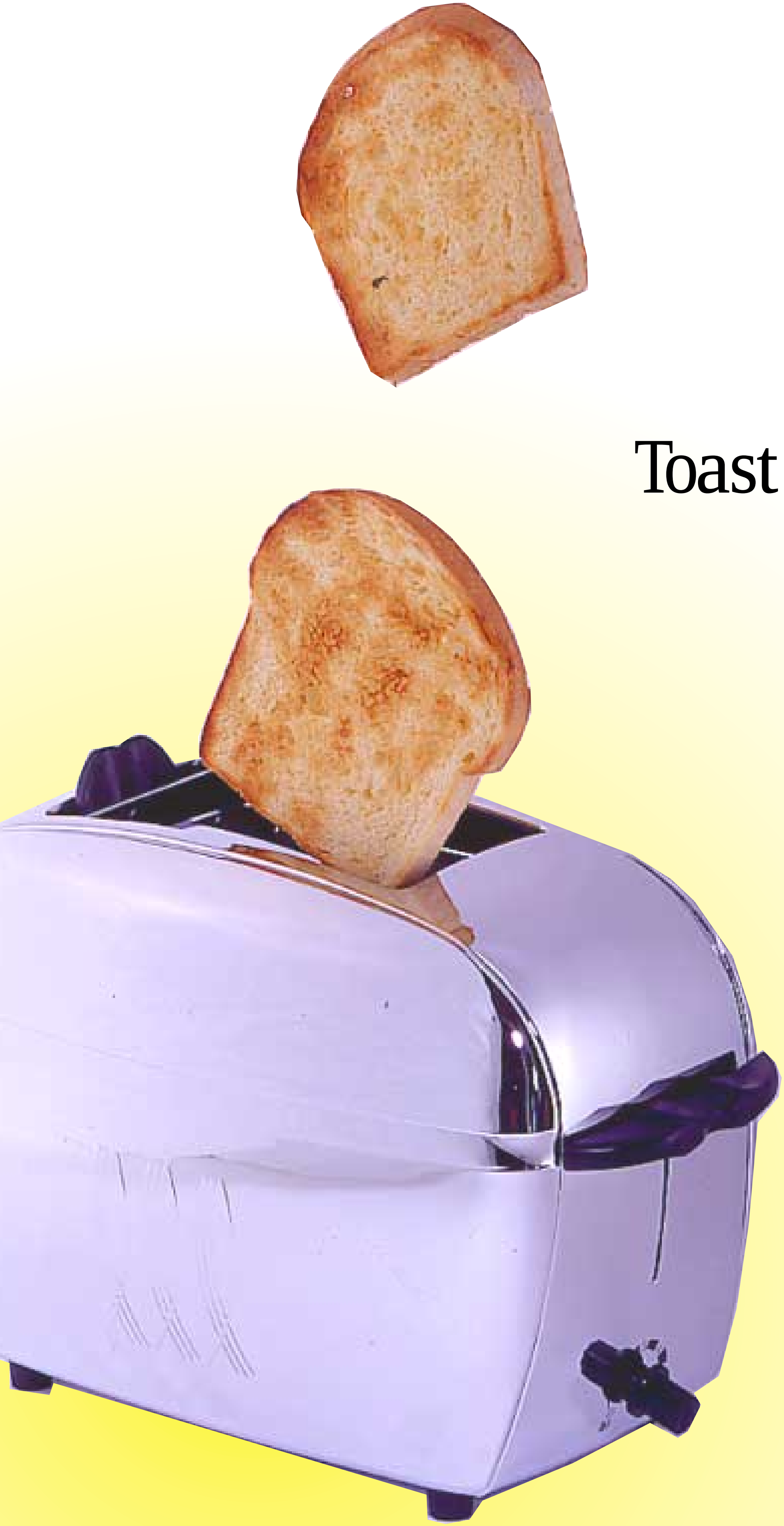


Toast of the Town

1999 Salton Annual Report

Salton Acquires Toastmaster

According to CEO Leon Dreimann, Salton, Inc. has agreed to buy Toastmaster for $7 a share in cash, or about $53.2 million, plus the assumption of some $47.9 million in debt. The acquisition will give Salton a core mass market brand in electrics to complement its many specialty, licensed and private-label offerings. Toastmaster brand has a number two unit share in both toasters (19%) and toaster ovens (11.4%).

Salton's primary objective the past few years has been to assemble a diverse house of brands that could cement its value to a wide range of retailers in a rapidly consolidating arena on both the retail and vendor sides. It appears to be working.

The company, through a combination of acquisitions and licensing, posted sales of $306 million with a $20 million net income in 1998, up from $183 million and net income of $4.4 million in its fiscal 1997. Toastmaster, which will be operated as a Salton subsidiary, reported sales of about $155 million.

In addition to toasters, Toastmaster would give Salton added muscle in the breadmaker category, allowing Salton to segment its offerings, with Toastmaster in the opening-to-mid range and Breadman at the mid-to-upper range.

Expect Salton to feature the Toastmaster brand across a wide selection of electrics, giving the company a stable mass market sales and product development base to complement a collection of promotional brands segmented by product or retail customer. Among the categories in which Salton could look to intensify development under the Toastmaster brand are griddles, can openers, mixers, coffeemakers and grills.

Home World Business,
September 28 - October 11, 1998

Fortune's 100 Fastest-Growing Companies

This year's list of *Fortune's* fastest-growing companies is remarkable. Not only have these 100 businesses posted staggering gains in profits and revenues, but many have also produced impressive returns for investors. In fact over two-thirds have outperformed the surging S&P 500 index, which has risen 28% annually over the past three years.

No. 5 ranked Salton, Inc., for example, logged in with a 119% 3-year total return, a notable achievement for the cooking gadgets company, especially when you consider that most small companies have badly lagged their bigger brethren. Last year, Salton was ranked 19 on the *Fortune* list.

To get on the 1999 list, compiled by Zacks Investment Research, companies had to be based in the U.S., have been in operation for three years, and have revenues and market capitalization of at least $50 million. They also needed a 30% annual growth rate in both revenue and earnings per share for three years. That narrowed the selection to 173 companies which were then ranked by growth in revenue and EPS, and by three-year total stock market return.

Fortune, September 6, 1999

Contents

Financial Summary	Fiscal Year Ended June 26, 1999	Fiscal Year Ended June 27,1998
Net Sales	**$ 506,116**	$ 305,599
Gross Profit	**198,969**	113,896
Operating Income	**69,381**	29,680
Net Income	**34,543**	19,981
Net Income per share: diluted	**2.37**	.99
Weighted Average Common and Common Equivalent Shares Outstanding	**14,562**	20,259
BALANCE SHEET DATA		
Working Capital	**$ 165,935**	$ 44,768
Total Assets	**328,316**	141,397
Long-term Debt		
Stockholders' Equity	**50,739**	57,711
Book Value Per Weighted Average Common Share	**3.48**	2.85

The Salton Of Swing

Salton, Inc., the company that appears on the bottom of the screen during infomercials for the company's latest top-seller, George Foreman's Lean,Mean Fat-Reducing Grilling Machine, has suddenly turned into a lean, mean stock-appreciation machine itself.

Having punched out 130% annual earnings growth over the past five years on 60% growth in sales, its stock has soared 387% since last October. Despite the growth, its shares still trade at just 14.4 times projected earnings for fiscal 1999 and 0.7 times projected sales.

"It's one of the few stocks that could appeal to both a growth and value investor," says investor Jim Oberweis, Jr., Manager of the Oberweis Emerging Growth (OBEGX) fund. "Even at $50, it's still cheap."

