

*2000 Annual Report*



*the house that Salton built*

Millions of consumers **feel** at ease here, because they **trust** Salton's products for **living** to help them **create** the efficient, elegant homes they love.

*f i n a n c i a l s u m m a r y*

	Fiscal Year Ended July 1,2000	Fiscal Year Ended June 26,1999
Net Sales	\$ 837,302	\$ 506,116
Gross Profit	\$ 332,413	\$ 198,969
Operating Income	\$ 175,664	\$ 69,381
Net Income	\$ 91,816	\$ 34,543
Net Income per share: diluted	\$ 5.91	\$ 2.37
Weighted Average Common and Common Equivalent Shares Outstanding	15,526	14,562
<b>BALANCE SHEET DATA</b>		
Working Capital	\$ 197,671	\$ 165,935
Total Assets	\$ 564,276	\$ 328,316
Long-term Debt	\$ 215,065	\$ 182,329
Stockholders' Equity	\$ 173,808	\$ 50,739

**Disclosure Regarding Forward-Looking Statements**

All statements, other than statements of historical fact, included in this annual report are, or may be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: the company's degree of leverage; economic conditions and the retail environment; the timely development, introduction and customer acceptance of the company's products; competitive products and pricing; dependence on foreign suppliers and supply and manufacturing constraints; the company's relationship and contractual arrangements with key customers, suppliers and licensors; cancellation or reduction of orders; the integration of Toastmaster, including the failure to realize anticipated revenue enhancements and cost savings; the availability and success of future acquisitions; the risks relating to pending legal proceedings; the risks relating to intellectual property rights; the risks relating to regulatory matters; and other factors both referenced and not referenced in this annual report.

Salton *convenience*



*In the heart of the home, Salton keeps pace with hundreds of innovative, efficient products that enhance the culinary experience and make healthy living even easier. From breadmakers to grills, from juice extractors to toaster ovens, from slow-cookers to soy milk makers and beyond, **Salton** food preparation products really cook!*



Salton*chic*



*Whether it's a charming lamp on a bedside table, a dining table set with gleaming crystal and fine china or an elegant timepiece perched atop the living room mantel, special touches are what make a house feel warm, welcoming and personal. Room after room, home after home, [Salton](#) decorative accessories truly set the style.*



**Salton***comfort*





*When life is hurried, hectic and very, very busy, there's no substitute for trusted, high-quality products that make you feel pampered, protected and properly cared for. Morning, noon and night, millions of people turn to **Salton** personal care products to help them look and feel their best and most beautiful.*

Salton has continued to construct a house of brands that is unmatched in the industry, both for its strength & its scope.

*l e t t e r t o t h e s h a r e h o l d e r s*

Dear Shareholder:

The theme of this year's annual report, "the house that Salton built," is a fitting metaphor for the Company's dynamic performance during fiscal year 2000, as well as its overriding focus on growth. In keeping with the Company's principal strategy to increase market share by marketing products under established brand names, Salton has continued to construct a house of brands that is unmatched in the industry, both for its strengths and its scope. Through key acquisitions and license agreements finalized in fiscal 2000 and early fiscal 2001, we have again expanded into new categories, as well as extended our reach in existing product categories.

With this powerful brand presence as our foundation, we have continued to build on another predominant strength – innovation. During fiscal 2000, new product introductions and the design of creative new product enhancements expanded our already extensive product line to literally every living area in the house. In addition, our pioneering efforts to develop truly targeted marketing strategies made us a household word.

Fiscal year 2000 was, in fact, a blueprint for growth. Net sales increased 65.4% to a record \$837.3 million in fiscal 2000, compared to \$506.1 million in fiscal 1999. Gross profit increased to \$332.4 million, or 39.7% of net sales in fiscal 2000, compared to \$199.0 million, or 39.3% of net sales in fiscal 1999. Income before income taxes increased to \$146.9 million in fiscal 2000, compared to \$53.9 million in fiscal 1999. Net income was \$91.8 million, after income taxes of \$55.1 million, or \$5.91 per diluted share on 15,526,000 shares outstanding in fiscal 2000, versus \$35.5 million, after income taxes of \$19.3 million, or \$2.37 per share on 14,562,000 shares outstanding in fiscal 1999.

