share, and options to purchase 7,500 shares of common stock on April 8, 1999, at an exercise price of $2.92 per share. The options are subject to vesting over four years.

Compensation Committee Interlocks and Insider Participation None of Salon's executive officers has served as a member of a compensation committee or board of directors of any other entity which has an executive officer serving as a member of Salon's board of directors.

Employment Contracts, Termination of Employment and Change of Control Arrangements In November 1996, Salon entered into an employment agreement with Mr. O'Donnell under which he currently receives an annual salary of $175,000, and an annual bonus of up to $50,000. Mr. O'Donnell also received options to purchase 8% of Salon's then-outstanding capital stock at a purchase price of $0.20 per share, as well as the right to participate in future sales of stock by Salon to maintain his percentage ownership at 8%. This participation right will terminate upon the closing of this offering. If Mr. O'Donnell voluntarily resigns from his employment with Salon or is terminated for cause by Salon, he will be entitled to no compensation or benefits from Salon other than those earned through the date of his resignation. If Mr. O'Donnell is terminated without cause, he will be entitled to salary payments until the earlier of nine months following his termination or until he begins other employment. If Mr. O'Donnell resigns within one year of a change of control of Salon because of (a) a decrease in his base

salary or a material decrease in any of his then- existing bonus plans or employee benefits; or (b) a material adverse change in his title, authority, responsibilities or duties, then he will be entitled to salary payments until the earlier of nine months following his resignation or change in title or authority or until he begins other employment.

In March 1999, Salon entered into a letter agreement with Mr. Hagen under which he receives an annual salary of $140,000, and an annual bonus of up to $35,000. Mr. Hagen also received options to purchase 75,000 shares of Salon's common stock at an exercise price of $2.92 per share. If Salon is acquired within one year of the date Mr. Hagen began working for Salon and Mr. Hagen is terminated by the acquiror, Salon agreed to accelerate the vesting of Mr. Hagen's options by one year. If Salon is acquired more than one year following the date Mr. Hagen began working for Salon and Mr. Hagen is terminated by the acquiror, Salon will accelerate Mr. Hagen's options to the next year anniversary of the date he began working for Salon.

In April 1999, Salon entered into a letter agreement with Mr. Roberts under which he received an annual salary of $175,000, and an annual bonus of up to $50,000. Mr. Roberts also received options to purchase 87,500 shares of Salon's common stock at an exercise price of $2.92 per share. If Mr. Roberts is terminated by Salon without cause within one year of the date he began working for Salon, he will be entitled to salary payments until the earlier of one year following his termination or the date he begins other employment, and his options will immediately become fully vested. If Mr. Roberts is terminated by Salon without cause more than one year following the date he began working for Salon, he will be entitled to salary payments until the earlier of six months following his termination or the date he begins other employment, and the vesting of his options will accelerate by one year.

Mr. Roberts' options will immediately become fully vested if, within two years of a change of control of Salon, he is terminated without cause, or resigns because of:

. a decrease in his base salary or a material decrease in any of his then- existing bonus plans or employee benefits;

. a material adverse change in his title, authority, responsibilities or duties; or . the relocation of his work place for Salon to a location that is more than 75 miles from San Francisco.

Executive Compensation The following table contains summary information for the fiscal year ended March 31, 1998 regarding the compensation earned by Salon's chief executive officer and each of Salon's most highly compensated executive officers other than the chief executive officer whose salary plus bonus exceeded $100,000 for the fiscal year ended March 31, 1998. In accordance with the rules of the SEC, the compensation described in this table does not include perquisites and other personal benefits received by the executive officers named in the table below which do not exceed the lesser of $50,000 or 10% of the total salary and bonus reported for these officers.

Summary Compensation Table

		Annual Compensation	Long Term Compensation Awards Securities

Name and Principal Position	Salary	Bonus	Underlying Options/SARs

David Talbot..... $130,312 -- 175,000 Chairman of the board and editor-in-chief Michael O'Donnell..... 130,312 -- 100,000 Chief executive officer and president Marc Wernick..... 90,040 $15,000 52,500 Vice president of marketing Mr. Wernick was Salon's vice president of marketing from January 1997 to February 1998.

Option Grants

The following table sets forth certain information concerning grants of stock options to each of the executive officers named in the table above during the fiscal year ended March 31, 1998. All options granted to these executive officers in the last fiscal year were granted under the 1995 stock option plan. Each option vests and becomes exercisable over a period of four years. The percentage of total options set forth below is based on an aggregate of 1,135,000 options granted to employees in fiscal 1998. All options were granted at a fair market value as determined by the board of directors on the date of grant. The exercise price may in some cases be paid by delivery of other shares or by offset of the shares subject to options. The deemed value for the date of grant has been adjusted solely for financial accounting purposes. Potential realizable values are net of exercise price, but before taxes associated with exercise. Amounts represent hypothetical gains that could be achieved for the options if exercised at the end of the option term. The assumed 0%, 5% and 10% rates of stock price appreciation are provided in accordance with rules of the SEC and do not represent Salon's estimate or projection of the future common stock price. The assumed rate of 0% indicates the value at the effective date of the offering based on the deemed value for financial accounting purposes less the exercise price.

Options Granted in Fiscal Year Ended March 31, 1998

	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term		
	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Year	Exercise Price ($/Share)	Expiration Date	Deemed Value Per Share For Date of Grant	0%	5%	10%

David Talbot..... 175,000 15.4% $0.20 06/12/07 $0.80 $105,000 $193,045 $328,123 Chairman of the board and editor-in-chief Michael O'Donnell..... 100,000 8.8 0.20 06/12/07 0.80 60,000 110,311 187,499 Chief executive officer and president

Marc Wernick.....	42,500	3.7	0.20	06/12/07	0.80	25,500	46,882	79,687
Vice president of marketing	10,000	0.9	0.20	08/07/07	0.80	6,000	11,031	18,749

Aggregate Option Exercises in Fiscal Year Ended March 31, 1998 and Option Values at March 31, 1998 The following table sets forth-certain information concerning exercisable and unexercisable stock options held by the executive officers named in the summary compensation table at March 31,

1998.

Fiscal Year Ended March 31, 1998 Option Values

		Number of Securities Underlying Unexercised Options at March 31, 1998		Value of Unexercised In-The-Money Options at March 31, 1998	
Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable

David Talbot ..... -- -- 51,041 123,958 $ 86,770 $210,729 Chairman of the board and editor-in chief Michael O'Donnell..... -- -- 79,166 180,833 134,582 307,416 Chief executive officer and president Marc Wernick ..... -- -- 11,510 -- 19,567 -- Vice president of marketing All options were granted under Salon's 1995 stock option plan. These options vest over four years and otherwise generally conform to the terms of Salon's 1995 stock option plan. The value of unexercised options set forth above is calculated on the basis of the deemed fair value of the underlying securities on March 31, 1998 of $1.90 per share, determined for financial accounting purposes, minus the exercise price.

Stock Plans

1995 Stock Option Plan. Salon's 1995 stock option plan was approved by Salon's board of directors in December 1995 and was later approved by stockholders. The plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to employees, and for grants of nonstatutory stock options to employees, including officers, non-employee directors and consultants.

The plan is administered by Salon's board of directors or a committee of the board. Under the plan, the board or its committee has the authority to select the persons to whom options are granted and determine the terms of each option, including:

. the number of shares of common stock covered by the option;

. when the option becomes exercisable;

. the per share option exercise price, which in the case of incentive stock options must be at least equal to the fair market value of a share of common stock on the grant date or 110% of such fair market value for incentive stock options granted to 10% stockholders, and, in the case of nonstatutory stock options, must be at least 85% of the fair market value of a share of common stock on the grant date; and . the duration of the option, which may not exceed ten years, or, with respect to incentive stock options granted to 10% stockholders, five years.

Generally, options granted under the plan become exercisable as the underlying shares vest. Options granted under the plan generally vest over four years, although the board or its committee may specify a different vesting schedule for a particular grant. Options granted under the plan are non- transferable other than by will or the laws of descent and distribution.

In the event of a change in control of Salon, the acquiring or successor corporation may assume or substitute for the outstanding options granted under the plan. The outstanding options will terminate if these options are neither exercised nor assumed or substituted for by the acquiring corporation.

Currently, the maximum number of shares issuable under the plan is 2,875,000. The share reserve will automatically be increased on the first day of each calendar year of Salon beginning on and after January 1, 2001 by 5% of the number of shares of Salon's common stock that was issued and outstanding on the last day of the preceding fiscal year. As of March 31, 1999, 54,998 shares have been issued upon the exercise of options, options to purchase of a total of 1,759,686 shares at a weighted average exercise price of $0.24 per share were outstanding and 1,115,314 shares were available for future option grants.

1999 Employee Stock Purchase Plan. Currently, a total of 500,000 shares of common stock have been reserved for issuance under Salon's 1999 employee stock purchase plan, none of which have been issued as of the effective date of this offering. The plan's share reserve will automatically be increased on June 1 of each year by (a) 250,000 shares, or (b) a lower number of shares determined by the board. The first annual increase will occur on June 1, 2000 and the last annual increase will occur on June 1, 2009. The plan, which is intended to qualify under Section 423 of the Internal Revenue Code, is administered by Salon's board or by a committee of the board. Employees, including officers and employee directors, of Salon or any subsidiary designated by the board for participation in the plan are eligible to participate in the plan if they are customarily employed for more than 20 hours per week and more than five months per year.

The plan will be implemented by sequential offerings of approximately six months duration, the first of which will commence on the effective date of this offering and will terminate on January 31, 2000. Shares will be purchased on the last day of each offering period. After the effective date of this offering, offering periods under the plan will generally begin on February 1 and August 1 of each year. The board may change the dates or duration of one or more offerings, but no offering may exceed 27 months. The plan permits eligible employees to purchase common stock through payroll deductions at a price no less than 85% of the lower of the fair market value of the common stock on (a) the first day of the offering, or (b) the purchase date. Participants generally may not purchase more than 1,000 shares in a six-month offering period or stock having a value greater than $25,000 in any calendar year as measured at the beginning of the offering. In the event of a change in control of Salon, the board may accelerate the purchase date of the then current offering period to a date prior to the change in control, unless the acquiring or successor corporation assumes or replaces the purchase rights outstanding under the plan.

401(k) Savings Plan

Salon provides a tax-qualified employee savings and retirement plan, commonly known as a 401(k) plan, which covers its eligible employees. Pursuant to the 401(k) plan, employees may elect to reduce their current annual compensation up to the lesser of 15% or the statutorily prescribed limit, which is $10,000 in calendar year 1999, and have the amount of the reduction contributed to the 401(k) plan. The 401(k) plan is intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code, so that contributions by Salon or its employees to the 401(k) plan, and income earned on plan

contributions, are not taxable to employees until withdrawn from the 401(k) plan, and so that contributions will be deductible by Salon when made. The trustee of the 401(k) plan invests the assets of the 401(k) plan in the various investment options as directed by the participants.

Limitation of Liability and Indemnification Salon's certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for (a) any breach of their duty of loyalty to the corporation or its stockholders, (b) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) unlawful payments of dividends or unlawful stock repurchases or redemptions or (d) any transaction from which the director derived an improper personal benefit. This limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Salon's certificate of incorporation and bylaws provide that Salon will indemnify its directors and executive officers and may indemnify its other officers and employees and other agents to the fullest extent permitted by law. Salon believes that indemnification under its bylaws covers at least negligence and gross negligence on the part of indemnified parties. Salon's bylaws also permit it to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether Delaware law would permit indemnification.

In addition to indemnification provisions in Salon's bylaws, upon the closing of this offering, Salon will have entered into agreements to indemnify its directors and executive officers. These agreements will provide for indemnification of Salon's directors and executive officers for some types of expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by persons in any action or proceeding, including any action by or in the right of Salon, arising out of their services as a director or executive officer of Salon. Salon believes that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

Certain Transactions

Since April 1, 1997 there has been no transaction or series of transactions to which Salon was a party involving $60,000 or more and in which any director, executive officer or holder of more than five percent of Salon's capital stock had a material interest other than (a) agreements which are described where required under the caption "Management" and (b) the transactions described below.

On November 28, 1997, Salon sold an aggregate of 949,365 shares of Series B preferred stock at a price of $3.16 per share for an aggregate of approximately $3.0 million to four investors, including Adobe Ventures II, L.P., DOTCOM Ventures, L.P., formerly ASCII Ventures, L.P., and H&Q Salon Investors, L.P.

On September 18, 1998, November 3, 1998 and April 14, 1999, Salon sold an aggregate of 3,869,844 shares of Series C preferred stock at a price of $3.88 per share for an aggregate of approximately $15.0 million to thirty-five investors, including Adobe Ventures II, L.P., DOTCOM Ventures, L.P., entities

affiliated with Constellation Ventures, H&Q Salon Investors, L.P., Wasserstein Adelson Ventures, L.P. and entities affiliated with Bruce R. Katz. In addition, on September 18, 1998, Salon issued warrants to purchase an aggregate of 219,582 shares of common stock to Adobe Ventures II, L.P., DOTCOM Ventures, L.P. and H&Q Salon Investors, L.P. at an exercise price of $0.52 per share.

On March 29, 1999, Salon issued 463,918 shares of Series C preferred stock to Whole Earth Lectronic Link, Inc. and Bruce R. Katz in exchange for all of the membership interests of The Well LLC.

On April 14, 1999, Salon issued warrants to purchase an aggregate of 148,389 shares of Series C preferred stock at an exercise price of $3.88 to entities affiliated with Daiwa Securities America Inc., as well as a warrant to purchase 25,773 shares of Series C preferred stock at an exercise price of $3.88 per share to Act III Communications.

Upon the consummation of this offering, all outstanding shares of Series A preferred stock, Series B preferred stock and Series C preferred stock will automatically convert into shares of common stock on a one-for-one basis.

Salon intends to enter into indemnification agreements with each of its directors and officers. These indemnification agreements will require Salon to indemnify such individuals to the fullest extent permitted by Delaware law.

Salon believes that all transactions with affiliates described above were made on terms no less favorable to Salon than could have been obtained from unaffiliated third parties. Salon's charter documents require that any transactions between Salon and its directors, officers or other affiliates must be no less favorable to Salon than would be identical arm's length transactions with an unrelated third party. Such transactions will continue to be on terms no less favorable to Salon than could obtain from unaffiliated third parties.

Principal Stockholders

The following table sets forth the beneficial ownership of Salon's common stock as of April 15, 1999 and as adjusted to reflect the sale of the shares of common stock offered hereby by:

. the chief executive officer, each of the executive officers named in the summary compensation table and each of Salon's directors;

. all executive officers and directors as a group; and . each person or entity who is known by Salon to beneficially own more than 5% of Salon's outstanding common stock.

Unless otherwise indicated, the address for each of the named individuals is c/o Salon.com, 706 Mission Street, 2nd Floor, San Francisco, California 94103. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them.