Not for long. Salton is quickly developing buzz. It showed up recently as one of Business Week's "Hot Growth Companies" and several other magazines and newsletters have jumped on board with positive stories, including the high-octane CANSLIM screen.

Smart Money.com, July 12, 1999

Sears Names Salton "Source Of The Year"

Sears, Roebuck and Co. recognized the contributions of its top suppliers of products and services during the company's annual "Partners in Progress" Source Day. During the event, Salton, Inc. was selected to receive two awards, including being named Chairman's Source of the Year, the highest achievement in partnership with Sears.

SEARS

The "Partners in Progress" program honors vendors for various achievements. Winners are selected based on recommendations from Sears store support organization.

"These suppliers play an integral role in our ongoing efforts to win and maintain the confidence of our core customers," said Sears Chairman and CEO Arthur C. Martinez.

More than 10,000 sources competed for the awards, given this year to fewer than 150 Sears suppliers. In addition to winning the prestigious "Source of the Year" award, Salton also garnered Category Source of the Year as the top performer in the home fashions category.

Sears is a registered service mark of Sears, Roebuck and Co.

Salton Executives Gain Award

Top management cited as entrepreneurs by Ernst & Young

Hard work pays off. That was the message from Ernst & Young, which recently named several Salton, Inc. executives Entrepreneurs of the Year.

Cited by the professional services firm for "ingenuity, hard work and perseverance" were Salton chairman David Sabin, chief executive officer Leonhard Dreimann, and president and chief operating officer William Rue. The three have been with the company since its inception. In just over a decade, they have grown the company from $12 million in sales to projections of over $600 million by the year 2000.

Ernst & Young founded the Entrepreneur of the Year program to honor successful business ventures. The award is given regionally: There are 47 different award areas in the United States. The Salton executives won the award for the Illinois / West Indiana region. Currently, the company is in contention for the top Entrepreneur of the Year award nationally.

A Coordinated Effort

The company was pleased to receive the award because it recognized Salton's vision and approach to product development, said Dreimann. Noted for innovation, Salton focuses on developing unique new products and enhancing existing products. In 1999, the company unveiled 50 new products at the National Housewares Manufacturers Association (NHMA) Show.

"This is a tremendous honor that we share not only with each other, but also with every one of our customers and employees who have helped make Salton the company it is today," Dreimann said in a statement. "With the help of these dedicated parties, we look forward to achieving continued growth and success for Salton through creative marketing techniques and winning product designs."

HFN (Home Furnishings Network), July 5, 1999

Salton Inc. Bows On NYSE Listing

Salton, Inc. kicked off its new listing on the New York Stock Exchange (NYSE) with chief executive officer Leonhard Dreimann and senior vice president/chief financial officer John E. Thompson joining celebrity spokespersons George Foreman and Linda Evans to ring the opening trading bell.

The listing is a result of the company's rapid growth in sales, earning and market capitalization, Dreimann said in a statement.

"As a leading marketer and designer of recognized brand-name appliances, Salton joins the world's most respected publicly traded companies," noted Richard Grasso, NYSE chairman and chief executive.

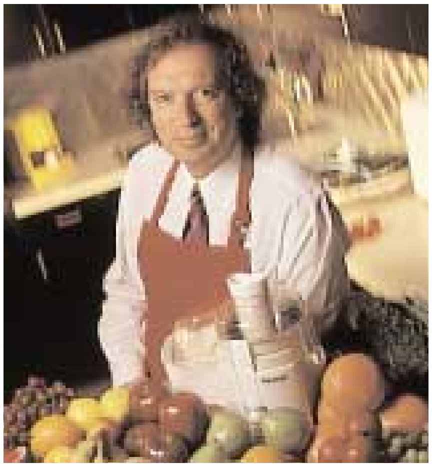
SFP Listed NYSE THE NEW YORK STOCK EXCHANGE

"The NYSE is the classic exchange to be on, and most of the larger companies are on it. The smaller, technology-driven companies are on Nasdaq, and I assume Salton thought they would get a better valuation on the NYSE since they're a housewares company."

Salton also launched its new corporate Web site, called www.saltoninc.com. The site provides corporate and investor relations information on the company and complements its product-oriented Web sites: www.salton-maxim.com and www.toastmaster.com.

HFN (Home Furnishing Network), March 8, 1999

Putting a Gizmo in Every Kitchen



Salton, Inc. has mastered the art of making and marketing the kitchen gadget. Big sellers include Juiceman, Toastmaster brand, and George Foreman's Lean, Mean, Fat-Reducing Grilling Machine.

Sales, which have grown an average of 61% a year since 1996, topped $305 million last year. Profits jumped an astounding 178% per year over the same period, to $20 million last year. That puts Salton at No. 3 on the BUSINESS WEEK Hot Growth list.

At Salton, Leon Dreimann, CEO since 1987, has combined savvy marketing with smart acquisitions and cost-control.

"Dreimann gives me confidence that the company isn't a one-hit wonder,"says Linda Greenblatt, managing partner at Saddlerock Partners, a New York-based hedge fund which owns 150,000 shares. "He's not only hit every number, he's exceeded them."

He has achieved that, in part, by keeping the company pipeline filled with new gadgetry. Key acquisitions have helped. Over the past six years,Salton has acquired the makers of Breadman, Juiceman, and Toastmaster products.

Cost-Cutting

To keep his army of unusual appliances in the black, Dreimann has been especially aggressive in inking low-cost manufacturing deals. His first task as CEO was to ditch the company's European suppliers in favor of Hong Kong and Taiwanese producers. Dreimann credits the cheap, reliable manufacturing for helping to rev up Salton's profit growth.

No mere penny pincher, Dreimann is adept at turning his oddball appliances into hot products. He has a knack, observers say, for matching the right celebrity with an appliance. Boxer George Foreman, whose agent Dreimann met at a trade show, has turned a grill into a $140 million business.

Dreimann also oversaw Salton's move into infomercials in 1993. Although only a small portion of its products are sold directly via the half-hour shows, retailers say they help push the products in stores.

Salton's three-year record of run-away growth is at least partly the gift of poorly run competitors. While Sunbeam Corp., along with Windmere-Durable Holdings, Inc. and Hamilton Beach/Proctor Silex, Inc., has struggled with its own problems, Salton soaked up the goodwill of retailers looking for reliable suppliers for both branded and private-label merchandise. Salton did both. "While everyone else was focused internally, Salton shot out ahead," says Mark Grand, head of home fashions at Sears, Roebuck and Co.

Business Week, May 31, 1999

Salton, Inc. Acquires Assets of Sasaki, Inc.

Further Solidifies Position in Tabletop Products Market

Salton, Inc. (NYSE: SFP) announced that it has acquired certain assets of Sasaki, Inc., a well-known designer and manufacturer of high-quality tabletop products and accessories for the home, from Sasaki Glass Company Ltd.

With 1998 revenues of approximately $9 million, Sasaki's product line includes dinnerware, stemware, barware, flatware, and crystal giftware designed by well-known tabletop and domestic designers, such as Phillippe Starck, Vignelli Associates, Paula Zanger, and Gerald Golotta, among others.Its products are distributed to high-end specialty retailers in the U.S.,including Bloomingdale's, Saks Fifth Avenue, and Barneys New York.

Leon Dreimann, Chief Executive Officer of Salton, said, "The acquisition of Sasaki further solidifies our position in the tabletop products market,where we already have a meaningful presence with our Block® China and Atlantis® Crystal product lines, and makes us a more important and powerful resource to retailers. With its loyal customer base and exciting product line, we believe Sasaki will complement and enhance our current tabletop product offerings."

Salton Press Release, April 5, 1999

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Dear Shareholder:

It feels great to be a winner! This past year, the Company has been heaped with recognition, attention and awards for its product innovation, for its outstanding commitment to both stockholders and retail partners, as well as for its visionary leadership that focuses on the future.