The Company's growth in fiscal 2000 was outstanding, exceeding all expectations and goals. This growth was broad-based, involving almost every brand under the Salton roof. It resulted from current products realizing both bigger sales and wider distribution, as well as exciting new product introductions, new licenses and new acquisitions.

**IN THE KITCHEN AND ON THE DECK**

Salton's kitchen appliances made significant new inroads in the ever-expanding food preparation market in fiscal 2000, as the Company supported both new acquisitions and existing lines with dynamic product development, aggressive marketing and a concerted effort to build more effective, value-added relationships with its retailer partners.

- The George Foreman brand, one of the pillars in "the house that Salton built," continued to add innovations to the electric grill category it virtually created. In fiscal 2000, the Company launched an indoor/outdoor, kettle-style grill bearing the George Foreman name. The product immediately enjoyed both sell-through and sell-out success. Based on this response, Salton will be offering a complete line of electric and propane-powered George Foreman outdoor grills in fiscal 2001. To launch this exciting new product direction, Salton will be running the first outdoor grill infomercials ever featured on television.
- Toastmaster continued to innovate and broaden its product offerings for Salton, introducing a radical new technology in toaster ovens that allows the homemaker to remove the entire oven lining for easy cleaning in the dishwasher. This innovation answers the number one consumer complaint about toaster



David C. Sabin  
*Chairman and Secretary*



Leonhard Dreimann  
*Chief Executive Officer*



William B. Rue  
*President and Chief Operating Officer*

ovens and illustrates the Company's highly-regarded proactive approach to product development.

- Continuing this emphasis on innovation, Toastmaster will further enhance its position in the vanguard of product development with the imminent launch of a revolutionary new cooking approach – Ultravection®. This ultimate cooking method combines convection, radiant and conductive heating for food preparation that is micro-fast, yet cooks meats, baked goods and more to perfection. The Toastmaster Ultravection® Oven will launch via infomercials during the first quarter of calendar year 2001 before hitting wide release at retail next Spring.
- The Melita® brand, which was licensed in fiscal 1999, rolled out its first coffee brewing products under the Salton banner in fiscal year 2000, with impressive new placements and better-than-expected sales success at retail. In April, the new Juicelady® juicer/extractor also debuted with a family-oriented infomercial that brought home the importance of emphasizing healthier eating at an early age. Supported by this targeted marketing strategy, this streamlined juice extractor is expected to penetrate new markets and expand selling opportunities.