Applicable percentage ownership in the table is based on 8,230,623 shares of common stock outstanding as of April 15, 1999 and 10,730,623 shares outstanding immediately following the completion of this offering. Beneficial ownership is determined in accordance with the rules of the SEC. Shares of common stock subject to options or warrants that are presently exercisable or exercisable within 60 days of April 15, 1999 are deemed outstanding for the purpose of computing the percentage ownership of the person or entity holding options or warrants, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or entity. If any shares are issued upon exercise of options, warrants or other rights to acquire Salon's capital stock that are presently outstanding or granted in the future or reserved for future issuance under Salon's stock plans, there will be further dilution to new public investors.

Percentage of Shares Outstanding Number of Shares Prior to After Name and Address of Beneficial Owner Beneficially Owned Offering Offering

Named Executive Officers and Directors			
David Talbot.....	402,083	4.8%	3.7%
Michael O'Donnell.....	158,333	1.9	1.5
Marc Wernick.....	11,510	*	*
Standish O'Grady.....	3,777,863	44.9	34.6
Sada Chidambaram.....	476,690	5.8	4.4
Jim Rosenfield.....	10,156	*	*
Norman Lear.....	283,505	3.4	2.6
Ronald Celmer.....	644,330	7.8	6.0
All executive officers and directors as a group (12 persons).....	5,866,084	66.2	51.6
5% Stockholders			
Adobe Ventures..... c/o H&Q Venture Associates, LLC One Bush Street, San Francisco, CA, 94104	2,833,397	33.8	26.1
Bruce R. Katz..... c/o Rosewood Stone Group 2320 Marinship Way, Ste. 240 Sausalito, CA 94965	973,003	11.8	9.1
H&Q Salon Investors, L.P..... c/o H&Q Venture Associates, LLC One Bush Street, San Francisco, CA 94104	944,466	11.4	8.8

PERCENTAGE OF SHARES OUTSTANDING NUMBER OF SHARES PRIOR TO AFTER NAME AND ADDRESS OF BENEFICIAL OWNER BENEFICIALLY OWNED OFFERING OFFERING Constellation Venture Capital..... 644,330 7.8 6.0 575 Lexington Avenue, New York, NY 10022 Wasserstein Adelson Ventures, L.P..... 515,464 6.3 4.8 31 W. 52nd Street, 26th Floor, New York, NY 10019 DOTCOM Ventures, L.P..... 476,690 5.8 4.4 3945 Freedom Circle, Suite 730, Santa Clara, CA 95054 * Less than 1% Shares listed as held by Mr. Talbot include 102,083 shares subject to options exercisable within 60 days of April 15, 1999.

Shares listed as held by Mr. O'Donnell are shares subject to options exercisable within 60 days of April 15, 1999.

Shares listed as held by Mr. O'Grady consist of 2,112,341 shares held by Adobe Ventures, L.P., 579,896 shares held by Adobe Ventures II, L.P., 897,413 shares held by H&Q Salon Investors, L.P., 141,160 shares issuable upon exercise of warrants held by Adobe Ventures, L.P. and 47,053 shares issuable upon exercise of warrants held by H&Q Salon Investors, L.P. Mr. O'Grady is the manager of Adobe Ventures Management, LLC, which is a general partner of Adobe Ventures II, L.P. and he is also the manager of Salon Investors Management, LLC, which is a general partner of H&Q Salon Investors, L.P. Mr. O'Grady has voting and investment power with respect to the shares held by Adobe Ventures II, L.P. and H&Q Salon Investors, L.P. and may be deemed to beneficially own these shares. Mr. O'Grady disclaims beneficial ownership of these shares, except to the extent of his proportionate interest in them.

Shares held by Mr. Chidambaram consist of 445,321 shares held DOTCOM Ventures, L.P. and 31,369 shares subject to warrants held by DOTCOM Ventures, L.P. Mr. Chidambaram is president and director of ASCII Investment Management, Inc., the venture investment manager for DOTCOM Ventures, L.P. Mr. Chidambaram has voting and investment power with respect to the shares held by DOTCOM Ventures, L.P. and may be deemed to beneficially own these shares. Mr. Chidambaram disclaims beneficial ownership of these shares, except to the extent of his proportionate interest in them.

Shares listed as held by Mr. Rosenfield are shares subject to options exercisable within 60 days of April 15, 1999.

Shares listed as held by Mr. Lear consist of 257,732 shares and 25,773 shares subject to warrants held by ACT III Communications. Mr. Lear is the chairman of ACT III Communications, has voting and investment power with respect to the shares held by it, and may be deemed to beneficially own these shares. Mr. Lear disclaims beneficial ownership of these shares, except to the extent of his proportionate interest in them.

Shares listed as held by Mr. Celmer consist of 530,192 shares held by Constellation Venture Capital, L.P. and 114,138 shares held by Constellation Venture Offshore, L.P. Mr. Celmer is the general partner of Constellation Ventures. Mr. Celmer has voting and investment power with respect to the shares held by Constellation Venture Capital and Constellation Venture Offshore and may be deemed to beneficially own these shares. Mr. Celmer disclaims beneficial ownership of these shares, except to the extent of his proportionate interest in them.

Shares listed as held by Adobe Ventures consist of 2,112,341 shares and 141,160 shares issuable upon exercise of warrants held by Adobe Ventures, L.P. and 579,896 shares held by Adobe Ventures II, L.P.

Shares listed as held by Bruce R. Katz include 46,392 shares held by Bruce R. Katz, as trustee of Bruce R. Katz and Whole Earth Lectronic Link, Inc. escrow account and 408,382 shares held by Whole Earth Lectronic Link, Inc.

Shares listed as held by H&Q Salon Investors, L.P. include 47,053 shares issuable upon exercise of warrants.

Shares listed as held by Constellation Venture Capital consist of 530,192 shares held by Constellation Venture Capital, L.P. and 114,138 shares held by Constellation Venture Capital Offshore, L.P.

Shares listed as held by DOTCOM Ventures, L.P. include 31,369 shares subject to warrants.

Shares listed as held by all directors and executive officers as a group include 383,696 shares subject to options exercisable within 60 days of April 15, 1999.

Description of Capital Stock

Upon completion of this offering, Salon's authorized capital stock will consist of 50,000,000 shares of common stock and 5,000,000 shares of preferred stock. The following summary of certain provisions of the common stock and the preferred stock is subject to, and qualified in its entirety by Salon's certificate of incorporation and bylaws and by the provisions of applicable law.

Common Stock

As of April 15, 1999 there were 447,496 shares of common stock outstanding held of record by 12 stockholders. Subject to preferences that may be applicable to any preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available therefor at such times and in such amounts as the board from time to time may determine in its sole discretion. Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. Cumulative voting for the election of directors is not authorized by Salon's certificate of incorporation, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election. The common stock is not entitled to preemptive rights and is not subject to conversion or redemption. Upon liquidation, dissolution or winding-up of Salon, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation of any preferred stock. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon completion of this offering will be, upon payment, duly and validly issued, fully paid and nonassessable. The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of any shares of preferred stock which Salon may issue in the future.

Preferred Stock

Upon completion of this offering, all outstanding shares of preferred stock will be converted on a one-to-one one basis into 7,783,127 shares of common stock. However, following this conversion, under Salon's certificate of incorporation, the board of directors will have the authority, without further action by the stockholders, to issue up to 5,000,000 shares of preferred stock in one or more series. The board can fix the rights, preferences and privileges of the shares of each series and any qualifications, limitations or restrictions on these shares.

The board may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes could, under certain circumstances, have the effect of delaying, deferring or preventing a change in control of Salon. Salon has no current plans to issue any shares of preferred stock.

Warrants

In April 1997, Salon issued a warrant to Imperial Bancorp to purchase 8,750 shares of Series A preferred stock at an exercise price of $2.00 per share. The April 1997 warrant may be exercised at any time within five years after issuance of the warrant. In April 1998, Salon issued a warrant to Imperial Bancorp to purchase 11,867 shares of Series B preferred stock at an exercise price of $3.16 per share. In December 1998, Salon issued a warrant to Imperial Bancorp to purchase 14,439 shares of Series C preferred stock at an exercise price of $3.88 per share. Under the terms of the December 1998 warrant, additional shares become subject to the terms of the December 1998 warrant under certain circumstances. The April and December 1998 warrants may be exercised at any time within seven years after issuance. Upon completion of this offering, all warrants held by Imperial Bancorp will convert into the right to purchase an equivalent number of shares of Salon's common stock at the same exercise price per share.

In July 1998, Salon issued a warrant to America Online Inc. to purchase 79,114 shares of Series B preferred stock at an exercise price of $3.16 per share. Upon completion of this offering, the warrant will convert into the right to purchase an equivalent number of shares of Salon's common stock at the same exercise price per share. The warrant may be exercised at any time within five years after issuance.

In September 1998, Salon issued a warrant to Adobe Ventures II L.P. to purchase 141,160 shares of common stock at an exercise price of $0.52 per share. The warrant may be exercised at any time within ten years after issuance.

In September 1998, Salon issued a warrant to DOTCOM Ventures, L.P. to purchase 31,369 shares of common stock at an exercise price of $0.52 per share. The warrant may be exercised at any time within ten years after issuance.

In September 1998, Salon issued a warrant to H&Q Salon Investors, L.P. to purchase 47,053 shares of common stock at an exercise price of $0.52 per share. The warrant may be exercised at any time within ten years after issuance.

In April 1999, Salon issued warrants to entities affiliated with Daiwa Securities America Inc. to purchase an aggregate of 148,389 shares of Series C preferred stock at an exercise price of $3.88 per share. The warrant may be exercised at any time within five years after issuance. Upon completion of this offering, the warrant will convert into the right to purchase an equivalent number of shares of Salon's common stock at the same exercise price per share.

In April 1999, Salon issued a warrant to ACT III Communications to purchase 25,773 shares of Series C preferred stock at an exercise price of $3.88 per share. The warrant may be exercised at any time within five years after issuance. Upon completion of this offering, the warrant will convert into the right to purchase an equivalent number of shares of Salon's common stock at the same exercise price per share.

Registration Rights of Certain Holders Following the sale of the common stock offered hereby, the holders of approximately 8,158,127 shares of common stock and 288,332 shares of stock issuable upon exercise of warrants will have certain rights to register those shares under the Securities Act and

an amended and restated rights agreement. Subject to certain limitations in the rights agreement, (a) the holders of at least 25% of such shares, (b) the holders of at least 20% of the then- outstanding shares issued upon conversion of the Series C preferred stock, or (c) shares with an expected aggregate offering price to the public of at least $5 million, may require, on three occasions, that Salon use its best efforts to register such shares for public resale. If Salon registers any of its common stock for its own account or for the account of other security holders, the holders of such shares are entitled to include their shares of common stock in the registration, subject to the ability of the underwriters to limit the number of shares included in the offering. Any holder or holders of such shares may also require Salon to register all or a portion of their registrable securities in a registration statement on form S-3 when Salon is eligible to use that form, provided, among other limitations, that the proposed aggregate price to the public is at least $500,000 and that Salon has not effected two of these registrations in any 12-month period. Salon will bear all fees, costs and expenses of these registrations, other than underwriting discounts and commissions.

All of the registration rights described above are subject to conditions and limitations, among them the right of the underwriters in any underwritten offering to limit the number of shares of common stock to be included in a registration. Registrations of any shares of common stock held by holders with registration rights would result in these shares being freely tradable without restriction under the Securities Act upon the effective date of the registration. Under the rights agreement Salon also agreed to indemnify the holders of registration rights.

Delaware Law and Provisions of Salon's Certificate of Incorporation and Bylaws Provisions of Delaware law and Salon's certificate of incorporation and bylaws could make more difficult the acquisition of Salon by means of a tender offer, a proxy contest, or otherwise, and the removal of incumbent officers and directors. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of Salon to first negotiate with its board of directors. Salon believes that the benefits of increased protection of Salon's potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure Salon outweighs the disadvantages of discouraging these proposals, including proposals that are priced above the then current market value of its common stock, because, among other things, negotiation of these proposals could result in an improvement of their terms.

Salon is subject to Section 203 of the Delaware General Corporation Law. This provision generally prohibits any Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date the stockholder became an interested stockholder, unless:

. prior to that date the board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

. upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock outstanding at the time the transaction began; or . on or following that date, the business combination is approved by the board

of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines a business combination to include:

. any merger or consolidation involving the corporation and the interested stockholder;

. any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

. subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

. any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or . the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person.

Salon's certificate of incorporation provides that, upon the closing of this offering, the board of directors will be divided into three classes of directors with each class serving a staggered three-year term. The classification system of electing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of Salon and may maintain the incumbency of the board of directors, as the classification of the board of directors generally increases the difficulty of replacing a majority of the directors. Salon's certificate of incorporation eliminates the right of stockholders to call special meetings of stockholders. The certificate of incorporation and bylaws do not provide for cumulative voting in the election of directors. The authorization of undesignated preferred stock makes it possible for the board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of Salon. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of Salon. The amendment of any of these provisions would require approval by holders of at least 66 2/3% of the outstanding common stock.

Transfer Agent and Registrar The transfer agent and registrar for Salon's common stock is .

Listing

Salon has applied to list its common stock on the Nasdaq National Market under the trading symbol "SALN."

Shares Eligible for Future Sale

Upon the closing of this offering, Salon will have outstanding an aggregate of 10,730,623 shares of common stock. Of these shares, the 2,500,000 shares sold in this offering will be freely tradable without restrictions or further registration under the Securities Act unless such shares are purchased by "affiliates" of Salon, as that term is defined under Rule 144 under the Securities Act. The remaining 8,230,623 shares of common stock held by existing stockholders will be "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144, or Rule 701 under the Securities Act.

The restricted shares will be available for sale in the public market as follows:

. 75,000 restricted shares will be available for sale in the public market immediately following the closing of this offering pursuant to Rule 144(k);

. 3,804,361 restricted shares will become eligible for sale in the public market 90 days after the closing of this offering under Rule 144 and Rule 701 of the Securities Act; and . the remaining restricted shares will begin to be eligible for sale from time to time thereafter upon expiration of one-year holding periods and subject to the requirements of Rule 144.

In general, under Rule 144, a person, or persons whose shares are aggregated, including an affiliate who has beneficially owned shares for at least one year, is entitled to sell within any three-month period a number of shares that does not exceed the greater of (a) 1% of the number of then-outstanding shares of common stock or (2) the average weekly trading volume of the common stock during the four calendar weeks preceding the date on which notice of such sale is filed, subject to certain restrictions. In addition, a person who is not deemed to have been an affiliate of Salon at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years would be entitled to sell such shares under Rule 144(k) without regard to the requirements described above. If shares were acquired from an affiliate of Salon, that affiliate's holder period to effect a sale under Rule 144 commences on the date of transfer from the affiliate. The foregoing is only a summary of Rule 144 and is not intended to be a complete description of it.

429,996 of the restricted shares were issued in reliance upon Rule 701. Securities issued in reliance upon Rule 701 may be sold by persons that are not affiliates subject to the manner of sale provisions of Rule 144 and by affiliates subject to Rule 144 without compliance with its one-year minimum holding period requirement.