All this praise, newsprint and national acclaim are terrific for the corporate ego. They also are good for business. Salvoes earn the respect of the business press and financial analysts, which in turn gets the attention of investors. Industry recognition energizes our relationship with retailers and makes us a more highly valued partner. And raising the Company profile makes our loyal and dedicated employees even more proud to work for Salton.

But winning isn't everything. Being the "toast of the town" is only truly rewarding if the honors and accolades don't distract us from our primary focus: building a strong, healthy business based on solid financial performance. Steadfast pursuit of that goal was indeed our most significant accomplishment in fiscal 1999.

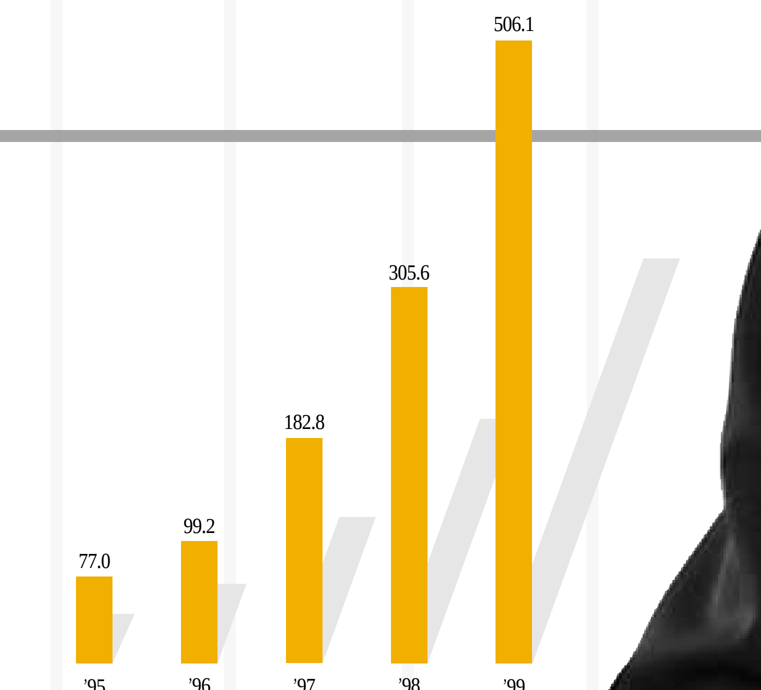
Net sales increased 65.6% to a record $506.1 million in 1999, compared to $305.6 million in 1998. Gross profit increased to $199.0 million, or 39.3% of net sales in 1999, compared to $113.9 million, or 37.3% of net sales in 1998. Income before income taxes increased to $53.9 million in 1999, compared to $32.3 million in 1998. Net income was $35.5 million, after income taxes of $19.3 million, or $2.37 per diluted share on 14,561,964 shares outstanding in 1999, versus $20 million, after income taxes of $12.2 million, or $.99 per share on 20,259,395 shares outstanding in 1998.

"Being **innovative** has set us apart from – and ahead of – our competition."

These financial triumphs are even more noteworthy when considered alongside the challenges of this past year. 1999 was a volatile year that saw many other small appliance marketers and manufacturers derailed by formidable obstacles —both internal management struggles and external business forces. By anticipating industry changes and financial pressures, Salton has been able not only to meet the challenges, but also to accelerate growth.

- CONSOLIDATING SUPPLIER BASE. As members of the retail industry concentrate their vendor base, seeking to deal with a smaller number of suppliers that offer a broader array of differentiated products, the Company's emphasis on product line expansion through strategic acquisitions and licensing agreements has made Salton an even more powerful business partner for retailers. In 1999, Salton acquired Toastmaster Inc. and the assets of Sasaki, Inc., giving us two highly regarded and well-established brand names with diversified product offerings, further solidifying the Company's position with important retailers.

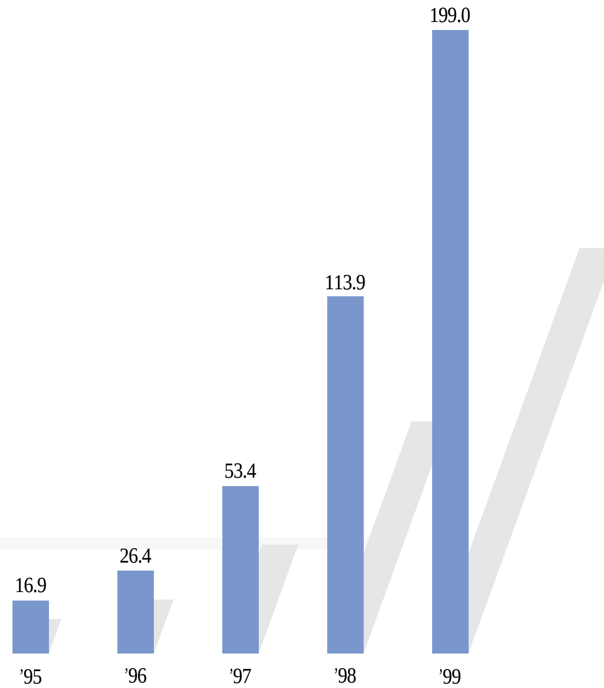
Leonhard Dreimann
Chief Executive Officer



Net Sales All Brands
(dollars in millions)

William B. Rue

President and Chief Operating Officer



Gross Profit

(dollars in millions)

- RETAIL-DRIVEN PRODUCT DEVELOPMENT. The industry has evolved from the time when a housewares company would design and build a product line on spec and then try to sell it to the retailer. Today, it's necessary to have an understanding of the specific consumer market and the actual product you want to build: features, packaging, price points, etc. Salton has carved its own niche by quickly identifying market opportunities, designing, and then sourcing products that are precisely right for each of its retail partners.

  The introduction of the Nutritionist Soy Milk Maker in 1999 is a shining example of this product development strategy. With perfect timing, Salton was the first to recognize and capitalize on the health benefits this unique product provides to a widening consumer base—most significantly, women. Growing understanding of the importance of adding soy-based phytonutrients to the diet before, during and after menopause has generated tremendous interest in the Nutritionist Soy Milk Maker, bolstered sales and solidified its first-in-market position.

- COMPETITION FOR CONSUMER ATTENTION. The consumer is no longer a captive audience. As the nation's remote controls click through hundreds of channels and past traditional television advertising efforts, and as millions log on to the Internet and shop around the world from the comfort of home, it has become increasingly difficult to deliver an effective marketing message. In spite of the clutter, Salton has successfully connected to consumers, through infomercials, celebrity products and a redesigned Web site, www.saltoninc.com, that allows consumers to order new products directly from the Company. In 1999, Salton also launched Rejuvenique, a facial toning system, via informercials starring the famous and beautiful actress Linda Evans. Miss Evans played the glamorous Crystal Carrington on the popular nighttime television drama "Dynasty."

- THE STRENGTH TO SUCCEED. Many companies struggling to compete profitably in the small appliance market have been undone by the financial pressures of rapid consolidation and the rising infusion of Far East imports. Salton has not only survived, but thrived, in this competitive environment. Much of the credit goes to the synergistic team of people who work for us — both the seasoned company veterans who have been here from the start and the energetic newcomers who help us keep our focus fresh and current.

"We are **committed** to steady growth, accomplished through smart business decisions."

One such newcomer is John E. Thompson, who has served as Senior Vice President and Chief Financial Officer of the Company since January, 1999. John joined us having served as Executive Vice President and Chief Financial Officer at Toastmaster. Now he brings his expertise, experience and vision to Salton, along with Toastmaster's complementary strengths.