#### FROM THE DINING ROOM TO THE BEDROOM AND BEYOND

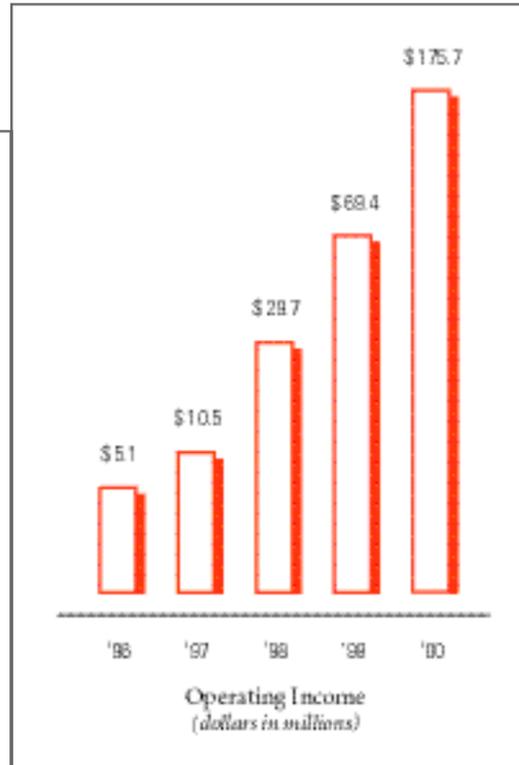
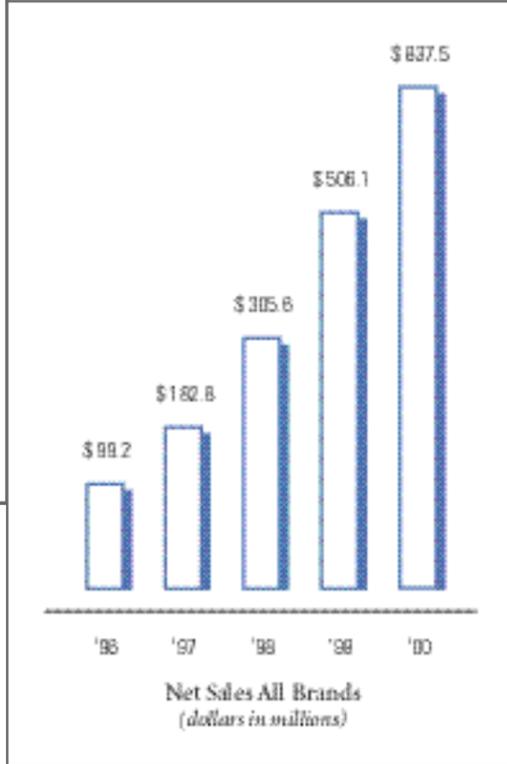
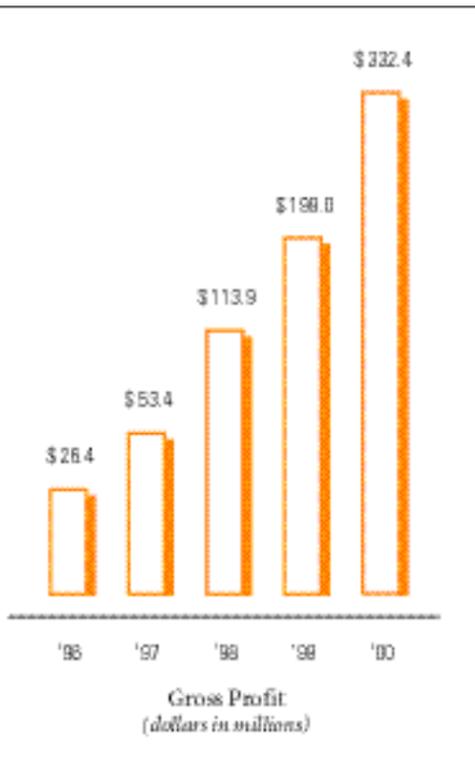
Fiscal year 2000 also brought some "remodeling" within the Company, with the formation of the Salton Home Decor Division, a new business unit devoted to building Salton's reputation and reach in the home accessories market. Key to this effort is expanding Salton product offerings both within and beyond our existing tabletop, timepiece and giftware lines and creating new opportunities in every room of the home.

- In a major advance toward this goal, the Company recently acquired the famed Stiffel® brand. Known throughout the world as the leader in fine lamps, the Stiffel name will immediately give Salton a powerful presence in the home lighting market and an instant reputation for quality and design. To capitalize on this image, the Company will release the first Stiffel® products in fiscal 2001 and will then broaden the line to include additional home decor accessories.
- The Block China Division also continues to expand, with the integration of new designs under the Sasaki® brand acquired last year, and with the recent signing of a new license for Calvin Klein® quality casual dinnerware that will launch in 2001. Fiscal 2000 also saw the much-anticipated opening of the new Block Showroom in New York. Housed in a prestigious Manhattan building, this high-impact display space is designed to help our customers experience and understand the depth and breadth of Salton's china and glassware offerings.

#### FOR IMPROVED HEALTH & PERSONAL CARE

The personal care category continues to grow and the Company has moved aggressively to be a major force in this burgeoning market.

- On July 12, 2000, the Company acquired the Sonex Company and its exclusive ultrasonic oral hygiene system. Sonex® developed a patented technology that sends ultrasonic waves below the gum line to attack the bacteria that cause gum disease. Its deep-cleaning home hygiene system features an ultrasonic toothbrush and a battery-powered flosser. The Company plans to re-launch both Sonex personal care appliances with an infomercial during 2001.



- Recently, the Company finalized the acquisition of Relaxor, an inventive and extensive line of massage and relaxation products that is unique in the personal care field. The Relaxor brand enjoys great awareness with both buyers and end users and has generated tremendous excitement in the industry. This acquisition offers Salton a remarkable opportunity to break into an entirely new category, yet rapidly grab a major market share.
- Product enhancements have always been a hallmark of the Salton strategy and fiscal year 2000 proved no exception. The Company introduced a new version of an old Salton standard – the Wet Tunes® shower radio. A staple in the Salton product line since 1983, the Wet Tunes was redesigned for current fashion trends and updated with new features. This popular product is now available in a range of translucent colors to coordinate with today's bathroom decor.