As of March 31, 1999, 1,759,686 shares of common stock subject to outstanding options were issuable pursuant to the 1995 stock option plan. After the completion of this offering, Salon intends to file a registration statement under the Securities Act to register 2,875,000 shares of common stock reserved for issuance under the 1995 stock option plan and 500,000 shares of common stock reserved for issuance under the employee stock purchase plan. This registration statement will become effective immediately upon filing.

Prior to this offering, there has been no public market for the common stock of Salon, and the effect, if any, that the sale or availability for sale of shares of additional common stock will have on the trading price of the common stock cannot be predicted. Nevertheless, sales of substantial amounts of such shares in the public market, or the perception that such sales could occur, could adversely affect the trading price of the common stock and could impair Salon's future ability to raise capital through an offering of its equity securities.

Plan of Distribution

Subject to the terms and conditions of an underwriting agreement, W.R. Hambrecht & Company, LLC and Daiwa Securities America Inc., as underwriters, have agreed to purchase from Salon the following respective number of shares of common stock at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus.

Number of Underwriter Shares W.R. Hambrecht & Company, LLC..... Daiwa Securities America Inc..... Total..... 2,500,000 The underwriting agreement provides that the obligations of the underwriters are subject to conditions, including the absence of any material adverse change in Salon's business, and the receipt of certificates, opinions and letters from Salon and its counsel and independent accountants. Subject to those conditions, the underwriters are committed to purchase all shares of common stock offered if any of the shares are purchased.

The underwriters propose to offer the shares of common stock directly to the public at the offering price set forth on the cover page of this prospectus, as this price is determined by the process described below, and to certain dealers at this price less a concession not in excess of $ per share. Any dealers or agents that participate in the distribution of the common stock may be deemed to be underwriters within the meaning of the Securities Act, and any discounts, commissions or concessions received by them and any provided by the sale of the shares by them might be deemed to be underwriting discounts and commissions under the Securities Act. After the completion of the initial public offering of the shares, the public offering price and other selling terms may be changed by the underwriters.

The public offering price set forth on the cover page of this prospectus will be based on the results of an auction process, rather than solely through negotiations between Salon and the underwriters. The plan of distribution of the offered shares differs somewhat from traditional underwritten public offerings of equity securities.

The auction process will proceed as follows:

. Prior to effectiveness of the registration statement relating to this offering, the underwriters and participating dealers will solicit indications of interest from prospective investors through the Internet as well as by traditional means. The indications of interest will specify the number of shares the potential investor proposes to purchase and the price the investor is willing to pay for the shares. The public offering price will ultimately be determined by negotiation between the underwriters and Salon. The principal factor in establishing the public offering price will be the price per share, or clearing

price, that equals the highest price set forth in valid indications of interest at which all of the shares may be sold to potential investors. The public offering price may be lower than the clearing price based on negotiations between the underwriters and Salon. Valid indications of interest are those that meet the requirements, including suitability, account status and size, established by the underwriters or participating dealers.

. In determining the validity of indications of interest, in addition to minimum account balances, a prospective investor submitting indications of interest through a W.R. Hambrecht & Company, LLC brokerage account may be required to maintain an account balance equal to or in excess of the aggregate dollar amount of the prospective investor's indications of interest. Although funds may be required to be in an account, the funds will not be transferred to the underwriters until the closing of the offering. Conditions for valid indications of interest, including suitability standards and account funding requirements, of other underwriters or participating dealers may vary.

. The offered shares will be purchased from Salon by the underwriters and offered through the underwriters and participating dealers to investors who have submitted indications of interest at or in excess of the public offering price. The number of shares offered to an investor submitting an indication of interest precisely at the public offering price may be subject to a pro rata reduction. Each participating dealer has agreed with the underwriters to offer shares they purchase from the underwriters in this manner, unless otherwise consented to by the underwriters. Shares issued upon exercise of the underwriters' over-allotment option will be allocated in the same manner. The underwriters reserve the right, in exceptional circumstances, to alter this method of allocation as they deem necessary to effect a fair and orderly distribution of the offered shares. For example, large orders may be reduced to insure a public distribution and indications of interest may be rejected by the underwriters or participating dealers based on suitability or creditworthiness criteria.

Price and volume volatility in the market for Salon's common stock may result from the somewhat unique nature of the proposed plan of distribution. Price and volume volatility in the market for Salon's common stock after the completion of this offering may adversely affect the market price of Salon's common stock.

Salon has granted to the underwriters an option, exercisable no later than 30 days after the date of this prospectus, to purchase up to an aggregate of 375,000 additional shares of common stock at the offering price, less the underwriting discount, set forth on the cover page of this prospectus. To the extent that the underwriters exercise this option, the underwriters will have a firm commitment to purchase the additional shares, and Salon will be obligated to sell the additional shares to the underwriters. The underwriters may exercise the option only to cover over-allotments made in connection with the sale of shares offered.

The underwriting agreement provides that Salon will indemnify the underwriters against specified liabilities, including liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make.

Salon has agreed not to offer, sell, contract to sell, or otherwise dispose of any shares of common stock, or any options or warrants to purchase common stock other than the shares of common stock or options to acquire common stock issued under Salon's 1995 stock option plan, employee stock purchase plan or upon the conversion of outstanding warrants, for a period of 90 days after the date of this prospectus, except with the prior written consent of W.R. Hambrecht & Company, LLC.

Prior to the offering, there has been no public market for Salon's common stock. The initial public offering price for the common stock will be determined by the process described above and does not necessarily bear any direct relationship to Salon's assets, current earnings or book value or to any other established criteria of value, although these factors were considered in establishing the initial public offering price range. Other factors considered in determining the initial public offering price range include:

. market conditions;

. the industry in which Salon operates;

. an assessment of Salon's management;

. Salon's operating results;

. Salon's capital structure;

. the business potential of Salon;

. the demand for similar securities of comparable companies; and . other factors deemed relevant.

Persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of Salon's common stock, including over-allotment, stabilizing and short-covering transactions in Salon's common stock, and the imposition of a penalty bid, in connection with the offering.

W.R. Hambrecht & Company, LLC is an investment banking firm formed as a limited liability company in February 1998. In addition to this offering, W.R. Hambrecht & Company, LLC has engaged in the business of public and private equity investing and financial advisory services since its inception. The manager of W.R. Hambrecht & Company, LLC, William R. Hambrecht, has 40 years of experience in the securities industry. Persons affiliated and associated with W.R. Hambrecht & Company, LLC have an interest in gains realized on shares of Salon common stock held by Adobe Ventures, L.P. and H&Q Salon Investors, L.P. In connection with services as placement agent for the sale of Series C preferred stock in April 1999, entities affiliated with Daiwa Securities America Inc. acquired warrants to purchase an aggregate of 148,389 shares of Series C preferred stock at an exercise price of $3.88 per share.

Legal Matters

The validity of the shares of common stock offered hereby will be passed upon for Salon by Gray Cary Ware & Freidenrich LLP, Palo Alto, California. Certain legal matters in connection with the offering will be passed upon for the underwriters by Morrison & Foerster LLP, San Francisco, California.

Members of Gray Cary Ware & Freidenrich LLP beneficially own an aggregate of 10,309 shares of Salon common stock.

Experts

The balance sheets as of March 31, 1997 and 1998 and the statements of operations, of stockholders' equity and of cash flows for the period July 27, 1995 (inception) to March 31, 1996 and each of the two years in the period ended March 31, 1998, are included in this prospectus in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing.

The balance sheets as of December 31, 1997 and 1998 and the statements of operations, of member's interest and of cash flows for the period July 1, 1997 (inception) to December 31, 1997 and the year ended December 31, 1998 for The Well LLC, are included in this prospectus in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing.

The balance sheets as of June 30, 1997 and the statements of operations and changes in owner's net equity and cash flows for the period January 1, 1997 (inception) to June 30, 1997 for Online Conferencing Business, predecessor business of The Well LLC, are included in this prospectus in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing.

Where to Find Additional Information About Salon

Salon has filed with the SEC a registration statement on form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules filed therewith. For further information with respect to Salon and the common stock, reference is made to the registration statement and the exhibits and schedules filed with it. With respect to statements contained in this prospectus regarding the contents of any agreement or any other document, in each instance, reference is made to the copy of such agreement or other document filed as an exhibit to the registration statement. Each statement is qualified in all respects by the exhibits and schedules.

For further information with respect to Salon and the common stock, reference is made to the registration statement and its exhibits and schedules. You may read and copy any document Salon files at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information about the public reference rooms. Salon's SEC filings are also available to the public from the SEC's Web site at http://www.sec.gov.

Upon completion of this offering, Salon will become subject to the information and periodic reporting requirements of the Exchange Act, and will file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference rooms and the SEC's Web site, which is described above.

Salon.com

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Report of Independent Accountants

To the Board of Directors and Stockholders of Salon.com In our opinion, the accompanying balance sheets and the related statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Salon.com (the "Company") at March 31, 1997 and 1998, and the results of its operations and cash flows for the period from July 27, 1995 (inception) to

March 31, 1996 and for each of the two years in the period ended March 31, 1998, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

San Francisco, California April 14, 1999 To the Board of Directors and Stockholders of Salon.com The financial statements included herein have been adjusted to give effect to the reincorporation of the company in Delaware as described more fully in Note 10 to the financial statements. The above report is in the form that will be signed by PricewaterhouseCoopers LLP upon effectiveness of such reincorporation assuming that, from April 14, 1999 to the effective date of such reincorporation, no other events shall have occurred that would affect the accompanying financial statements or notes thereto.

/s/ PricewaterhouseCoopers LLP San Francisco, California April 14, 1999

Salon.com

Balance Sheets

	March 31,		December 31,	Pro Forma Stockholders' Equity at December 31,
	1997	1998	1998	1998
Assets			(unaudited)	(unaudited)

Current assets: Cash and cash equiva- lents ..... $ 2,637,710 $ 1,925,664 $ 1,607,271 Accounts receivable, net ..... 19,979 248,113 844,186 Prepaid expenses and other current assets ..... 39,322 138,232 307,765 Total current assets ..... 2,697,011 2,312,009 2,759,222 Property and equip- ment, net ..... 119,749 371,632 597,344 Other assets ..... 17,186 23,567 29,359 Total assets ..... $ 2,833,946 $ 2,707,208 $ 3,385,925 Liabilities and Stock- holders' Equity Current liabilities: Accounts payable ..... $ 84,596 $ 197,610 $ 424,305 Accrued liabilities .. 37,495 79,393 181,895 Deferred revenue ..... 14,583 45,832 214,198 Bank borrowings ..... -- 94,991 416,834 Total current liabilities ..... 136,674 417,826 1,237,232 Bank borrowings, net of current portion... -- 94,991 137,475 Total liabilities ... 136,674 512,817 1,374,707 Commitments (Note 8) Stockholders' Equity: Convertible preferred stock, no par value; 5,000,000, 6,917,500 and 8,717,500 (unaudited) shares authorized at March 31, 1997 and 1998 and December 31, 1998, respectively; 2,500,000, 3,449,366 and 4,351,428 (unaudited) shares were issued and outstanding at March 31, 1997 and 1998

and December 31, 1998, respectively; none were issued and outstanding for pro forma (liquidation preference $11,499,997 (unaudited) at December 31, 1998)... 4,989,027 7,954,706 11,161,857 $ -- Common stock, $0.001 par value, 5,000,000, 12,500,000 and 50,000,000 (unaudited) shares authorized at March 1997 and 1998 and December 31, 1998, respectively; 375,000, 375,000 and 392,291 (unaudited) and 4,743,719 (unaudited) shares were issued and outstanding at March 31, 1997 and 1998, December 31, 1998 and pro forma, respectively..... 375 375 392 4,744 Additional paid in capital ..... 291,250 1,109,184 2,495,416 13,652,921 Unearned compensation .. (163,095) (623,734) (1,102,390) (1,102,390) Accumulated deficit .... (2,420,285) (6,246,140) (10,544,057) (10,544,057) 2,697,272 2,194,391 2,011,218 $ 2,011,218 Total liabilities and stockholders' equity ..... $ 2,833,946 $ 2,707,208 $ 3,385,925 The accompanying notes are an integral part of these financial statements.

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Statements of Operations

	July 27, 1995 (inception) to March 31, 1996	Year ended March 31, 1997	Year ended March 31, 1998	For the Nine Months Ended December 31, 1997 (unaudited)	For the Nine Months Ended December 31, 1998 (unaudited)
Net revenues	$ 196,500	$ 279,524	$ 1,155,931	$ 688,991	$ 2,058,024
Operating expenses:					
Production, content, and product.....	463,045	1,555,134	2,832,006	2,070,436	3,134,810
Sales and marketing ...	124,090	418,708	1,654,990	1,106,717	2,580,179
Research and development	52,374	175,614	276,112	203,408	304,701
General and administrative	42,960	129,189	291,446	221,082	337,908
Total operating expenses	682,469	2,278,645	5,054,554	3,601,643	6,357,598
Loss from operations ...	(485,969)	(1,999,121)	(3,898,623)	(2,912,652)	(4,299,574)
Interest expense	--	(185)	(16,340)	(10,758)	(36,701)
Other income	9,919	55,071	89,108	62,294	38,358
Net loss	$ (476,050)	$(1,944,235)	$(3,825,855)	$(2,861,116)	$(4,297,917)
Basic and diluted net loss per share.....	$ (1.26)	$ (3.84)	$ (10.20)	$ (7.63)	$ (11.20)
Weighted average shares used in computing basic and diluted net loss per share	376,438	506,918	375,000	375,000	383,684
Pro forma basic and diluted net loss per share (Note 2)			$ (1.20)		$ (1.05)
Weighted average shares used in computing pro forma basic and diluted net loss per share			3,189,721		4,075,248

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

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Statements of Stockholders' Equity