As we leave this year's winner's circle and continue our quest to be the best, we will rely on these successful strengths and strategies to keep us on track. We will continue to pursue growth through the acquisition of compatible companies or brands that allow us to expand into new categories or to increase market share in existing product categories. We also will seek alliances that provide greater operating efficiencies and access to new technologies or markets.

We will continue to strengthen our all-important retailer partnerships, through both private-label manufacturing programs and targeted new product development. We will continue to pioneer provocative and compelling new marketing methods that convey our message across the media clutter and really connect with the consumer. And we will continue to create a corporate culture that encourages independent thinking, celebrates innovation and engenders loyalty by recognizing hard work and initiative.

As we hang up the plaques and display the awards of 1999 in our trophy case, we are proud of all that we have accomplished, but we are not resting on our laurels! None of these honors can ever replace what we most want and need to win: the respect and continued support of our shareholders. To earn that, we must continue to concentrate on steady, healthy growth.

Sincerely,

FPO

Leonhard Dreimann
Chief Executive Officer

FPO

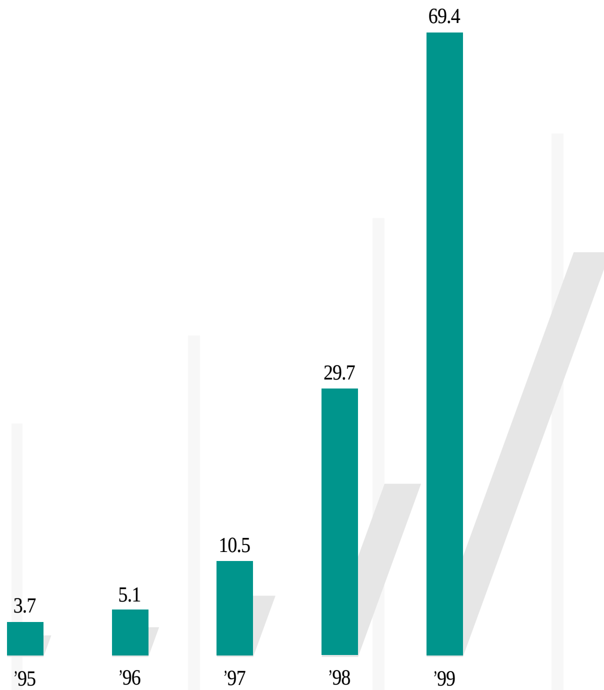
David C. Sabin
Chairman and Secretary

FPO

William B. Rue
President and Chief Operating Officer

"We have pioneered
a dynamic way to carry Salton
solidly into an exciting and profitable
future"

David C. Sabin
Chairman and Secretary



Operating Income
(dollars in millions)

This Management's Discussion and Analysis of Financial Condition and Results of Operations may be deemed to include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risk and uncertainty. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved.

The important factors that could cause actual results to differ materially from those in the forward-looking statements herein (the "Cautionary Statements") include, without limitation: 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 risks relating to pending legal proceedings, as well as other risks referenced from time to time in the Company's filings with the SEC. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. The Company does not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

Salton is a leading domestic designer, marketer and distributor of a broad range of branded, high quality small appliances, tabletop products, and personal care and time products. Salton acts as a marketing service provider by managing its brands and product lines in a manner that allows its retail customers to differentiate themselves to consumers. Salton has the leading domestic market share in toasters, juice extractors, indoor grills, bread bakers, griddles, waffle makers and buffet ranges/hotplates and a significant market share in other product categories. Salton outsources most of its production to independent manufacturers, primarily in the Far East.

Salton's portfolio of well-recognized owned and licensed brand names includes Salton®, Toastmaster®, Maxim®, Breadman®, Juiceman®, George Foreman Grills®, White-Westinghouse®, Farberware®, Melitta®, Rejuvenique®, Block®, Atlantis®, Sasaki®, and Ingraham®. Salton is also a leading designer and distributor of small appliances in the U.S. under such well-known names as Kenmore® and Magic Chef®.

Salton predominantly sells its products to mass merchandisers, department stores, specialty stores and mail order catalogs. Salton also sells certain of its products directly to consumers through infomercials and its Internet website. Salton markets and sells its products primarily in the U.S. through its own sales force and a network of independent commissioned sales representatives.

In July 1998, Salton completed a recapitalization by issuing $40.0 million of its convertible preferred stock to affiliates of Centre Partners and repurchasing 9,802,608 shares of its common stock owned by Windmere for $8 per share plus a $15.0 million junior subordinated note. In December 1998, Salton issued $125.0 million of 10 3/4% senior subordinated notes, primarily to repay certain indebtedness.

On January 7, 1999, Salton acquired Toastmaster, a Columbia, Missouri based manufacturer and marketer of kitchen and small appliances and time products. Through Toastmaster, Salton designs, manufactures, markets and services a wide array of kitchen and small appliances and time products under the brand names Toastmaster® and Ingraham®.

Salton believes that through its proven ability to source products overseas, it can achieve significant cost savings through more favorable product pricing and other terms. Although Salton is currently continuing to produce certain Ingraham® time products at its Laurinburg, North Carolina plant and certain Toastmaster® small appliances at its Macon, Missouri plant, Salton is implementing its strategy of outsourcing certain appliances to overseas vendors. Other anticipated cost savings identified by Salton include advertising, ocean freight, warehousing and corporate overhead expenses.

Salton's ability to successfully integrate Toastmaster will depend upon its ability to achieve revenue enhancements and recognize cost savings and on other factors, including economic conditions and the retail environment.

Results of Operations

Salton's operating results for fiscal 1999 include the operating results of Toastmaster from its acquisition date of January 7, 1999.

The following table sets forth Salton's results of operations as a percentage of net sales for the period indicated:

Fiscal Year Ended	June 26, 1999	June 27, 1998	June 28, 1997
Net sales	**100.0%**	100.0%	100.0%
Cost of goods sold	**56.4**	58.7	66.5
Distribution expenses	**4.3**	4.0	4.3
Gross profit	**39.3**	37.3	29.2
Selling, general and administrative expenses	**25.6**	27.6	23.5
Operating income	**13.7%**	9.7%	5.7%

Year ended June 26, 1999 compared to Year ended June 27, 1998

Net Sales. Net sales for the fiscal year ended June 26, 1999 were $506.1 million, an increase of approximately $200.5 million or 65.6% compared to net sales of $305.6 million for the fiscal year ended June 27, 1998. This increase is primarily attributable to increased sales of products within the George Foreman Grills® product line, White-Westinghouse® sales under the Kmart program, sales by our newly acquired wholly-owned subsidiary Toastmaster, and sales of our Farberware® products. Net sales of White-Westinghouse® products to Kmart approximated 16% of net sales in fiscal 1999 compared to 19% of net sales in fiscal 1998.

Gross Profit. Gross profit in fiscal 1999 was $199.0 million or 39.3% of net sales as compared to $113.9 million or 37.3% in fiscal 1997. Cost of goods sold during the period decreased to 56.4% of net sales compared to 58.7% in fiscal 1998. Distribution expenses were $21.6 million or 4.3% of net sales in fiscal 1999 compared to $12.3 million or 4.0% of net sales in fiscal 1998. Gross profit and costs of goods sold in fiscal 1999 as a percentage of net sales improved primarily due to a more favorable mix of sales in their respective channels of distribution when compared to fiscal 1998.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to $129.6 million or 25.6% of net sales in fiscal 1999 compared to $84.2 million or 27.6% of net sales in fiscal 1998. Expenditures for television, certain media and cooperative advertising coverages and royalty expenses were $88.0 million or 17.4% of net sales in fiscal 1999 compared to $58.3 million or 19.1% of net sales in fiscal 1998. Through increased leverage of fixed costs, the remaining selling, general and administrative costs decreased to 8.2% of net sales or $41.6 million in fiscal 1999 compared to 8.5% of net sales or $25.9 million in fiscal 1998.