Building Salton's business in fiscal year 2000 entailed more than just making and marketing more innovative products for living. It also involved enriching our relationships with our customers and making the Company a more visible and valuable ally in the marketplace. The industry continues to be characterized by consolidation and increasing pressure from imports. Salton has been able to capitalize on these trends by giving retailers expanded brands and state-of-the-art technology all from one trusted, proven supplier.

Looking forward, we will be taking the phrase "the house that Salton built" to a new level during 2001. Construction is currently underway on a new state-of-the-art headquarters building for Salton, Inc. Located in Lake Forest, Illinois, the 60,000 sq. ft.

building will house executive offices, showroom space, product development, marketing and administrative functions, all fully wired to take advantage of high-tech information management systems and to take us well into the new millennium.

Throughout fiscal year 2000, the Company made significant strides toward strengthening and expanding its operations, increasing its market share and extending its brand awareness among consumers. We have done an excellent job of positioning Salton as the name to trust for quality, innovative products that we would all want to use in our own homes. However, building a strong, profitable business is an ongoing construction project at Salton. As we head into 2001, we are poised to capitalize on our recent progress, seek out even more opportunities and reinforce our commitment to solid financial performance for you, our shareholders.

Sincerely,

Leonhard Dreimann  
Chief Executive Officer

David C. Sabin  
Chairman and Secretary

William B. Rue  
President and Chief Operating Officer

**BOARD OF DIRECTORS**

Leonhard Dreiman  
*Chief Executive Officer*  
*Salton, Inc.*

David C. Sabin  
*Chairman, Secretary*  
*Salton, Inc.*

William B. Rue  
*President, Chief Operating Officer*  
*Salton, Inc.*

Frank Devine\* \*\*  
*President*  
*Bachmann-Devine, Incorporated*

Bert Doornmalen\* \*\*  
*Foreign Trade Consultant*  
*Doornmalen Associates*

Robert A. Bergmann  
*Principal*  
*Centre Partners Management, LLC*

Bruce G. Pollack\*  
*Managing Director*  
*Centre Partners Management, LLC*

\*Audit Committee member

\*\*Compensation Committee member

**SENIOR EXECUTIVE STAFF**

Leonhard Dreimann  
*Chief Executive Officer*

David C. Sabin  
*Chairman, Secretary*

William B. Rue  
*President*  
*Chief Operating Officer*

John E. Thompson  
*Senior Vice President*  
*Chief Financial Officer*

**REGISTRAR AND TRANSFER AGENT**

UMB Bank,n.a.  
 Kansas City, Missouri

**INDEPENDENT AUDITORS**

Deloitte & Touche LLP  
 Chicago, Illinois

**LEGAL COUNSEL**

Sonnenschein Nath and Rosenthal  
 Chicago, Illinois

**STOCKWATCH**

Salton's common stock has traded on the New York Stock Exchange under the symbol "SFP" since February 26, 1999. From October 1991 until February 25, 1999, our common stock traded on the NASDAQ National market under the symbol "SALT".

For additional stockholder information, please write to Investor Relations, Salton, Inc., 550 Business Center Drive, Mt. Prospect, IL 60056.

**QUARTERLY SHARE PRICE**

*This Table is adjusted for the 3 for 2 stock split effected on July 28, 1999.*

	<b>High</b>	<b>Low</b>
<b>Fiscal 2000</b>		
First Quarter	\$ 50.00	\$ 21.69
Second Quarter	\$ 39.44	\$ 24.25
Third Quarter	\$ 60.88	\$ 27.69
Fourth Quarter	\$ 49.81	\$ 26.88
<b>Fiscal 1999</b>		
First Quarter	\$ 11.17	\$ 7.67
Second Quarter	\$ 15.50	\$ 5.92
Third Quarter	\$ 22.83	\$ 14.00
Fourth Quarter	\$ 33.58	\$ 14.67

# Salton *10K*



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