	Preferred Stock		Common Stock		Additional			Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Unearned Compensation	Accumulated Deficit	Stockholders' Equity
Balance, July 27, 1995 (inception)	--	$ --	--	$ --	$ --	$ --	$ --	$ --
Issuance of common stock to founders	--	--	600,000	600	400	--	--	1,000
Issuance of Series A convertible preferred stock for cash	850,000	1,693,025	--	--	--	--	--	1,693,025
Unearned compensation	--	--	--	--	183,000	(183,000)	--	--
Amortization of unearned compensation	--	--	--	--	--	28,722	--	28,722
Net loss	--	--	--	--	--	--	(476,050)	(476,050)
Balance, March 31, 1996	850,000	1,693,025	600,000	600	183,400	(154,278)	(476,050)	1,246,697
Repurchase of common stock	--	--	(225,000)	(225)	(150)	--	--	(375)
Issuance of Series A convertible preferred stock for cash	1,650,000	3,296,002	--	--	--	--	--	3,296,002
Unearned compensation	--	--	--	--	108,000	(108,000)	--	--
Amortization of unearned compensation	--	--	--	--	--	99,183	--	99,183
Net loss	--	--	--	--	--	--	(1,944,235)	(1,944,235)
Balance, March 31, 1997	2,500,000	4,989,027	375,000	375	291,250	(163,095)	(2,420,285)	2,697,272
Issuance of Series B convertible preferred stock for cash	949,366	2,965,679	--	--	--	--	--	2,965,679
Issuance of preferred stock warrants in connection with bank borrowings	--	--	--	--	11,871	--	--	11,871
Unearned compensation	--	--	--	--	806,063	(806,063)	--	--
Amortization of unearned compensation	--	--	--	--	--	345,424	--	345,424
Net loss	--	--	--	--	--	--	(3,825,855)	(3,825,855)
Balance, March 31, 1998	3,449,366	7,954,706	375,000	375	1,109,184	(623,734)	(6,246,140)	2,194,391
Issuance of Series C convertible preferred stock and common stock warrants for cash	902,062	3,207,151	--	--	231,892	--	--	3,439,043
Issuance of common stock upon stock option exercise	--	--	17,291	17	3,591	--	--	3,608
Issuance of preferred stock warrants in connection with bank borrowings	--	--	--	--	32,634	--	--	32,634
Issuance of preferred stock warrants in connection with online distribution agreement	--	--	--	--	217,179	--	--	217,179
Unearned compensation	--	--	--	--	900,936	(900,936)	--	--
Amortization of unearned compensation	--	--	--	--	--	422,280	--	422,280
Net loss	--	--	--	--	--	--	(4,297,917)	(4,297,917)
Balance, December 31, 1998 (unaudited)	4,351,428	$11,161,857	392,291	$ 392	$2,495,416	$(1,102,390)	$(10,544,057)	$2,011,218

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

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Statements of Cash Flows

	July 27, 1995 (inception) to	Year Ended March 31,			For the Nine Months Ended December 31,

March 31,					
1996	1997	1998	1997	1998	
			(unaudited)		

Cash flows from operating activities: Net loss ..... $ (476,050) $(1,944,235) $(3,825,855) $(2,861,116) $(4,297,917) Adjustments to reconcile net loss to net cash used in operating activities: Expense recognized in connection with issuance of warrants and stock options ... 28,722 99,183 345,424 239,560 422,280 Depreciation and amortization..... 11,511 38,923 114,894 80,978 168,440 Loss on disposal of property and equipment -- -- 14,888 14,888 -- Amortization of discount on bank borrowings -- -- 3,627 2,638 9,495 Changes in operating assets and liabilities: Accounts receivable .. 3,750 (19,979) (228,134) (215,876) (596,073) Prepaid expenses and other assets ..... (35,648) (20,860) (105,291) (40,112) 41,854 Accounts payable ..... 42,205 42,391 113,014 146,797 226,695 Accrued liabilities .. 37,769 (274) 41,898 18,787 102,502 Deferred revenue ..... 13,750 (2,917) 31,249 46,249 168,366 Net cash used in operating activities..... (373,991) (1,807,768) (3,494,286) (2,567,207) (3,754,358) Cash flows from invest- ing activities: Purchase of property and equipment ..... (89,161) (81,022) (381,665) (295,030) (394,152) Net cash used in investing activities (89,161) (81,022) (381,665) (295,030) (394,152) Cash flows from financ- ing activities: Proceeds from issuance of preferred stock, net..... 1,693,025 3,296,002 2,965,679 2,965,679 3,439,043 Proceeds from issuance of common stock, net ..... 1,000 -- -- -- 3,608 Repurchase of common stock ..... -- (375) -- -- -- Proceeds from bank borrowings ..... -- -- 247,783 247,783 461,797 Repayments of bank borrowings ..... -- -- (49,557) (24,778) (74,331) Net cash provided by financing activities ..... 1,694,025 3,295,627 3,163,905 3,188,684 3,830,117 Net increase (decrease) in cash and cash equivalents..... 1,230,873 1,406,837 (712,046) 326,447 (318,393) Cash and cash equiva- lents--beginning of period..... -- 1,230,873 2,637,710 2,637,710 1,925,664 Cash and cash equiva- lents--end of peri- od..... $1,230,873 $ 2,637,710 $ 1,925,664 $ 2,964,157 $ 1,607,271 Cash paid for interest ..... $ -- $ -- $ 12,713 $ 8,120 $ 27,206 Cash paid for taxes .. $ 800 $ 800 $ 800 $ 800 $ 800 Non-cash investing and financing transactions: Unearned compensation in connection with the issuance of stock options ..... $ 183,000 $ 108,000 $ 806,063 $ 660,400 $ 900,936 Value assigned to warrants issued in connection with bank borrowings ..... $ -- $ -- $ 11,871 $ 11,871 $ 32,634 Value assigned to warrants issued in connection with distribution agreement ..... $ -- $ -- $ -- $ -- $ 217,179 Value assigned to reciprocal advertising agreements..... $ -- $ -- $ 75,424 $ 38,851 $ 306,867 The accompanying notes are an integral part of these financial statements.

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Notes to Consolidated Financial Statements

Note 1--ORGANIZATION:

Salon.com ("Salon") is an Internet media company that produces a network of ten subject-specific, demographically targeted Web sites and a variety of online communities designed to attract premium Internet advertisers and electronic commerce partners. Salon was originally incorporated in July 1995

in the State of California.

Note 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim financial statements (unaudited) The financial statements as of December 31, 1998 and for the nine months ended December 31, 1997 and 1998 are unaudited but have been prepared in accordance with generally accepted accounting principles for interim financial statements and the rules of the Securities and Exchange Commission and do not include all disclosures required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

Use of estimates

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

Cash equivalents

Salon considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The majority of Salon's cash and cash equivalents are held in checking, money market accounts or certificates of deposits with one bank. As of December 31, 1998, the balance exceeded existing federally insured limits.

Property and equipment Property and equipment are recorded at cost. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets, as follows:

Computer and network equipment and software..... 3 years Furniture and office equipment..... 5 years Leasehold improvements are amortized on a straight-line basis over the life of the lease, or the useful life of the assets; which ever is shorter.

Maintenance and repairs are charged to expense as incurred. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Revenue recognition To date, Salon's revenues have been derived primarily from the sale of advertising sponsorships and advertising contracts. Sponsorship and advertising revenues were approximately 100%, 99%, 99% and 93% of total revenues for the period from July 27, 1995 (inception) to March 31, 1996, and for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998 (unaudited),

respectively. Sponsorship revenues are derived principally from contracts ranging from six to thirty-six months in which Salon commits to provide sponsors enhanced promotional opportunities beyond traditional banner advertising. Sponsorship agreements typically include the delivery of impressions, exclusive relationships and the design and development of customized co-branded pages designed to enhance the promotional objective of the sponsor. Revenues are recognized ratably in the period in which the advertisement is displayed provided that no significant obligations remain. To the extent that minimum guaranteed page deliveries are not met, Salon defers recognition of the corresponding revenues until the guaranteed page deliveries are achieved.

Advertising revenues are derived principally from short-term advertising contracts in which Salon typically guarantees a minimum number of impressions to be delivered to users over a specified period of time for a fixed fee. Advertising revenues are recognized ratably in the period in which the advertising is displayed, provided that no significant obligations remain. To the extent that minimum guaranteed page deliveries are not met, Salon defers recognition of the corresponding revenues until the guaranteed page deliveries are achieved.

Advertising revenues include barter revenues, which are the exchange by Salon of advertising space on Salon's Web sites for reciprocal advertising space on other Web sites or the exchange of goods or services. Revenues from these barter transactions are recorded as advertising revenues at the estimated fair value of the advertisements received or delivered, whichever is more reliably measurable, and are recognized when the advertisements are run on Salon's Web sites. Barter expenses are recorded when Salon's advertisements are run on the reciprocal Web sites, which is typically in the same period as when advertisements are run on Salon's Web sites. There was no barter revenue in 1996 and 1997. Barter revenues represented 6.5% of net revenues for the year ended March 31, 1998 and 14.9% of net revenues for the nine months ended December 31, 1998 (unaudited).

Slotting fees are paid to Salon by a particular retailer for a measure of exclusivity in the retailers industry segment. Slotting fees obtained for promoting the sale of goods and services through Salon are recognized ratably over the course of the contract. The agreements may provide that Salon receive commissions from electronic commerce transactions. These commissions are recognized by Salon upon notification from the advertiser.

Revenues related to sales from Salon's online store are recognized when goods are shipped. Revenues related to the syndication of Salon content to other media outlets are recognized on receipt of payment. Subscription revenues are recognized ratably over the period that services are to be provided.

Research and development Research and development expenditures are charged to expense as incurred.

Advertising Costs

Salon expenses advertising costs as they are incurred. Advertising expense was zero, $9,000, $75,512, $44,032 and $387,867 for the period from July 27, 1995 to March 31, 1996, for the years ended March 31, 1997 and 1998, and for the nine months ended December 31, 1997 and 1998 (unaudited), respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Income taxes Salon recognizes deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Stock-based compensation Salon accounts for its stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees" and presents disclosure required by Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation."

Financial instruments The carrying amounts of Salon's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their short maturities. Fair value of bank borrowings approximates carrying value because borrowings bear interest at current market rates.

Concentrations

Financial instruments which potentially subject Salon to concentrations of credit risk consist principally of trade accounts receivable. Salon performs ongoing credit evaluations, but does not require collateral. Salon provides an allowance for credit losses. The credit losses have not been significant to date.

Salon relies on a number of third party suppliers for various services, including Web hosting, banner advertising, delivery software, Internet traffic measurement software and electronic commerce fulfillment services. While Salon believes it could obtain these services from other qualified suppliers on similar terms and conditions, a disruption in the supply of these services by the current suppliers could materially harm the business.

Salon currently has the following concentrations of net revenues and trade accounts receivable:

Net revenues

Customer	July 27, 1995 (inception) to March 31, 1996	Year Ended March 31, 1997	Year Ended March 31, 1998	Nine Months Ended December 31, 1998 (unaudited)
A	81%	--	--	--
B	29%	71%	37%	18%
C	--	--	16%	--

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Trade accounts receivable

	March 31,			December 31,
Customer	1996	1997	1998	1998 (unaudited)
A	100%	42%	--	13%
B	--	21%	--	--
C	--	21%	--	--
D	--	16%	--	--
E	--	--	58%	12%
F	--	--	11%	11%

Net loss per share and pro forma earnings per share Basic earnings per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted-average number of common and common stock equivalent shares outstanding during the period. Common equivalent shares are excluded from the computation if their effect is antidilutive. The pro forma earnings per share is computed by dividing the net loss by the sum of the weighted-average number of shares of common stock outstanding and the weighted- average number of shares resulting from the automatic conversion of all outstanding shares of convertible preferred stock upon the closing of a sale of Salon's securities in an underwritten registered public offering with proceeds of at least $15 million and an offering price per share to the public equal to or greater than $10.00 appropriately adjusted for stock dividends, stock splits and the like.

Diluted net loss per share for the period ended July 27, 1995 (inception) to March 31, 1996 and the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1997 and 1998 (unaudited) does not include the effect of 305,000, 485,000, 1,561,510, 1,474,010 and 1,813,645 stock options, respectively, and zero, zero, 8,750, 8,750 and 323,186 common stock warrants, respectively or 850,000, 2,500,000, 3,449,366, 3,449,366 and 4,351,428 shares of convertible preferred stock on an "as if converted" basis, respectively, as the effect of their inclusion is antidilutive during each period.

Pro forma stockholders' equity (unaudited) The pro forma stockholders' equity as of December 31, 1998 reflects the conversion of all outstanding convertible preferred stock into an aggregate of 4,351,428 shares of common stock.

Comprehensive income

Salon adopted the provisions of SFAS No. 130, Reporting Comprehensive Income, ("SFAS No. 130"). This statement requires companies to classify items of other comprehensive income by their nature in the financial statements and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. To date Salon has not had any transactions that are required to be reported in comprehensive income.

Recent accounting pronouncements In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 131, Disclosure About Segments of an Enterprise and Required Information, ("SFAS No. 131"), which established standards for reporting information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic area and major customers. SFAS No. 131 will be adopted by Salon at March 31, 1999. Salon does not expect the adoption of SFAS No. 131 to have an impact on Salon's results of operations, financial position or cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use ("SOP 98-1"). SOP 98-1 is effective for financial statements for years beginning after December 15, 1998. SOP 98-1 provides guidance over accounting for computer software developed or obtained for internal use including the requirement to capitalize specified costs and amortization of such costs. Salon does not expect the adoption of this standard to have a material impact on Salon's results of operations, financial position or cash flows.

In April 1998, the AICPA issued SOP 98-5, Reporting on the Costs of Start-up Activities ("SOP 98-5"). SOP 98-5, which is effective for fiscal years beginning after December 15, 1998, provides guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. As Salon has historically expensed these costs, the adoption of SOP 98-5 is not expected to have a significant impact on Salon's results of operations, financial position or cash flows.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS No. 133 is effective for all fiscal quarters for fiscal years beginning after June 15, 1999. Salon is assessing the potential impact of this pronouncement on its financial statements; however, they do not expect any significant impact since Salon currently does not have any derivative instruments and does not anticipate acquiring any.

Note 3--BALANCE SHEET COMPONENTS:

	March 31, 1997	March 31, 1998	December 31, 1998 (unaudited)
Accounts receivable, net:			
Accounts receivable	$ 19,979	$ 248,113	$ 863,353
Less: Allowance for doubtful accounts	--	--	(19,167)
	$ 19,979	$ 248,113	$ 844,186
Property and equipment, net:			
Computer and network equipment and software	$122,221	$ 391,133	$ 743,791
Furniture and office equipment	40,656	115,923	150,684

Leasehold improvements.....	--	21,122	27,855
	$162,877	528,178	922,330
Less accumulated depreciation and amortization.....	(43,128)	(156,546)	(324,986)
	$119,749	$ 371,632	$ 597,344
Accrued liabilities:			
Accrued compensation and related benefits.....	$ 23,755	$ 43,707	$ 69,263
Other accruals.....	13,740	35,686	112,632
	$ 37,495	$ 79,393	$ 181,895

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Note 4--BANK BORROWINGS:

In April 1997, Salon entered into a borrowing agreement with a bank which provides for borrowings up to $500,000 for working capital and equipment advances. Borrowings bear interest at the bank's prime rate plus 0.5% and are collateralized by all assets of Salon, including intellectual property. As of March 31, 1998 and December 31, 1998, the principal balances for equipment advances outstanding under this agreement were $198,226 and $123,891 (unaudited) bearing interest at 9%. Borrowings are repayable in monthly installments of principal plus accrued interest through March 31, 2000. According to the terms of the agreement, Salon is required to meet certain financial covenants including minimum net worth and working capital levels.

In connection with the borrowing agreement, Salon issued a warrant to purchase 8,750 shares of its Series A preferred stock at an exercise price of $2.00 per share. The warrant expires on April 14, 2002. Salon valued the warrant, using the Black-Scholes option pricing model. The fair value was recorded as a discount to the amount borrowed and is being amortized to interest expense over the term of the borrowing agreement using the effective interest method.