Operating Income. As a result of the foregoing, operating income increased by $39.7 million or 133.8%, to $69.4 million in fiscal 1999 from $29.7 million in fiscal 1998. Operating income as a percentage of net sales increased to 13.7% in fiscal 1999 from 9.7% in fiscal 1998, primarily as a result of higher net sales and the increased leverage of fixed costs.

Net Interest Expense. Net interest expense was approximately $15.5 million for fiscal 1999 compared to $5.3 million in fiscal 1998. Salton's rate of interest on amounts outstanding was a weighted average annual rate of 9.2% in fiscal 1999 compared to 9.5% in fiscal 1998. The average amount of all debt outstanding was $155.7 million for fiscal 1999 compared to $52.4 million for the same period in fiscal 1998. This increase was used to complete Salton's recapitalization, complete the acquisition of Toastmaster and to finance higher net sales.

Subsequent to the year ended June 27, 1998, Salton consummated the recapitalization. In connection therewith, Salton used a portion of the proceeds it received from the new credit agreement to refinance all outstanding indebtedness under Salton's prior credit agreement. Accordingly, at June 27, 1998, Salton had incurred expense with the early termination of the prior credit agreement of approximately $1.1 million.

During fiscal 1998, Salton sold shares of Windmere common stock it held as marketable securities during the period. The sale of these shares provided a realized gain of approximately $9.0 million.

Income Tax Expense. Salton had tax expense of $19.3 million in fiscal 1999 as compared to tax expense of $12.2 million in fiscal 1998.

Net income. Net income increased 72.9% to $34.5 million in fiscal 1999, compared to $20.0 million in fiscal 1998. Excluding a non-recurring after tax gain of approximately $5.4 million ($9.0 million before taxes) from the sale of marketable securities by Salton, and after-tax costs of approximately $681,000 ($1.1 million before taxes) associated with the refinancing of Salton's credit facility, net income increased 126.1% in fiscal 1999.

Earnings per share. Basic earnings per common share were $3.21 per share on weighted average common shares outstanding of 10,760,455 in fiscal 1999 compared to earnings of $1.02 per share on weighted average common shares outstanding of 19,593,698 in the same period in fiscal 1998. Diluted earnings per common share were $2.37 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 14,561,964 in fiscal 1999 compared to earnings of $0.99 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 20,259,395 in the same period in fiscal 1998. All share counts reflect a 3-for-2 split of Salton's common stock effective July 28, 1999, for stockholders of record at the close of business on July 14, 1999.

Year ended June 27, 1998 compared to Year ended June 28, 1997

Net Sales. Net sales for the fiscal year ended June 27, 1998 were $305.6 million, an increase of approximately $122.8 million or 67.2% compared to net sales of $182.8 million for the fiscal year ended June 28, 1997. This increase is primarily attributable to increased sales of the Juiceman® juice extractors and George Foreman Grills®, Farberware® products, and White-Westinghouse® sales under the Kmart supply agreement. Net sales of White-Westinghouse® products to Kmart approximated 19% and 16% of net sales in fiscal 1998 and fiscal 1997, respectively.

Gross Profit. Gross profit in fiscal 1998 was $113.9 million or 37.3% of net sales as compared to $53.4 million or 29.2% in fiscal 1997. Cost of goods sold during the period decreased to 58.7% of net sales compared to 66.5% in fiscal 1997. Distribution expenses were $12.3 million or 4.0% of net sales in fiscal 1998 compared to $7.8 million or 4.3% of net sales in fiscal 1997. Gross profit and costs of goods sold in fiscal 1998 as a percentage of net sales improved primarily due to a more favorable mix of sales in their respective channels of distribution when compared to fiscal 1997.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to $84.2 million or 27.6% of net sales in fiscal 1998 compared to $42.9 million or 23.5% of net sales in fiscal 1997. Expenditures for television, certain media and cooperative advertising coverages and royalty expenses were $58.3 million or 19.1% of net sales in fiscal 1998 compared to $25.7 million or 14.1% of net sales in fiscal 1997. The remaining selling, general and administrative costs were $25.9 million or 8.5% of net sales in fiscal 1998 compared to $17.2 million or 9.4% of net sales in fiscal 1997. The dollar increase was primarily attributable to higher costs for additional personnel, trade show expenses, sales commissions and various other costs related to the higher level of sales.

During fiscal 1998, certain of Salton's customers, namely HomePlace Stores, Inc. and Venture Stores, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. These customers owed Salton amounts aggregating approximately $2.4 million. A provision of approximately $1.0 million was made for the estimated potential losses from these Chapter 11 bankruptcy filings.

Operating Income. As a result of the foregoing, operating income increased by $19.2 million or 183.7%, to $29.7 million in fiscal 1998 from $10.5 million in fiscal 1997. Operating income as a percentage of net sales increased to 9.7% in fiscal 1998 from 5.7% in fiscal 1997.

Net Interest Expense. Net interest expense was approximately $5.3 million for fiscal 1998 compared to $4.1 million in fiscal 1997. Salton's rate of interest on amounts outstanding was a weighted average annual rate of 9.5% in fiscal 1998 compared to 10.5% in fiscal 1997. The average amount outstanding under Salton's revolving line of credit increased about $22.2 million when compared to the average amount outstanding a year ago. This increase was used primarily to finance higher net sales and a seasonal build in inventory. Interest expense during the period was offset by interest income earned on the promissory note from Windmere issued to Salton in July 1996.

Subsequent to the year ended June 27, 1998, Salton consummated the recapitalization. In connection therewith, Salton used a portion of the proceeds it received from the new credit agreement to refinance all outstanding indebtedness under Salton's prior credit agreement. Accordingly, at June 27, 1998, Salton had incurred expense with the early termination of the prior credit agreement of approximately $1.1 million.

Salton sold shares of Windmere common stock it held as marketable securities during the period. The sale of these shares provided a realized gain of approximately $9.0 million.

Income Tax Expense. Salton had tax expense of $12.2 million in fiscal 1998 as compared to tax expense of $2.0 million in fiscal 1997. Net operating loss carryforwards and resultant deferred tax assets were used in both periods to significantly offset current income taxes payable.

Net income. Net income increased to $20.0 million in fiscal 1998,compared to $4.4 million in fiscal 1997, including a non-recurring after tax gain of approximately $5.4 million ($9.0 million before taxes) from the sale of marketable securities by Salton, and after-tax costs of approximately $681,000 ($1.1 million before taxes) associated with the refinancing of Salton's credit facility.

Earnings per share. Basic earnings per common share were $1.02 per share on weighted average common shares outstanding of 19,593,698 in fiscal 1998 compared to earnings of $0.23 per share on weighted average common shares outstanding of 19,260,418 in the same period in fiscal 1997. Diluted earnings per common share were $0.99 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 20,259,395 in fiscal 1998 compared to earnings of $0.22 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 19,623,381 in the same period in fiscal 1997. All share counts reflect a 3-for-2 split of Salton's common stock effective July 28, 1999, for stockholders of record at the close of business on July 14, 1999.

Liquidity and Capital Resources

During fiscal 1999, Salton provided net cash of $15.2 million from operating activities and used $113.5 million in investing activities. This usage was primarily for the acquisition of Toastmaster, as well as increased investment in capital assets, primarily tooling. Financing activities provided net cash of $108.9 million. This net cash came primarily from borrowings of $90.0 million under the Tranche A Term Loan, the issuance of $125.0 million of senior subordinated notes, $75.0 million under the Amended Credit Agreement (consisting of $30.0 million under the Revolving Credit Facility and $45.0 million under the Term Loan), and the issuance of $40.0 million of convertible preferred stock, offset by $70.8 million used for the stock repurchase, $90.0 million repayment of the Tranche A Term Loan, $50.5 million repayment of the revolving line of credit under a previously existing credit agreement, and approximately $11.1 million in costs paid for the issuance of the senior subordinated notes, the credit agreement and the issuance of the convertible preferred stock.

At June 26, 1999, Salton had debt outstanding of $214.6 million and had the ability to borrow up to an additional $50.0 million under the revolving credit facility. Typically, given the seasonal nature of Salton's business, Salton's borrowings tend to be the highest in mid-summer to fall.

On July 28, 1998, Salton repurchased 9,802,608 shares of Salton common stock owned by Windmere. Prior to this stock repurchase, Windmere owned approximately 50% of the outstanding Salton common stock. Salton paid Windmere $8 per share in cash plus a $15.0 million junior subordinated note. The junior subordinated note matures on January 31, 2005 and bears interest at 4.0% per annum payable annually. This note is subject to offsets of interest and principal equal to 5% of the total purchase price paid by Salton for product purchases from Windmere and its affiliates during the term of the note. During fiscal 1999, Salton purchased approximately $32.3 million of products from Windmere. The principal amount of the junior subordinated note is also subject to reduction in the event Salton's supply agreement with Kmart is terminated for any reason.

In connection with this stock repurchase:

- Windmere effectively repaid in full a promissory note in the principal amount of approximately $10.8 million which Windmere had issued to Salton in July, 1996;
- Salton purchased for approximately $3.3 million an option to purchase up to 687,750 shares of Salton common stock which Salton had granted to Windmere in July, 1996; and
- Windmere and Salton agreed to continue various commercial and other arrangements, including a fee agreement relating to Salton's supply agreement with Kmart, subject to certain modifications.

On July 28, 1998, Salton entered into a credit agreement among Salton, Lehman Brothers Inc., as arranger, and Lehman Commercial Paper Inc., as syndication agent. The credit agreement provided for $215.0 million in senior secured credit facilities consisting of a $90.0 million tranche A term loan, a $75.0 million delayed draw term loan and a $50.0 million revolving credit facility.

On July 28, 1998, Salton also issued $40.0 million of Salton convertible preferred stock to affiliates of Centre Partners Management LLC. The convertible preferred stock is generally non-dividend bearing and is currently convertible into 3,529,412 shares of Salton common stock, reflecting a $11.33 per share conversion price.

Salton used borrowings of $90.0 million under the tranche A term loan and the net proceeds from the issuance of the convertible preferred stock to:

- pay the $70.8 million cash portion of the purchase price for the 9,802,608 shares of Salton common stock, which amount is net of $10.8 million due and owing by Windmere under its promissory note to Salton, which note was cancelled at the closing of the stock repurchase; and net of the issuance of a six and one-half year $15,000 subordinated promissory note which bears interest at 4% per annum and was recorded at its fair value of $9,096;
- refinance all outstanding indebtedness under Salton's prior loan agreement in an amount equal to approximately $51.7 million; and
- pay fees and expenses of the stock repurchase and the financing of such repurchase.

On December 16, 1998, Salton issued in a private offering $125.0 million of 10 3/4% senior subordinated notes due 2005. Salton used the aggregate gross proceeds of this offering:

- to repay a total of approximately $110.0 million of outstanding indebtedness under the new credit agreement, consisting of $90.0 million under the tranche A term loan and approximately $20.0 million under the revolving credit facility, together with accrued interest of approximately $0.8 million with respect to the indebtedness being repaid;
- to pay fees and expenses incurred in connection with the offering; and
- for working capital and general corporate purposes.

Upon the repayment of the tranche A term loan, this facility was permanently terminated. In March 1999, Salton exchanged the $125.0 million of 10 3/4% senior subordinated notes for an equal aggregate principal amount of publicly-registered notes.

The senior subordinated notes contain a number of significant covenants that, among other things, restrict the ability of Salton to:

- dispose of assets;
- incur additional indebtedness;
- prepay other indebtedness;
- pay dividends;
- repurchase or redeem capital stock;
- make certain investments;
- enter into sale and lease-back transactions;
- make certain acquisitions;
- engage in mergers and consolidation;
- create liens; or
- engage in certain transactions with affiliates.

In addition, under the senior subordinated notes, Salton is required to comply with a specified financial fixed charge coverage ratio.

On January 7, 1999, Salton amended and restated the credit agreement to, among other things, replace the delayed draw term loan with a $45.0 million tranche B term loan and increase the revolving credit facility from $50.0 million to $80.0 million.

The credit agreement as amended and restated provides for $125.0 million in a senior secured credit facility consisting of a $45.0 million tranche B term loan at an established base rate equivalent to the prime rate of interest plus an applicable margin of 225 basis points or, at Salton's election, a eurodollar rate equivalent to the LIBOR rate plus an applicable margin of 325 basis points maturing in twenty-four consecutive quarterly installments commencing on March 26, 1999; and a $80.0 million revolving credit facility at an established base rate equivalent to the LIBOR rate plus an applicable margin of 300 basis points based on a range of ratios of total debt to earnings before interest, taxes, depreciation and amortization maturing on January 7, 2004. The credit agreement is secured by a first lien on substantially all Salton's assets. Credit availability is based on a formula related to trade accounts receivable, inventories and outstanding letters of credit.

The credit agreement contains a number of significant covenants that are substantially the same as those in the senior subordinated notes. In addition, Salton is required to comply with specified financial ratios and tests, including a minimum net worth test, a minimum fixed charge coverage ratio, a minimum interest coverage ratio and a maximum leverage ratio.

On January 7, 1999, Salton acquired all of the stock of Toastmaster and paid Toastmaster shareholders $7.00 per share in cash, for a total purchase price of approximately $53.2 million. In addition, Salton repaid Toastmaster's outstanding debt of $57.8 million in connection with the acquisition. The acquisition was accounted for as a purchase; accordingly the purchase price was preliminarily allocated to the underlying assets and liabilities based on their respective estimated fair value at the date of the acquisition.

Salton's ability to make scheduled payments of principal of, or to pay the interest or liquidated damages, if any, on, or to refinance, its indebtedness, or to fund planned capital expenditures, will depend upon its future performance, which, in turn, is subject to general economic, financial, competitive and other factors that are beyond its control. Based upon the current level of operations and anticipated growth, management believes that future cash flow from operations, together with available borrowings under the credit agreement, will be adequate to meet Salton's anticipated requirements for capital expenditures, working capital, interest payments and scheduled principal payments. There can be no assurance, however, that Salton's business will continue to generate sufficient cash flow from operations in the future to service its debt and make necessary capital expenditures after satisfying certain liabilities arising in the ordinary course of business. If unable to do so, Salton may be required to refinance all or a portion of its existing debt or to sell assets or to obtain additional financing. There can be no assurance that any such refinancing would be available or that any such sales of assets or additional financing could be obtained.

Accounting Pronouncements

During the first quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." This statement requires that the Company report the change in its net assets during the period from non-owner sources. For the period ended June 26, 1999 components of other comprehensive income (loss) include foreign currency translation gains and minimum pension liability, net of tax.

During the fourth quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement requires public business enterprises to report certain information about operating segments, their products and services, the geographic areas in which they operate, and their major customers. The effect of this new statement is limited to the form and content of disclosures.