In April 1998, Salon entered into an additional borrowing agreement with the same bank which provides for revolving loans of the lesser of $250,000 plus 80% of eligible accounts receivable as defined by the bank or $500,000. The revolving borrowing amount will be increased to a maximum of $1,000,000 if Salon obtains additional equity financing. The agreement also provides for an equipment term loan up to $300,000. Borrowings bear interest at the bank's prime rate plus 0.5%. As of December 31, 1998, Salon has drawn $240,960 against the equipment loan and $220,841 against the revolving borrowing amount.

In connection with this borrowing agreement, Salon issued a warrant to purchase 11,867 shares of Salon's Series B preferred stock at an exercise price of $3.16 per share. The warrant expires on June 8, 2005. Salon valued the warrant, using the Black-Scholes option pricing model. The fair value was recorded as a discount to the amount borrowed and is being amortized to interest expense over the term of the borrowing agreement using the effective interest method.

In connection with the borrowing agreements, Salon issued a warrant to purchase 5,250 shares of Salon's Series C preferred stock at an exercise price of $3.88 per share. The actual number of shares subject to the terms of the warrant shall be determined according to financing thresholds described in the warrant (Note 8). The warrant expires December 17, 2005. Salon valued the warrant, using the Black-Scholes option pricing model. The fair value was recorded as a discount to the amount borrowed and is being amortized to interest expense over the term of the borrowing agreement using the effective interest method.

Scheduled annual repayments of principal subsequent to March 31, 1998 and December 31, 1998, respectively, are as follows:

	March 31, 1998	December 31, 1998 (unaudited)
1999	$ 99,113	$ 440,434
2000	99,113	145,258
	198,226	585,692
Less unamortized discount	(8,244)	(31,383)
	189,982	554,309
Less current portion	(94,991)	(416,834)
	$ 94,991	$ 137,475

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Note 5--STOCKHOLDERS' EQUITY:

Convertible preferred stock is composed of the following:

		Shares Issued and Outstanding March 31,		
Series	Shares Authorized	1997	1998	December 31, 1998 (unaudited)
A	2,508,750	2,500,000	2,500,000	2,500,000
A-1	2,508,750	--	--	--
B	1,100,000	--	949,366	949,366
B-1	1,100,000	--	--	--
C	1,500,000	--	--	902,062
	8,717,500	2,500,000	3,449,366	4,351,428

The liquidation amounts for the Series A, B, and C preferred stocks as of December 31, 1998 were $5,000,000, $2,999,998 and $3,499,999, respectively.

The holders of preferred stock have various rights and preferences as follows:

Dividends and participation rights The holders of Series A and Series A-1 preferred stock are entitled to receive dividends in preference to any dividend on common stock, at an annual rate equal to $0.16 per share, the holders of Series B and Series B-1 preferred stock are entitled to receive dividends in preference to any dividend on common stock, at an annual rate equal to $0.252 per share, and the holders of Series C preferred stock are entitled to receive dividends in preference to any dividend on

common stock, at an annual rate of $0.31 per share. In addition, preferred stockholders are entitled to participate in distributions to common stockholders in an amount per share as would be payable on the number of shares of common stock into which each share of preferred stock could be converted. Such dividends are noncumulative and no dividends have been declared or paid to date.

Liquidation preference In the event of any liquidation, dissolution, or winding up of Salon, either voluntarily or involuntarily, the holders of Series C preferred stock are entitled to receive, in preference to the holders of Series A, Series A-1, Series B, Series B-1 preferred stock and common stock, an amount equal to $3.88 per share of Series C preferred stock, plus all declared but unpaid dividends, if any. The holders of Series A and Series A-1 preferred stock are entitled to receive, in preference to the holders of common stock, an amount equal to $2.00 per share of Series A and Series A-1 preferred stock plus all declared but unpaid dividends, if any. The holders of Series B and Series B-1 preferred stock are entitled to receive in preference to the holders of common stock, an amount equal to $3.16 per share of Series B and Series B-1 preferred stock plus all declared but unpaid dividends. Once such liquidation preference has been paid, holders of Series A, Series A-1, Series B, Series B-1, and Series C preferred stock are entitled to receive assets and funds of Salon in proportion to the number of shares of common stock as if converted pursuant to the following paragraph.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Conversion rights Each share of Series A, Series A-1, Series B, Series B-1, and Series C preferred stock shall be convertible at the option of the holder into shares of common stock at any time. The number of shares of common stock into which each share of Series A, Series A-1, Series B, Series B-1, or Series C preferred stock may be converted shall be determined dividing $2.00, $2.00, $3.16, $3.16 and $3.88, respectively, by the conversion price in effect on the date the stock certificate is surrendered for conversion. The conversion price per share of Series A and Series A-1 preferred stock initially shall be $2.00, the conversion price per share of Series B and Series B-1 preferred stock initially shall be $3.16, and the conversion price per share of Series C preferred stock initially shall be $3.88. Each share of preferred stock shall automatically be converted into fully paid and nonassessable shares of common stock of Salon at the conversion price then in effect for such series of preferred stock at any time during the conversion period immediately upon the earlier of: (i) the closing of a sale of Salon's securities in an underwritten registered public offering with proceeds to Salon of at least $15 million and an offering price per share to the public equal to or greater than $11.64 appropriately adjusted for stock dividends, stock splits, stock combinations and the like; (ii) the date on which the holders of at least two-thirds of the then outstanding shares of preferred stock and the holders of at least two-thirds of the then outstanding shares of Series C preferred stock (determined on an as-converted basis) consent in writing to such conversion; or (iii) at such time as less than an aggregate of 250,000, 90,000 or 375,000 shares of Series A, Series B or Series C preferred stock, respectively, are outstanding.

The preferred stock also carries provisions which protect the holders of such securities from dilution caused by capital reorganization, stock splits, or other such capital changes.

Voting rights

The holders of preferred stock are entitled to vote on all matters and are entitled to the number of votes equal to the number of shares of common stock into which the preferred stock could be converted pursuant to the conversion rights.

As long as more than 250,000 shares of Series A and Series A-1 preferred stock are outstanding, the holders of Series A and Series A-1 preferred stock, voting as a separate class, have the right to elect one member of the Board of Directors. As long as more than 250,000 shares of Series B and Series B-1 preferred stock are outstanding, the holders of Series B and Series B-1 preferred stock, voting as a separate class, have the right to elect one member of the Board of Directors. As long as more than 250,000 shares of Series C preferred stock are outstanding, the holders of Series C preferred stock, voting as a separate class, have the right to elect one member of the Board of Directors.

Holders of common stock, voting as a separate class, have the right to elect two members of the Board of Directors. The holders of common stock and preferred stock, voting together as a separate class, have the right to elect the remaining members of the Board of Directors.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Common stock reserved Salon had reserved shares of common stock for the following:

March 31, December 31, 1998 1998 (unaudited) Stock option plan..... 1,875,000 1,875,000 Warrants..... 8,750 323,186 Convertible preferred stock..... 3,449,366 4,351,428 5,333,116 6,549,614 Warrants In July 1998, Salon issued a warrant to purchase 79,114 shares of Series B preferred stock at an exercise price of $3.16 per share in connection with an online distribution agreement. The warrant may be exercised at any time within 5 years after issuance.

Salon valued the warrant using the Black-Scholes option pricing model. The fair value of $217,179 was recorded in prepaid expenses and other current assets and is amortized to sales and marketing expense over the term of the agreement.

In September 1998, Salon issued warrants to purchase up to 219,582 shares of common stock at an exercise price of $0.52 per share. The actual number of shares subject to the terms of the warrants shall be determined according to certain financing thresholds described in the warrants (Note 8). The warrants may be exercised at any time within 10 years after issuance. As of December 31, 1998, warrants to purchase 73,194 shares of common stock were exercisable and the fair value of $231,892 was recorded as additional paid in capital. The warrants expire September 2008.

Note 6--EMPLOYEE STOCK OPTION PLAN:

In 1995, Salon's Board of Directors adopted the 1995 Stock Option Plan (the "Plan"). The Plan provides for the granting of stock options to employees and consultants of Salon. Options granted under the Plan may be either incentive stock options ("ISO") or non-qualified stock options ("NSO"). ISOs may be granted only to Salon employees (including officers and directors who are also employees). NSOs may be granted to Salon employees as well as non-employee consultants. The exercise price of each option is determined by the Board of Directors and the maximum term for each option is 10 years. Options generally vest over a four year period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The following table summarizes activity under Salon's Plan from inception through December 31, 1998:

		Outstanding Options				
	Shares Available for Grant	Number of Shares	Price Per Share	Aggregate Price	Weighted-Average Exercise Price	Weighted-Average Deemed Fair Value
Shares reserved for grant	1,875,000					
Options granted	(355,000)	355,000	$ .20	$ 71,000	$.20	$ .80
Options terminated	50,000	(50,000)	$ .20	(10,000)	$.20	$ .80
Balance March 31, 1996	1,570,000	305,000	$ .20	61,000	$.20	$ .80
Options granted	(190,000)	190,000	$ .20	38,000	$.20	$ .80
Options terminated	10,000	(10,000)	$ .20	(2,000)	$.20	$ .80
Balance March 31, 1997	1,390,000	485,000	$ .20	97,000	$.20	$ .80
Options granted	(1,135,000)	1,135,000	$.20-$.32	239,600	$.22	$ .90
Options terminated	58,490	(58,490)	$ .20	(11,698)	$.20	$ .80
Balance March 31, 1998	313,490	1,561,510	$.20-$.32	324,902	$.20	$ .86
Options granted	(376,250)	376,250	$.32-$.52	146,650	$.38	$2.72
Options terminated	106,825	(106,825)	$.20-$.52	(27,815)	$.26	$1.04
Options exercised	--	(17,290)	$.20-$.52	(3,608)	$.20	$ .80
Balance December 31, 1998 (unaudited)	44,065	1,813,645	$.20-$.52	$440,129	$.24	$1.20

In connection with the grant of options for the purchase of common stock to employees during the period from July 27, 1995 (inception) through December 31, 1998, Salon recorded aggregate deferred compensation of $1,631,397 representing the difference between the deemed fair value of the common stock and the option exercise price at date of grant. Such deferred compensation will be amortized over the vesting period relating to these options. Accordingly, Salon amortized $28,722, $99,183, $321,428, $229,598 and $336,249 for the period from July 27, 1995 (inception) to March 31, 1996, for the years ended March 31, 1997 and 1998, and for the nine months ended December 31, 1997 and 1998 (unaudited), respectively.

In connection with the grant of options for the purchase of common stock to non-employees during the period from April 1, 1997 through December 31, 1998, Salon recorded compensation in accordance with Emerging Issues Task Force 96-18 and SFAS No. 123. As of December 31, 1998, Salon has recorded aggregate deferred compensation of $366,602 related to these options. Accordingly, Salon amortized $23,996, $9,962, and $86,031 for the year ended March 31, 1998, and for the nine months ended December 31, 1997 and 1998 (unaudited), respectively.

The following table summarizes information about stock options outstanding at March 31, 1998:

	Options Outstanding at March 31, 1998			Options Exercisable at March 31, 1998	
Range of Exercise Prices	Number of Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares Exercisable	Weighted-Average Exercise Price
$0.20	1,426,510	8.84 years	$0.20	424,732	$0.20
0.32	135,000	9.95 years	0.30	--	--
	1,561,510	8.90 years	$0.20	424,732	$0.20

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The following table summarizes information about stock options outstanding at December 31, 1998 (unaudited):

	Options Outstanding at December 31, 1998			Options Exercisable at December 31, 1998	
Range of Exercise Prices	Number of Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares Exercisable	Weighted-Average Exercise Price
$ 0.20	1,457,395	8.07 years	$0.20	652,915	$0.20
0.32	225,000	9.37 years	0.32	7,548	0.32
0.32	131,250	9.84 years	0.52	--	0.52
	1,813,645	8.39 years	$0.24	660,463	$0.40

At March 31, 1996 and 1997 options to purchase zero and 90,651 shares of common stock, respectively, were exercisable. The weighted-average exercise price of the 1997 options was $0.20 The weighted-average grant date fair value of stock options granted was $.04, $.04 and $.08 for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998, respectively.

Salon accounts for the options in accordance with APB No. 25. The following information concerning the Plan is provided in accordance with SFAS No. 123. The fair value of each option grant is estimated on the date of grant using the minimum value method with the following weighted-average assumptions used for grants in years ended March 31, 1997 and 1998:

Year Ended March 31, 1997 1998 Risk-free interest rates..... 5.88% 6.10% Expected lives (in years)..... 4.00 4.00 Dividend yield..... 0 0 Using the above method and assumptions, had Salon accounted for compensation expense according to SFAS No. 123, the pro forma net loss would be as follows:

Year Ended March 31, 1997 1998 Net loss: As reported..... $(1,944,235) $(3,825,855) Pro forma..... $(1,953,294) $(3,846,385) Basic and diluted net loss per share: As reported..... $ (3.84) $ (10.20) Pro forma..... $ (3.85) $ (10.26) Note 7--401(k) SAVINGS PLAN:

Salon's 401(k) Savings Plan (the "401(k) Plan") is a defined contribution retirement plan intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code. All full-time employees of Salon are eligible to participate in the 401(k) Plan pursuant to the terms of the plan. Participants may contribute from 1%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) to 15% of compensation, subject to statutory limitations. Employer matching contributions are discretionary based on a certain percentage of a participant's contributions as determined by management of Salon. Salon has not made any discretionary contributions to the 401(k) Plan for the period from July 27, 1995 (inception) to March 31, 1996, the years ended March 31, 1997 and 1998 or the nine months ended December 31, 1997 and 1998 (unaudited).

Note 8--COMMITMENTS:

Lease obligations

Salon has entered into two separate non-cancelable operating lease agreements for office space. The contracts provide for adjustments or escalations based upon changes in consumer price indices or operating expenses.

Rent expenses under operating lease agreements was $19,063, $64,750, $147,710, $108,283 and $200,592 for the period from July 27, 1995 (inception) to March 31, 1996, for the years ended March 31, 1997 and 1998, and for the nine months ended December 31, 1997 and 1998 (unaudited), respectively.

Future minimum rental payments under operating leases are as follows:

Year Ending March 31,

1999	$ 319,203
2000	332,695
2001	346,305
2002	367,876
2003	177,899
Thereafter	$1,726,834

Warrants

In connection with the issuance of the warrants to purchase up to 219,582 shares of common stock to certain preferred stockholders (Note 5), warrants to purchase 146,388 shares of common stock are contingent upon Salon completing certain equity financing goals as defined in the agreement. Subsequent to December 31, 1998, these warrants became exercisable.

In connection with the issuance of the warrant to purchase 5,250 shares of Series C preferred stock in connection with the borrowing agreement (Note 4), the number of shares is increased to 13,127 as of February 28, 1999 plus an additional 10% for each month thereafter that Salon has not completed

certain equity financing goals as defined in the agreement. Subsequent to December 31, 1998, an additional 9,189 warrants became exercisable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Note 9--INCOME TAXES:

Salon has no income tax provision for the period from July 27, 1995 (inception) to March 31, 1996, and for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1997 and 1998 due to the net operating loss.

Salon's deferred tax assets are as follows:

March 31, 1997 1998

Net operating loss carryforward	$ 959,000	$ 2,460,000
Accrued vacation	--	12,000
	959,000	2,472,000
Valuation allowance	(959,000)	(2,472,000)
Net deferred tax asset	$ --	$ --

Due to uncertainty surrounding the realization of the favorable tax attributes in future tax returns, a valuation allowance has been provided against deferred tax assets as March 31, 1997 and 1998.

At March 31, 1998, Salon has net operating loss carryforwards of approximately $6,200,000 for federal and state income tax purposes. These carryforwards expire by 2013 and 2006, respectively.

For federal and state tax purposes, a portion of Salon's net operating loss carryforward may be subject to certain limitations on annual utilization due to changes in ownership, as defined by federal and state tax laws.

Note 10--SUBSEQUENT EVENTS:

Offering of Series C preferred stock On April 14, 1999, Salon completed an additional offering of Series C preferred stock. Pursuant to this offering, a total of 2,967,782 additional shares of Series C preferred stock were sold at a price of $3.88 per share, for total proceeds to Salon of approximately $11,515,000. The holders of these Series C preferred stock have the same rights as those holders of the Series C shares issued prior to December 31, 1998 as discussed in Note 5.

In April 1999, Salon issued warrants to entities affiliated with Daiwa Securities America Inc. to purchase an aggregate of 148,389 shares of Series C preferred stock at an exercise price of $3.88 per share. The warrants may be exercised at any time within five years after issuance. Upon completion of this offering, the warrants will convert into the right to purchase an equivalent number of shares of Salon's common stock at the same exercise price per share.

In April 1999, Salon issued a warrant to ACT III Communications to purchase 25,773 shares of Series C preferred stock at an exercise price of $3.88 per share. The warrant may be exercised at any time within five years after issuance. Upon completion of this offering, the warrant will convert into the

right to purchase an equivalent number of shares of Salon's common stock at the same exercise price per share.

Acquisition of The Well Salon completed the acquisition of The Well LLC, an online community business, in March 1999 for 463,918 shares of Series C preferred stock valued at $1,800,000. Salon's acquisition of The Well LLC was accounted for using the purchase method of accounting.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The allocation of Salon's aggregate purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed in connection with this acquisition were based primarily on preliminary estimates by independent appraisers of fair values. The preliminary allocation is summarized below:

Intangibles, including proprietary technology and tradename	$1,555,000
Goodwill	396,860
Property and equipment	87,295
Net current liabilities assumed	(58,155)
Total purchase price	$1,981,000

The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired has been recorded as goodwill. Intangibles and goodwill are being amortized on a straight-line basis over a period of two years.

Employee Stock Purchase Plan and Option Plan Effective April 1999, Salon adopted an Employee Stock Purchase Plan (the "ESPP") to provide substantially all employees whose customary employment is more than 20 hours per week for more than five months in any calendar year eligibility to purchase shares of its common stock through payroll deductions, up to 10% of eligible compensation. Participant account balances are used to purchase shares of Salon common stock at the lesser of 85 percent of the fair market value of shares on either the first day or the last day of the designated payroll deduction period (the Offering Period), as chosen by the Board of Directors at is discretion, whichever is lower. The aggregate number of shares purchased by an employee may not exceed 1,000 shares in any one Offering Period, generally 12 months or less (subject to limitations imposed by the Internal Revenue Code). A total of 500,000 shares are available for purchase under the ESPP.

On April 8, 1999, Salon's board of directors and stockholders approved a 1,000,000 share increase in the number of shares issuable under the 1995 Stock Option Plan.

Reincorporation and stock split On April 8, 1999, Salon's Articles of Incorporation were amended to (i) increase the amount of authorized shares of preferred stock to 8,108,750 and common stock to 12,500,000 and (ii) increase the number shares of preferred stock designated as Series C to 4,500,000. In conjunction with the increase in Series C preferred stock, 4,500,000 shares of Salon's common stock were reserved for issuance upon conversion of the Series C preferred stock.

In April 1999, Salon approved reincorporating in Delaware, changing the name to Salon.com, and effected a one for two split of its common and preferred stock. In connection with the reincorporation, Salon authorized (i) an increase in the amount of authorized shares of common stock to 50,000,000 and (ii) 5,000,000 shares of a new class of preferred stock. All share data and stock option plan information has been restated to reflect the split and the reincorporation.

Report of Independent Accountants

To the Members of The Well LLC In our opinion, the accompanying balance sheets and the related statements of operations, of members' interest and of cash flows present fairly, in all material respects, the financial position of The Well LLC at December 31, 1997 and 1998 and the results of its operations and its cash flows for the period from July 1, 1997 to December 31, 1997 and for the year ended December 31, 1998 in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP San Francisco, California March 3, 1999 THE WELL LLC BALANCE SHEETS DECEMBER 31, 1997 AND 1998 1997 1998

Assets		
Current assets		
Cash	$ 10,661	$ 11,455
Accounts receivable, net of allowance for doubtful accounts of $1,600 and $1,800, respectively	8,733	4,427
Related party receivables	29,824	24,650
Prepaid expenses and other current assets	2,100	1,213
Total current assets	51,318	41,745
Property and equipment, net	121,636	87,295
Total assets	$172,954	$ 129,040
Liabilities		
Current liabilities:		
Accounts payable	$ 4,998	$ 2,647
Related party payables	2,100	9,703
Accrued liabilities	69,337	87,550
Deferred revenue	9,037	10,646
Total current liabilities	85,472	110,546
Members' Interest		
Members' interest	154,909	154,909
Accumulated deficit	(67,427)	(136,415)
Total members' interest	87,482	18,494
Total liabilities and members' interest	$172,954	$ 129,040

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

THE WELL LLC STATEMENTS OF OPERATIONS FOR THE PERIOD FROM JULY 1, 1997 TO DECEMBER 31, 1997 AND FOR THE YEAR ENDED DECEMBER 31, 1998

	Period from July 1, 1997 to December 31, 1997	Year ended December 31, 1998
Subscription revenues	$ 267,022	$ 484,660
Operating expenses:		
Cost of subscription revenues	124,685	217,537
Selling and marketing	45,475	78,044
General and administrative	164,289	258,067
Total operating expenses	334,449	553,648
Net loss	$ (67,427)	$ (68,988)

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

THE WELL LLC STATEMENTS OF MEMBERS' INTEREST FOR THE PERIOD FROM JULY 1, 1997 TO DECEMBER 31, 1997 AND FOR THE YEAR ENDED DECEMBER 31, 1998

	Members' Interest			
	Whole Earth Lectronic Link, Inc.	Bruce Katz	Accumulated Deficit	Total
Capital contributions	$144,909	$10,000	$ --	$154,909
Net loss for the period July 1, 1997 to December 31, 1997	--	--	(67,427)	(67,427)
Balance at December 31, 1997	144,909	10,000	(67,427)	87,482
Net loss	--	--	(68,988)	(68,988)
Balance at December 31, 1998	$144,909	$10,000	$(136,415)	$ 18,494

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

THE WELL LLC STATEMENTS OF CASH FLOWS FOR THE PERIOD FROM JULY 1, 1997 TO DECEMBER 31, 1997 AND FOR THE YEAR ENDED DECEMBER 31, 1998

	Period from July 1, 1997 to December 31, 1997	Year ended December 31, 1998
Cash flows from operating activities		
Net loss	$(67,427)	$(68,988)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Bad debt expense	1,600	200
Depreciation	26,902	44,001
Write-off of property and equipment	4,237	2,378
Changes in operating assets and liabilities:		
Accounts receivable	(10,333)	4,106
Related party receivables	(29,824)	11,469
Prepaid expenses and other current assets	(1,378)	(5,408)
Accounts payable	4,998	(2,351)
Related party receivables	2,100	7,603
Accrued liabilities	55,405	18,213
Deferred revenue	9,037	1,609
Net cash provided by (used in) operating activities	(4,683)	12,832
Cash flows from investing activities:		
Acquisition of property and equipment	(9,764)	(12,038)
Net cash used in investing activities	(9,764)	(12,038)

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Cash flows from financing activities:
  Contributions from members on formation ........      25,108            --
        Net cash provided by financing activities
         ..........................................      25,108            --
        Net increase in cash ......................      10,661           794
Cash at beginning of year .........................         --          10,661
Cash at end of year ...............................    $ 10,661       $ 11,455
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The accompanying notes are an integral part of these financial statements.

The Well Llc

Notes to Financial Statements

Note 1--FORMATION AND BUSINESS OF THE COMPANY:

The Well LLC (the "Company") is a California Limited Liability Company that is in the business of providing international online conferencing services to subscribers for a monthly fee. Its members are comprised of Whole Earth 'Lectronic Link, Inc. ("Link"), a California S corporation owning 1,500,000 membership units, and Bruce Katz, an individual owning 10,000 membership units. Link is wholly owned by Bruce Katz.

The Company was initially formed in September 1996 and was dormant until July 1, 1997, when it acquired its business from Link as a capital contribution. As consideration for 1,500,000 membership units in the Company, Link contributed its online conferencing services division which had the following net assets at July 1, 1997:

Cash..... $ 15,108 Prepaid expenses ..... 722 Property and equipment, net..... 143,011 Accrued liabilities..... (13,932) $144,909 Link also contributed intellectual property, primarily in the form of existing technology, technical know-how, and the customer base. This contribution has been recorded at its historical carrying amount, which is zero. The Company recorded the tangible and intangible assets contributed by Link at their historical carrying amounts as there was effectively no change in ownership.

As consideration for 10,000 membership units in the Company, Bruce Katz contributed $10,000 in cash.

Note 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of estimates

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

Cash and cash equivalents The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Fair value of financial instruments The reported amounts of certain of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities approximate fair value due to their short maturities.

Concentration of credit risk Cash and cash equivalents are deposited in one domestic bank. With respect to accounts receivable, the Company's customer base is dispersed across many geographic areas. The Company monitors customer's payment history and establishes reserves for bad debt as warranted.

The Well Llc

NOTES TO FINANCIAL STATEMENTS--(Continued) Property and equipment Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of five to seven years. Major additions and betterments are capitalized, while replacements, maintenance, and repairs that do not improve or extend the life of the assets are charged to expense. In the period assets are retired or otherwise disposed of, the costs and related accumulated depreciation and amortization are removed from the accounts, and any gain or loss on disposal is included in results of operations.

Revenue recognition

Subscription revenues for online conferencing services are recognized over the period that services are provided. Deferred revenue consists primarily of monthly prepaid subscription fees billed in advance.

Cost of subscription revenues Cost of subscription revenues includes connectivity charges, systems co-location and administrative costs, depreciation expense relating to network equipment, credit card charges, and costs of personnel responsible for the operation of network equipment and systems.

Income taxes

The Company was not subject to income taxes during the period from January 1, 1997 to December 31, 1997 and the year ended December 31, 1998 since it operated as a partnership and any taxes are payable by its members.

Comprehensive income

The Company has adopted the accounting treatment prescribed by SFAS No. 130 "Reporting Comprehensive Income." The adoption of this statement has no impact on the Company's financial statements for the periods presented.

Note 3--PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at December 31:

1997 1998

Computer equipment	$ 252,253	$ 252,951
Furniture	21,392	20,006
	273,645	272,957
Accumulated depreciation	(152,009)	(185,662)
	$ 121,636	$ 87,295

The Well Llc

NOTES TO FINANCIAL STATEMENTS--(Continued) Note 4--ACCRUED LIABILITIES:

Accrued liabilities consist of the following at December 31:

1997 1998

Accrued payroll..... $12,981 $ 4,731 Accrued vacation..... 17,333 13,319 Other..... 39,023 69,500 $69,337 $87,550 Note 5--RELATED PARTY TRANSACTIONS:

Insurance

During the period from July 1, 1997 to December 31, 1998, the Company was covered by an insurance policy held by Rosewood Stone Group, Inc. ("RSG"), an S corporation wholly owned by one of its members, Bruce Katz. The insurance policy covers property, general liability, and workers compensation.

Rent and other operating expenses During 1998, the Company entered into an arrangement to rent office space from Well Engaged LLC, a limited liability company whose members are also Bruce Katz and Link. The Company pays $1,350 per month plus its prorata share of related operating costs.

Billing and collection services The Company entered into a billing and services agreement with Whole Earth Networks ("WeNet"), a limited liability company. The Company's members are majority owners of WeNet. WeNet was an Internet service provider and also formerly a division of Link. Prior to the Company and WeNet's separation from Link, the customer base had received one bill for both the conferencing and Internet access services. The billing and services agreement appoints Link to act as an agent in disbursing the revenue generated from The Well members who were subscribers prior to the Company commencing operations on July 1, 1997. The Company receives a fixed amount of revenue for each customer based on the subscriber's plan. The Company also pays to WeNet for billing services rendered. WeNet sold substantially all of its assets in March 1998 to Whole Earth Network, Inc. ("GST WeNet"), an unrelated third party. GST WeNet assumed the rights and obligations of the existing billing and services agreement and continues to act as the billing agent for the Company.

Co-location services agreement During the period from July 1, 1997 to December 31, 1998, the Company also had an agreement with WeNet to provide certain types of services to the Company. The services provided included storage space for some of the Company's computer hardware, a high bandwidth Internet connection, and system administration. The costs for these services vary

depending on the services provided in any given month. The rights and obligations of the co-location services agreement were also specifically assumed by GST WeNet as part of the purchase of WeNet in March 1998.

The Well Llc

NOTES TO FINANCIAL STATEMENTS--(Continued) Transactions with related parties are as follows:

Related Entity	Transaction	Period from July 1, 1997 to December 31, 1997	Year ended December 31, 1998
Amounts received from:			
Well Engaged LLC	Sale of equipment.....	$ --	$ 721
WeNet	Sale of equipment.....	6,295	--
Amounts paid to:			
WeNet/GST WeNet	Billing fees.....	8,357	11,702
WeNet/GST WeNet	Co-location services....	62,580	22,290
Rosewood Stone Group	Insurance.....	1,050	5,194
Well Engaged LLC	Purchase of equipment...	--	3,610
Well Engaged LLC	Rent.....	--	12,150

In addition, the Company received certain management and accounting services from RSG at no cost to the Company. The value of these services is estimated at approximately $4,200 and $8,400 for the period from July 1, 1997 to December 31, 1997 and for the year ended December 31, 1998, respectively.

Balances outstanding with related parties at December 31, 1997 and 1998 are as follows:

1997 1998

Amounts due from: Whole Earth 'Lectronic Link..... $22,492 $18,355 Well Engaged LLC ..... 1,037 -- Whole Earth Networks Link ..... 6,295 6,295 $29,824 $24,650 Amounts payable to: Rosewood Stone Group ..... $ 2,100 $ 5,915 Well Engaged LLC ..... -- 3,788 $ 2,100 $ 9,703 Note 6--PROFIT SHARING PLAN:

The Company's qualifying employees are covered by a multi-employer profit sharing plan ("the Plan") under Internal Revenue Code Section 401(k). Participating employees may defer a portion of their pretax earnings, up to the maximum percentage allowable under the Internal Revenue Code. The Company may make matching contributions equal to a discretionary percentage of the participating employees' salary reductions. The Company made no contributions to the Plan during the period from July 31, 1997 to December 31, 1998.