During the fourth quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards, No. 132, "Employer's Disclosures about Pensions and other Post-Retirement Benefits." The effect of this new statement is limited to the form and content of disclosures.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which was amended in June 1999 with the issuance of SFAS No. 137. SFAS No. 137 delayed the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. SFAS No. 133 will change accounting and disclosure requirements for derivative instruments and hedging activities. Salton is in the process of determining the effect that this new standard will have on its consolidated financial statements and/or disclosures.

Effects of Inflation and Foreign Currency Exchange

The results of operations for the periods discussed have not been significantly affected by inflation or foreign currency fluctuation. Salton generally negotiates its purchase orders with its foreign manufacturers in United States dollars. Thus, Salton's cost under any purchase order is not subject to change after the time the order is placed due to exchange rate fluctuations. However, the weakening of the United States dollar against local currencies could result in certain manufacturers increasing the United States dollar prices for future product purchases.

Year 2000 Issues

The Year 2000 issue is the result of computer programs being written to use two digits to define year dates. Computer programs running date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in systems failure or miscalculations causing disruptions of operations. Salton currently uses information technology throughout its operations.

Management believes that Salton's systems are Year 2000 compliant. Salton has upgraded and substantially completed the internal testing of its information technology systems and will continue to monitor such systems throughout 1999. Salton has also specifically addressed internally its non-information technology related systems and believes that there will be no significant operational problems relating to the Year 2000 issue. Salton has not obtained, and does not intend to obtain, an independent verification and validation of its Year 2000 compliance status.

Although Salton believes it has substantially completed its Year 2000 project by upgrading its systems, Salton cannot make any assurances that the upgraded systems will be free of defects. If any such risks materialize, Salton could experience material adverse consequences to its business, financial condition and results of operations.

Year 2000 compliance may also adversely affect Salton's business, financial condition and results of operations indirectly by causing complications of, or otherwise affecting, the operations of any one or more of its suppliers and customers. Salton has contacted its significant suppliers and certain of its customers in an attempt to identify any potential Year 2000 compliance issues with them. Salton currently believes that its major suppliers have made significant progress with respect to Year 2000 compliance issues. Salton is currently unable to anticipate the magnitude of the operational or financial impact on it of Year 2000 compliance issues with its customers even though Salton believes that these customers have implemented significant programs with respect to Year 2000 compliance issues.

Notwithstanding Salton's progress to date, there are several ways in which its systems could still be affected by the Year 2000 problem. First, the software code Salton uses in its information systems may not in fact be Year 2000 compliant in all instances. Second, Salton may be unable to fully test and monitor the upgrades, making it difficult for Salton to identify and remedy any problems that might exist. Third, Salton's customers, suppliers and shippers may be unable to achieve Year 2000 compliance in time.

The most reasonably likely worst-case scenario resulting from Salton's inability, or the inability of its suppliers, customers or shippers, to become Year 2000 compliant, includes the following adverse effects:

- Salton would be unable to receive products due to Year 2000-related failure on the part of its suppliers causing Salton to be unable to fulfill the orders of many of its customers for Salton's products.
- Salton's customers would be unable to place their orders with Salton because of its own system failure or those of its customers resulting in delayed or potentially lost orders for Salton's products.
- Salton would be unable to deliver ordered products to its customers on a timely basis due to a system failure at Salton or at one of its product shippers leading to delays in arrival of Salton's products and possibly dissatisfied customers.
- Salton's customers would be unable to receive and/or pay for Salton products on a timely basis.

Salton is currently reviewing the implementation of contingency plans relating to the Year 2000 compliance problems in its own systems or those of its suppliers, customers or shippers.

Salton has incurred approximately $900,000 to date to resolve and test Salton's Year 2000 compliance issues. All expenses incurred in connection with Year 2000 compliance are expensed as incurred, other than acquisitions of new software or hardware, which are capitalized. Salton currently estimates that the aggregate incremental cost of its Year 2000 compliance efforts will not exceed $250,000.

Salton's assessment of its Year 2000 compliance is based on numerous assumptions about future events, including third party modification plans and other factors. However, there can be no guarantee that this assessment is correct and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and similar uncertainties.

Seasonality

Salton's business is highly seasonal, with operating results varying from quarter to quarter. Salton has historically experienced higher sales during the months of August through November primarily due to increased demand by customers for Salton's products attributable to holiday sales. This seasonality has also resulted in additional interest expense to Salton during this period due to an increased need to borrow funds to maintain sufficient working capital to finance product purchases and customer receivables for the seasonal period.

Quantitative and Qualitive Disclosures About Market Risks

The following tables provide information about the Company's market sensitive financial instruments and constitutes a "forward-looking statement." The Company's major market risk exposure is changing interest rates in the United States.

The Company's policy is to manage interest rates through the use of a combination of fixed and variable rate debt. The fair value of the Company's long-term, fixed rate debt was estimated based on dealer quotes. The carrying amount of short-term debt and long-term variable-rate debt approximates fair value. All items described in the tables are non-trading.

Quantitative and Qualitive Disclosures About Market Risks

(dollars in thousands)

Fiscal Year 1999	**2000**	**2001**	**2002**	**2003**	**2004**	**Thereafter**	**Total**	**Fair Value**
Liabilities:								
Revolver	$ 30,000						$ 30,000	$ 30,000
Average interest rates	7.98%							
Jr. subordinated note payable					$ 14,126		$ 14,126	$ 8,949
Average interest rate					8%			
Long-term debt, including current portion								
Fixed rate amount						$ 125,000	$ 125,000	$ 125,000
Average interest rates						10.75%		
Variable rate amount	$ 500	$ 500	$ 500	$ 500	$ 11,000	$ 31,875	$ 44,875	$ 44,875
Average interest rates	8.25%	8.25%	8.25%	8.25%	8.29%	8.31%		

Fiscal Year 1998	**1999**	**2000**	**2001**	**2002**	**2003**	**Thereafter**	**Total**	**Fair Value**
Liabilities:								
Revolver	**$ 50,475**						$ 50,475	$ 50,475
Average interest rates	**9.48%**							

Independent Auditors' Report

To the Board of Directors and Stockholders of Salton, Inc. Mount Prospect, Illinois

We have audited the accompanying consolidated balance sheets of Salton, Inc. (the "Company") as of June 26, 1999 and June 27, 1998 and the related consolidated statements of earnings, of stockholders' equity and of cash flows for each of the three years in the period ended June 26, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Salton, Inc. as of June 26, 1999 and June 27, 1998 and the results of its operations and its cash flows for each of the three years in the period ended June 26, 1999 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

September 3, 1999
Chicago, Illinois

Selected Financial Data

The selected financial data presented below for Salton, Inc. is derived from the Company's audited financial statements. The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited financial statements and related notes thereto.