Note 7--STOCK OPTION PLAN:

In 1997, the Company adopted the 1997 Option Plan (the "Plan") under which 300,000 shares were reserved for issuance to employees, consultants and directors. As defined under the Plan, a share is equivalent to one membership unit of the Company.

The Well Llc

NOTES TO FINANCIAL STATEMENTS--(Continued) In 1997, the Company granted options to purchase 225,000 shares to two employees. All options granted to these employees have been cancelled and all vested options, none of which were exercised, have expired since these employees are no longer with the Company. As of December 31, 1998, there were no options outstanding or exercisable.

Note 8--SUPPLEMENTAL CASH FLOW INFORMATION:

	Period from July 1, 1997 to December 31, 1997	Year ended December 31, 1998

Supplemental disclosures of cash flow information: Cash paid during the year for state income taxes..... $ -- $800 Supplemental disclosures of noncash investing and financing transactions: Assets and liabilities contributed by Whole Earth 'Lectronic Link: Prepaid expenses ..... $ 722 Property and equipment, net ..... 143,011 Accrued liabilities ..... (13,932) Total ..... $129,801 Note 9--SUBSEQUENT EVENT:

In March 1999, the Board of Directors approved the sale of the Company to Salon.com for approximately $1.8 million.

Report of Independent Accountants

To the Board of Directors of Whole Earth 'Lectronic Link, Inc.

In our opinion, the accompanying balance sheet and the related statements of operations and changes in owner's net equity and of cash flows present fairly, in all material respects, the financial position of the Online Conferencing Business, a division of Whole Earth 'Lectronic Link, Inc., (the "Business") at June 30, 1997 and the results of its operations and its cash flows for the period from January 1, 1997 to June 30, 1997 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Business' management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP San Francisco, California March 3, 1999

Online Conferencing Business (Predecessor Business)

Balance Sheet June 30, 1997

ASSETS Current assets: Cash..... $ 15,108 Prepaid expenses and other current assets..... 722 Total current assets..... 15,830 Property and equipment, net..... 143,011 Total assets..... $158,841 LIABILITIES AND OWNER'S NET EQUITY Current liabilities: Accrued liabilities..... $ 13,932 Owner's net equity..... 144,909 Total liabilities and owner's net equity..... $158,841 The accompanying notes are an integral part of these financial statements.

Online Conferencing Business (Predecessor Business)

STATEMENT OF OPERATIONS AND CHANGES IN OWNER'S NET EQUITY FOR THE PERIOD FROM JANUARY 1, 1997 TO JUNE 30, 1997 Subscription revenues..... $250,580 Operating expenses: Cost of subscription revenues..... 111,844 Selling and marketing..... 47,071 General and administrative..... 132,611 Total operating expenses..... 291,526 Net loss..... (40,946) Owner's net equity, beginning of period..... 185,855 Owner's net equity, end of period..... $144,909 The accompanying notes are an integral part of these financial statements.

Online Conferencing Business (Predecessor Business)

Statement of Cash Flows for the Period from January 1, 1997 to June 30, 1997

Cash flows from operating activities:	
Net loss	$(40,946)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation	26,703
Changes in operating assets and liabilities:	
Prepaid expenses and other current assets	3,810
Accrued liabilities	2,904
Net cash used in operating activities	(7,529)
Net decrease in cash	(7,529)
Cash at beginning of period	22,637
Cash at end of period	$ 15,108

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

Online Conferencing Business (Predecessor Business)

Notes to Financial Statements

Note 1--FORMATION AND BUSINESS OF THE COMPANY:

The accompanying financial statements and related notes reflect the carve-out historical results of operations and financial position of the online conferencing business ("the Business") of Whole Earth 'Lectronic Link, Inc. ("Link"). The Statement of Operations includes all revenues and costs directly attributable to the online conferencing business, including costs for facilities, functions, and services used by the Business at shared sites and allocations of costs for certain administrative functions and services performed by Link. Costs have been allocated to the Business based on Link management's estimates of costs attributable to the operation of the online conferencing business. Such costs are not necessarily indicative of the costs that would have been incurred if the online conferencing business had been a separate entity.

The Business provides international online conferencing services to subscribers for a monthly fee. Link is wholly owned by Bruce Katz.

Note 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of estimates

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

Cash and cash equivalents The Business considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Fair value of financial instruments The reported amounts of certain of the Business' financial instruments including cash and accrued liabilities approximate fair value due to their short maturities.

Concentration of credit risk Cash is deposited in one domestic bank. The Business' customer base is dispersed across many geographic areas. The Business monitors customers' payment history and establishes reserves for bad debt as warranted.

Property and equipment Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of five to seven years. Major additions and betterments are capitalized, while replacements, maintenance, and repairs that do not improve or extend the life of the assets are charged to expense. In the period assets are retired or otherwise disposed of, the costs and related accumulated depreciation and amortization are removed from the accounts, and any gain or loss on disposal is included in results of operations.

Online Conferencing Business (Predecessor Business)

NOTES TO FINANCIAL STATEMENTS--(Continued) Revenue recognition Subscription revenues for online conferencing services are recognized over the period that services are provided. Deferred revenue consists primarily of monthly prepaid subscription fees billed in advance.

Cost of subscription revenues Cost of subscription revenues includes connectivity charges, systems co-location and administrative costs, depreciation expense relating to network equipment, credit card charges, and costs of personnel responsible for the operation of network equipment and systems.

Income taxes

The Business is a division of Link, which operated as an S corporation and any taxes are payable by Link's shareholder.

Note 3--PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30, 1997:

Computer equipment..... $ 255,056 Furniture..... 21,392 276,448 Accumulated depreciation..... (133,437) $ 143,011 Note 4--RELATED PARTY TRANSACTIONS:

Insurance

During the period from January 1, 1997 to June 30, 1997, the Business was covered by an insurance policy held by Rosewood Stone Group, Inc. ("RSG"), an S corporation wholly owned by Bruce Katz. The insurance policy covers property, general liability, and workers compensation. The Business paid RSG $1,200 in connection with this insurance coverage.

Billing and collection services The Business entered into a billing and services agreement with Whole Earth Networks ("WeNet"), a limited liability company in which Bruce Katz was a majority beneficial owner. WeNet is an Internet service provider and an affiliate of Link. The customer base received one bill for both the conferencing and Internet access services. The Business paid WeNet $12,432 for billing services rendered during the period from January 1, 1997 to June 30, 1997.

Online Conferencing Business (Predecessor Business)

NOTES TO FINANCIAL STATEMENTS--(Continued) Co-location services agreement During the period from January 1, 1997 to June 30, 1997, the Business had an agreement with WeNet to provide certain types of services to the Business. The services provided included storage space for some of the Business' computer hardware, a high bandwidth Internet connection, and system administration. The costs for these services vary depending on the services provided in any given month. For the period from January 1, 1997 to June 30, 1997, the Business paid WeNet $37,400 for these co-location services.

In addition, the Company received certain management and accounting services from RSG at no cost to the Company. The value of these services is estimated at approximately $4,200 for the period from January 1, 1997 to June 30, 1997.

Note 5--PROFIT SHARING PLAN:

The Business' qualifying employees are covered by a multi-employer profit sharing plan ("the Plan") under Internal Revenue Code Section 401(k). Participating employees may defer a portion of their pretax earnings, up to the maximum percentage allowable under the Internal Revenue Code. The Company may make matching contributions equal to a discretionary percentage of the participating employees' salary reductions. The Business made no contributions to the Plan during the period from January 1, 1997 to June 30, 1997.

Note 6--SUBSEQUENT EVENT:

On July 1, 1997, Link transferred the Business into The Well LLC ("The Well") in return for 1,500,000 membership units in The Well.

Salon.com

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) The following financial pro forma consolidated statements present the Salon Internet, Inc. pro forma consolidated balance sheet as of December 31, 1998 and the pro forma consolidated statements of operations for the year ended March 31, 1998 and the nine months ended December 31, 1998.

Salon's acquisition of The Well LLC has been accounted for under the "purchase" method of accounting, which requires the purchase price to be allocated to the acquired assets and liabilities of The Well LLC on the basis of their estimated fair values as of the date of acquisition. The following pro forma consolidated statements of operations for the year ended March 31, 1998 and the nine months ended December 31, 1998 give effect to the acquisition of The Well LLC as if it occurred on April 1, 1997, and include adjustments directly attributable to the acquisition of The Well LLC and expected to have a continuing impact on the combined company.

The pro forma information is based on historical financial statements. The pro forma results of operations for the year ended March 31, 1998 includes the results of operations of Online Conferencing Business (predecessor business) from January 1, 1997 to June 30, 1997 and The Well LLC from July 1, 1997 to December 31, 1997. The pro forma results of operations for the nine months ended December 31, 1998 includes the results of operations of The Well LLC from January 1, 1998 to September 30, 1998. The assumptions give effect to the business combination with The Well LLC under the purchase method of accounting. The information has been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and is provided for comparative purposes only. The pro forma information does not purport to be indicative of the results that actually would have occurred had the combination been effected at the beginning of the periods presented.

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PRO FORMA CONSOLIDATED BALANCE SHEET (Unaudited) December 31, 1998 The Well Salon.com LLC Adjustments Pro Forma

ASSETS				
Current Assets:				
Cash and cash equivalents	$ 1,607,271	$ 11,455	$ --	$ 1,618,726
Accounts receivable, net	844,186	4,427	--	848,613
Related party receivables	--	24,650	--	24,650
Prepaid expenses and other current assets	307,765	1,213	--	308,978
Total current assets	2,759,222	41,745	--	2,800,967
Property and equipment, net	597,344	87,295	--	684,639
Intangible assets, net	--	--	1,851,960	1,851,960
Other assets	29,359	--	--	29,359
Total assets	$ 3,385,925	$ 129,040	$1,851,960	$ 5,366,925
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	$ 424,305	$ 2,647	$ --	$ 426,952
Related party payables	--	9,703	--	9,703
Accrued liabilities	181,895	87,550	--	269,445
Deferred revenue	214,198	10,646	75,348	300,192
Bank borrowings	416,834	--	(10,646)	406,188
Total current liabilities	1,237,232	110,546	64,702	1,412,480
Bank borrowings, net of current portion	312,677	--	--	137,475
	1,374,707	110,546	64,702	1,549,955
Stockholders' Equity:				
Convertible preferred stock	11,161,857	--	1,805,752	12,967,609
Common stock	392	--	--	392
Additional paid in capital	2,495,416	--	--	2,495,416
Members' interest	--	154,909	(154,909)	--
Unearned compensation	(1,102,390)	--	--	(1,102,390)
Accumulated deficit	(10,544,057)	(136,415)	136,415	(10,544,057)
Total stockholders' equity	2,011,218	18,494	1,787,258	3,816,970
Total liabilities and stockholders' equity	$ 3,385,925	$ 129,040	$1,851,960	$ 5,366,925

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

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PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

			For the period	
Year Ended March 31, 1998	For the period January 1, 1997 to June 30, 1997		July 1, 1997 to December 31, 1997	Year Ended March 31, 1998
	Online Conferencing			

	Salon.com	Business (Predecessor Business)	The Well, LLC	Adjustments	Pro Forma
Revenues:					
Sponsorship and advertising	$ 1,155,931	$ --	$ --	$ --	$ 1,155,931
Subscription	--	250,580	267,022	--	517,602
	1,155,931	250,580	267,022	--	1,673,533
Operating expenses:					
Production, content, and product	2,832,006	--	--	--	2,832,006
Cost of subscription revenues	--	111,844	124,685	--	236,529
Sales and marketing	1,654,990	47,071	45,475	--	1,747,536
Research and development	276,112	--	--	--	276,112
General and administrative	291,446	132,611	164,289	--	588,346
Amortization of acquired intangibles	--	--	--	925,980	925,980
Total operating expenses	5,054,554	291,526	334,449	925,980	6,606,509
Loss from operations	(3,898,623)	(40,946)	(67,427)	(925,980)	(4,932,976)
Interest expense	(16,340)	--	--	--	(16,340)
Other income	89,108	--	--	--	89,108
Net loss	$(3,825,855)	$ (40,946)	$ (67,427)	$(925,980)	$(4,860,208)
Basic and diluted net loss per share	$ (10.20)	$ --	$ --	$ --	$ (12.96)
Weighted average shares used in computing basic and diluted net loss per share	375,000				375,000
Pro forma basic and diluted net loss per share	$ (1.20)				$ (1.33)
Weighted average shares used in computing pro forma basic and diluted net loss per share	3,189,721				3,655,121

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

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PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

	For the Nine Months Ended December 31, 1998 Salon.com	For the Nine Months Ended September 30, 1998 The Well LLC	Adjustments	For the Nine Months Ended December 31, 1998 Pro Forma
Revenues:				
Sponsorship and advertising	$ 2,058,024	$ --	$ --	$ 2,058,024
Subscription	--	379,638	--	379,638
	2,058,024	379,638	--	2,437,662
Operating expenses:				
Production, content, and				

product.....	3,134,810	--	--	3,134,810
Cost of subscription revenues.....	--	162,209	--	162,209
Sales and marketing.....	2,580,179	58,194	--	2,638,373
Research and development.....	304,701	--	--	304,701
General and administrative.....	337,908	192,431	--	530,339
Amortization of acquired intangibles.....	--	--	694,485	694,485
Total operating expenses	6,357,598	412,834	694,485	7,464,917
Loss from operations.....	(4,299,574)	(33,196)	(694,485)	(5,027,255)
Interest expense.....	(36,701)	--	--	(36,701)
Other income.....	38,358	--	--	38,358
Net loss.....	$(4,297,917)	$(33,196)	$(694,485)	$(5,025,598)
Basic and diluted net loss per share.....	$ (11.20)	$ --	$ --	$ (13.10)
Weighted average shares used in computing basic and diluted net loss per share.....	383,684			383,684
Pro forma basic and diluted net loss per share	$ (1.05)			$ (1.11)
Weighted average shares used in computing pro forma basic and diluted net loss per share.....	4,075,248			4,540,648

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

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NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Note 1--BASIS OF PRESENTATION:

In March 1999, Salon acquired The Well LLC, a privately held company that has experience in providing international online conferencing services to subscribers.

The unaudited pro forma information presented is not necessarily indicative of the future consolidated financial position or results of operations of Salon or the consolidated financial position or results of operations that would have resulted had the acquisition taken place on April 1, 1997. The unaudited pro forma consolidated balance sheet as of December 31, 1998 reflects the effects of the acquisition, assuming the related event occurred as of December 31, 1998. The unaudited pro forma statements of operations for the year ended March 31, 1998 and the nine months ended December 31, 1998 reflect the effects of the acquisition, assuming the related events occurred as of April 1, 1997.

Note 2--UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL ADJUSTMENTS:

The unaudited pro forma consolidated financial statements reflect a total purchase price of $1.9 million, and the acquisition was recorded under the purchase method of accounting. In connection with the acquisition, Salon recorded goodwill of $396,860 and other intangibles of $1,555,000 including proprietary technology and tradename, which are being amortized on a straight- line basis over two years following the acquisition.

Note 3--UNAUDITED PRO FORMA CONSOLIDATED NET LOSS PER SHARE:

The net loss per share and shares used in computing the net loss per share for the year ended March 31, 1998 and the nine months ended December 31, 1998 is based upon the historical weighted average common shares outstanding. The Salon common stock issuable upon the exercise of the stock options and warrants have been excluded as the effect would be antidilutive. In addition to the shares used in computing the net loss per share above, pro forma net loss per share is calculated using the convertible preferred stock outstanding as if such shares were converted to common stock at the time of issuance.

Note 4--PURCHASE ADJUSTMENTS:

Pro forma adjustments have been prepared to reflect the acquisition of The Well LLC and the related amortization of other intangible assets and goodwill.

[Logo of Salon.com]

Until , 1999, which is 25 days after the date of this prospectus, all dealers that buy, sell or trade Salon's common stock, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution The following table sets forth the costs and expenses, other than underwriting discounts and commissions to be paid by Salon, in connection with this offering. All amounts shown are estimates except for the SEC registration fee and the NASD filing fee.

SEC registration fee	$ 10,790
NASD filing fee	4,382
Nasdaq National Market listing fee	43,750
Blue sky fees and expenses	10,000
Printing and engraving expenses	200,000
Legal fees and expenses	300,000
Accounting fees and expenses	250,000
Director and officer Securities Act liability insurance	150,000
Transfer agent and registrar fees	10,000
Miscellaneous expenses	21,078
Total	$1,000,000

Item 14. Indemnification of Officers and Directors Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to officers, directors and other corporate agents under certain circumstances and subject to certain limitations. Salon's certificate of incorporation and bylaws provide that Salon shall indemnify its directors, officers, employees and agents to the full extent permitted by Delaware General Corporation Law, including in

circumstances in which indemnification is otherwise discretionary under Delaware law. In addition, Salon intends to enter into separate indemnification agreements with its directors, officers and certain employees which would require Salon, among other things, to indemnify them against certain liabilities which may arise by reason of their status as directors, officers or certain other employees. Salon also intends to maintain director and officer liability insurance, if available on reasonable terms.

These indemnification provisions and the indemnification agreement to be entered into between Salon and its officers and directors may be sufficiently broad to permit indemnification of Salon's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

The Underwriting Agreement filed as Exhibit 1.1 to this Registration Statement provides for indemnification by the underwriters of Salon and its officers and directors for certain liabilities arising under the Securities Act, or otherwise.

Item 15. Recent Sales of Unregistered Securities (a) Since April 1, 1996, Salon has issued and sold the following unregistered securities:

(1) From inception to April 1, 1999, Salon issued options to purchase an aggregate of 2,056,250 shares of common stock under the 1995 stock option plan, of which 54,998 have been exercised.

(2) On December 22, 1995, August 2, 1996 and February 6, 1997, Salon sold an aggregate of 2,500,000 shares of its Series A preferred stock to two investors, Adobe Ventures, L.P. and H&Q Salon Investors, L.P., for an aggregate of $5,000,000.

(3) In April 1997, Salon issued a warrant to purchase 8,750 shares of Series A preferred stock at an exercise price of $2.00 per share to Imperial Bancorp. This warrant may be exercised at any time within five years after its issuance.

(4) On November 28, 1997, Salon sold an aggregate of 949,365 shares of its Series B preferred stock to four investors, including Adobe Ventures II, L.P., DOTCOM Ventures, L.P. and H&Q Salon Investors, L.P. for an aggregate of approximately $3.0 million.

(5) In April 1998, Salon issued a warrant to purchase 11,867 shares of Series B preferred stock at an exercise price of $3.16 per share to Imperial Bancorp. This warrant may be exercised at any time within seven years after its issuance.

(6) In July 1998, Salon issued a warrant to purchase 79,114 shares of its Series B preferred stock at an exercise price of $3.16 per share to America Online Inc. This warrant may be exercised at any time within five years after its issuance.

(7) On September 18, 1998, November 3, 1998 and April 14, 1999, Salon sold an aggregate of 3,869,843 shares of Series C preferred stock to thirty-five investors including Adobe Ventures II, L.P., DOTCOM Ventures, L.P., entities affiliated with Constellation Ventures, H&Q Salon Investors, L.P., Wasserstein Adelson Ventures, L.P. and entities affiliated with Bruce Katz for an aggregate of $15,014,991. In addition, on September 18, 1998, Salon issued warrants to purchase an aggregate of 219,582 shares of common stock with an exercise price per share of $0.52 to Adobe Ventures II, L.P., DOTCOM Ventures, L.P. and H&Q Salon Investors, L.P.

(8) In December 1998, Salon issued a warrant to purchase 14,439 shares of Series C preferred stock at an exercise price of $3.88 per share to Imperial Bancorp. This warrant may be exercised at any time within seven years after its issuance.

(9) On March 29, 1999, Salon issued 463,918 shares of Series C preferred stock to Whole Earth Lectronic Link and Bruce Katz in exchange for all of the membership interests of The Well LLC.

(10) On April 14, 1999, Salon issued a warrant to purchase an aggregate of 148,389 shares of Series C preferred stock at an exercise price of $3.88 per share to entities affiliated with Daiwa Securities America Inc. and a warrant to purchase 25,773 shares of Series C preferred stock at an exercise price of $3.88 per share to ACT III Communications.

There were no underwriters employed in connection with any of the transactions set forth in Item 15.

For additional information concerning these equity investment transactions, see the section entitled "Certain Transactions" in the prospectus.

The issuances described in Items 15(a)(1) through 15(a)(10) were deemed exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. Certain issuances described in Item 15(a)(1) were deemed exempt from registration under the Securities Act in reliance on Section 4(2) or Rule 701 promulgated thereunder as transactions pursuant to compensatory benefit plans and contracts relating to compensation. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. All recipients either received adequate information about Salon or had access, through employment or other relationships, to such information.

Item 16. Exhibits and Financial Statement Schedules (a) Exhibits Exhibit Number Description of Document 1.1+ Form of Underwriting Agreement.

2.1 Membership Interest Purchase Agreement dated March 29, 1999.

3.1 Amended and Restated Articles of Incorporation of Salon, as amended to date.

3.2+ Form of Certificate of Incorporation of Salon, as proposed to be filed.

3.3 Bylaws of Salon.

3.4+ Form of Bylaws, as proposed to be filed.

4.1 Third Amended and Restated Rights Agreement dated April 14, 1999.

4.2 Second Amended and Restated Voting Agreement dated April 14, 1999.

5.1+ Opinion of Gray Cary Ware & Freidenrich LLP.

10.1 1995 Stock Option Plan.

10.2+ 1999 Employee Stock Purchase Plan.

10.3 Form of Indemnity Agreement.

10.4 Commercial Office Lease between T/W Associates and Salon dated June 25, 1997.

10.5 Agreement of Lease between ZAPCO 1500 Investment L.P. and Salon dated March 1998.

10.6 Employment Agreement between Michael O'Donnell and Salon dated November 7, 1996.

10.7 Employment Agreement between Bruce Roberts and Salon dated April 2,1999.

10.8 Letter Agreement between Todd Hagen and Salon dated March 25, 1999, as amended.

10.9 Warrant to Purchase Stock issued to Imperial Bancorp dated December 17, 1998.

10.10 Warrant to Purchase Stock issued to Imperial Bancorp dated April 13, 1998.

10.11 Warrant to Purchase Stock issued to Imperial Bancorp dated April 14, 1997.

10.12 Warrant to Purchase Stock issued to America Online Inc. dated July 31, 1998.

10.13 Warrant to Purchase Stock issued to Adobe Ventures II L.P. dated September 18, 1998.

10.14 Warrant to Purchase Stock issued to ASCII Ventures, L.P. dated September 18, 1998.

10.15 Warrant to Purchase Stock issued to H&Q Salon Investors, L.P. dated November 3, 1998.

10.16+ Form of Warrant to Purchase Stock issued to entities affiliated with Daiwa Securities America Inc. dated April 1999.

10.17+ Warrant to Purchase Stock issued to ACT III Communications dated April 1999.

10.18 Loan Agreement between Imperial Bank and Salon dated April 13, 1998, as amended.

10.19 Series A Preferred Stock Purchase Agreement dated December 22, 1995.

10.20 First Amendment to the Series A Preferred Stock Purchase Agreement dated August 2, 1996.

10.21 Second Amendment to the Series A Preferred Stock Purchase Agreement dated February 6, 1997.

10.22 Series B Preferred Stock Purchase Agreement dated November 28, 1997.

10.23 Series C Preferred Stock Purchase Agreement dated September 18, 1998.

10.24 Series C Preferred Stock Purchase Agreement dated April 14, 1999.

21.1 Subsidiaries of Salon.

23.1 Consent of PricewaterhouseCoopers LLP, Independent Accountants.

23.2+ Consent of Gray Cary Ware & Freidenrich LLP (included in Exhibit 5.1).

24.1 Power of Attorney (included on page II-5).

27.1 Financial Data Schedule (EDGAR filed version only).

+ To be filed by amendment (b) Financial Statement Schedules Schedule II--Valuation and Qualifying Accounts Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

Item 17. Undertakings Salon hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification by Salon for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of Salon pursuant to the provisions described in Item 14 above or otherwise, Salon has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by Salon of expenses incurred or paid by a director, officer, or controlling person of Salon in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, Salon will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Salon hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by Salon pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

Signatures

In accordance with the requirements of the Securities Act of 1933, Salon certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, in the City of San Francisco, State of California, on the 19th day of April, 1999.

Salon Internet, Inc.

/s/ Michael O'Donnell By: _____ Michael O'Donnell Chief Executive Officer and President

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Michael O'Donnell as his true and lawful attorney-in-fact and agent, with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Registration Statement (including post-effective amendments or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) increasing the number of securities for which registration is sought), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, with full power to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature Title Date

/s/ Michael O'Donnell _____ Michael O'Donnell	Chief Executive Officer, President and Director (Principal Executive Officer)	April 16, 1999
/s/ David Talbot _____ David Talbot	Chairman of the Board and Editor-in Chief and Director	April 16, 1999

/s/ Todd Hagen Chief Financial Officer, April 16, 1999 _____ Vice President of Finance Todd Hagen and Administration and Secretary (Principal Financial and Accounting Officer) /s/ Sada Chidambaram Director April 16, 1999 Sada Chidambaram /s/ Standish O'Grady Director April 16, 1999 Standish O'Grady

Signature Title Date

/s/ Jim Rosenfield Director April 16, 1999 Jim Rosenfield /s/ Norman Lear Director April 16, 1999 Norman Lear Director April , 1999 Ron Celmer

Report of Independent Accountants on Financial Statement Schedule

To the Board of Directors and Stockholders of Salon.com In connection with our audits of the financial statements of Salon.com as of March 31, 1997 and 1998, and for the period from July 27, 1995 (inception) to March 31, 1996 and for each of the two years in the period ended March 31, 1998, which financial statements are included in the Prospectus, we have also audited the financial statement schedule listed in Item 16(b) herein. In our opinion, this financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included herein.

/s/ PricewaterhouseCoopers LLP San Francisco, California April 14, 1999

Schedule Ii

Salon.com

Valuation and Qualifying Account

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
		(in thousands)		
Valuation allowance for deferred tax assets				
For the period July 27, 1995 (inception) to March 31, 1996....	$ --	$ 174	$ --	$ 174
Year ended March 31, 1997.....	174	785	--	959
Year ended March 31, 1998.....	959	1,513	--	2,472

Exhibit Number Description of Document 1.1+ Form of Underwriting Agreement.

2.1 Membership Interest Purchase Agreement dated March 29, 1999.

3.1 Amended and Restated Articles of Incorporation of Salon, as amended to date.

3.2+ Form of Certificate of Incorporation of Salon, as proposed to be filed.

3.3 Bylaws of Salon.

3.4+ Form of Bylaws, as proposed to be filed.

4.1 Third Amended and Restated Rights Agreement dated April 14, 1999.

4.2 Second Amended and Restated Voting Agreement dated April 14, 1999.

5.1+ Opinion of Gray Cary Ware & Freidenrich LLP.

10.1 1995 Stock Option Plan.

10.2+ 1999 Employee Stock Purchase Plan.

10.3 Form of Indemnity Agreement.

10.4 Commercial Office Lease between T/W Associates and Salon dated June 25, 1997.

10.5 Agreement of Lease between ZAPCO 1500 Investment L.P. and Salon dated March 1998.

10.6 Employment Agreement between Michael O'Donnell and Salon dated November 7, 1996.

10.7 Employment Agreement between Bruce Roberts and Salon dated April 2,1999.

10.8 Letter Agreement between Todd Hagen and Salon dated March 25, 1999, as amended.

10.9 Warrant to Purchase Stock issued to Imperial Bancorp dated December 17, 1998.

10.10 Warrant to Purchase Stock issued to Imperial Bancorp dated April 13, 1998.

10.11 Warrant to Purchase Stock issued to Imperial Bancorp dated April 14, 1997.

10.12 Warrant to Purchase Stock issued to America Online Inc. dated July 31, 1998.

10.13 Warrant to Purchase Stock issued to Adobe Ventures II L.P. dated September 18, 1998.

10.14 Warrant to Purchase Stock issued to ASCII Ventures, L.P. dated September 18, 1998.

10.15 Warrant to Purchase Stock issued to H&Q Salon Investors, L.P. dated November 3, 1998.

10.16+ Form of Warrant to Purchase Stock issued to entities affiliated with Daiwa Securities America Inc. dated April 1999.

10.17+ Warrant to Purchase Stock issued to ACT III Communications dated April 1999.

10.18 Loan Agreement between Imperial Bank and Salon dated April 13, 1998, as amended.

10.19 Series A Preferred Stock Purchase Agreement dated December 22, 1995.

10.20 First Amendment to the Series A Preferred Stock Purchase Agreement dated August 2, 1996.

10.21 Second Amendment to the Series A Preferred Stock Purchase Agreement dated February 6, 1997.

10.22 Series B Preferred Stock Purchase Agreement dated November 28, 1997.

10.23 Series C Preferred Stock Purchase Agreement dated September 18, 1998.

10.24 Series C Preferred Stock Purchase Agreement dated April 14, 1999.

21.1 Subsidiaries of Salon.

23.1 Consent of PricewaterhouseCoopers LLP, Independent Accountants.

23.2+ Consent of Gray Cary Ware & Freidenrich LLP (included in Exhibit 5.1).

24.1 Power of Attorney (included on page II-5).

27.1 Financial Data Schedule (EDGAR filed version only).

+ To be filed by amendment </TEXT>