STATEMENT OF OPERATIONS DATA

(In thousands, except per share data.)	June 26, 1999	June 27, 1998	June 28, 1997	June 29, 1996	July 1, 1995
Net sales	**$ 506,116**	$ 305,599	$ 182,806	$ 99,202	$ 76,991
Cost of sales	**285,526**	179,376	121,590	66,923	55,552
Distribution expenses	**21,621**	12,327	7,809	5,856	4,569
Gross profit	**198,969**	113,896	53,407	26,423	16,870
Selling, general, and administrative expenses	**129,588**	84,216	42,944	21,343	13,142
Operating income (loss)	**69,381**	29,680	10,463	5,080	3,728
Interest expense, net	**(15,518)**	(5,333)	(4,063)	(3,934)	(3,057)
Costs associated with refinancing		(1,133)			
Realized gain on sale of marketable securities		8,972			
Income (loss) before taxes	**53,863**	32,186	6,400	1,146	671
Income tax expense (benefit)	**19,320**	12,205	2,001	(3,450)	20
Net income (loss)	**$ 34,543**	$ 19,981	$ 4,399	$ 4,596	$ 651
Weighted average common shares outstanding	**10,760**	19,594	19,260	9,764	8,445
Net income (loss) per share: Basic	**$ 3.21**	$ 1.02	$ 0.23	$ 0.47	$ 0.08
Weighted average common shares and Common equivalent shares outstanding	**14,562**	20,259	19,623	9,942	8,852
Net income (loss) per share: Diluted	**$ 2.37**	$ 0.99	$ 0.22	$ 0.46	$ 0.07
Balance Sheet Data:					
Working capital	**$ 165,936**	$ 44,768	$ 17,996	$ 12,244	$ 9,072
Total assets	**328,316**	141,397	102,343	59,481	41,121
Long-term debt	**182,329**	—-	4,933	3,754	900
Stockholders' equity	**50,739**	57,711	38,622	19,925	15,329

Consolidated Balance Sheets

ASSETS (in thousands except share data)	June 26, 1999	June 27, 1998
CURRENT ASSETS:		
Cash	**$ 11,240**	$ 661
Accounts receivable, less allowance: 1999—$6,102; 1998—$3,000	**96,179**	43,225
Inventories	**144,124**	76,506
Prepaid expenses and other current assets	**6,350**	2,940
Deferred income taxes	**3,134**	4,605
Total current assets	**261,027**	127,937
Property Plant and Equipment:		
Land	**928**	
Buildings	**4,696**	
Molds and tooling	**26,364**	16,787
Warehouse equipment	**6,142**	453
Office furniture and equipment	**6,097**	5,342
	44,227	22,582
Less accumulated depreciation	**(19,576)**	(14,267)
	24,651	8,315
Intangibles, net of accumulated amortization, and other non-current assets	**42,638**	5,145
TOTAL ASSETS	**$ 328,316**	$ 141,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit and other current debt	**$ 32,229**	$ 50,475
Accounts payable	**40,997**	18,960
Accrued expenses	**21,865**	7,235
Income taxes payable		6,499
Total current liabilities	**95,091**	83,169
Non-current deferred income taxes	**157**	517
Long-term debt	**182,329**	
Total liabilities	**277,577**	83,686
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; authorized, 2,000,000 shares, 40,000 shares issued		
Common stock, $.01 par value; authorized, 20,000,000 shares; shares issued and outstanding: 1999-10,251,828; 1998-19,649,466	**201**	197
Treasury stock - at cost	**(90,804)**	
Additional paid-in capital	**91,900**	53,415
Note receivable		(10,848)
Accumulated other comprehensive income	**(48)**	
Retained earnings	**49,490**	14,947
Total stockholders' equity	**50,739**	57,711
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 328,316**	$ 141,397

See Notes to Consolidated Financial Statements.

Consolidated Statements of Earnings

Years ended June 26, 1999, June 27, 1998, and June 28, 1997

(in thousands except per share data)	1999	1998	1997
Net sales	**$ 506,116**	$ 305,599	$ 182,806
Cost of goods sold	**285,526**	179,376	121,590
Distribution expenses	**21,621**	12,327	7,809
Gross profit	**198,969**	113,896	53,407
Selling, general and administrative expenses	**129,588**	84,216	42,944
Operating income	**69,381**	29,680	10,463
Interest expense, net	**(15,518)**	(5,333)	(4,063)
Costs associated with refinancing		(1,133)	
Realized gain on marketable securities		8,972	
Income before income taxes	**53,863**	32,186	6,400
Income tax expense	**19,320**	12,205	2,001
Net income	**$ 34,543**	$ 19,981	$ 4,399
Weighted average common shares outstanding	**10,760**	19,594	19,260
Weighted average common and common equivalent shares outstanding	**14,562**	20,259	19,623
Net income per common share: Basic	**$ 3.21**	$ 1.02	$ 0.23
Net income per common share: Diluted	**$ 2.37**	$ 0.99	$ 0.22

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

Years ended June 29, 1996, through June 26, 1999

(in thousands)	Common Shares Out-standing	Preferred Shares Out-standing	Common Stock	Preferred Stock	Additional Paid in Capital	Retained Earnings (Deficit)	Treasury Stock	Accumu. Other Comp. Income	Note Receivable	Total Stock-holders Equity	Total Comp. Income
Balance June 29, 1996 as previously reported	6,509		$ 65		$ 29,293	$ (9,433)				$ 19,925	
3-for-2 stock split effective July 28, 1999	3,254		33		(33)						
BALANCE, JUNE 29, 1996	9,763		98		29,260	(9,433)				19,925	
Net income						4,399				4,399	$ 4,399
Other comprehensive income:											
Unrealized gain on securities available for sale net tax of $720								$ 1,337		1,337	1,337
Total comprehensive income											$ 5,736
Issuance of common stock	9,763		98		23,618				$ (10,848)	12,868	
Issuance of warrants					82					82	
Stock options exercised	18				11					11	
BALANCE, JUNE 28, 1997	19,544		196		52,971	(5,034)		1,337	(10,848)	38,622	
Net income						19,981				19,981	$ 19,981
Other comprehensive income:											
Unrealized gains reclassification adjustment net tax of $720								(1,337)		(1,337)	(1,337)
Total comprehensive income											$ 18,644
Issuance of common stock	38				300					300	
Stock options exercised	68		1		144					145	
BALANCE JUNE 27, 1998	19,650	—	197	—	53,415	14,947	—	—	(10,848)	57,711	
Net income						34,543				34,543	$ 34,543
Other comprehensive income											
Minimum pension liability net tax of $28								(50)		(50)	(50)
Foreign currency translation								2		2	2
Total comprehensive income											$ 34,495
Issuance of preferred stock		40			37,000					37,000	
Purchase of treasury stock	(9,803)						$ (90,804)		10,848	(79,956)	
Stock options exercised	405		4		1,485					1,489	
BALANCE JUNE 26, 1999	10,252	40		$ 201	$ 91,900	$ 49,490	$ (90,804)	$ (48)	—	$ 50,739	

See Notes to Consolidated Financial Statements.

Consolidated Statements Of Cash Flows

Years ended June 26, 1999, June 27, 1998, and June 28, 1997

(in thousands)	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 34,543**	$ 19,981	$ 4,399
Adjustments to reconcile net income to net cash from operating activities:			
Gain on sale of marketable securities		(8,972)	
Deferred income taxes	**4,109**	(1,428)	822
Depreciation and amortization	**7,301**	4,301	3,136
Purchase reduction of note payable and other non-cash items	**(208)**		
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	**(12,176)**	(17,578)	(9,776)
Inventories	**(26,406)**	(34,537)	(13,680)
Prepaid expenses and other current assets	**(1,365)**	1,881	(2,888)
Accounts payable	**14,716**	1,599	7,304
Taxes payable	**(4,290)**	6,406	81
Accrued expenses	**(1,032)**	3,245	1,636
Net cash from operating activities	**15,192**	(25,102)	(8,966)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	**(5,390)**	(4,565)	(4,608)
Proceeds from the sale of marketable securities		19,072	
Acquisition of businesses	**(108,126)**		(1,739)
Net cash from investing activities	**(113,516)**	14,507	(6,347)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (repayment) proceeds from revolving line of credit	**(20,475)**	12,498	13,882
Repayment of long-term debt	**(90,125)**		
Proceeds from long-term debt	**260,000**		
(Repayment) proceeds from subordinated debt and other debt	**(125)**	(5,433)	4,516
Costs associated with refinancing	**(8,065)**	1,133	
Common stock issued	**1,489**	445	11
Preferred stock issued	**40,000**		
Purchase of treasury stock	**(70,799)**		
Costs associated with preferred stock issuance	**(2,999)**		
Offering costs associated with stock issuance			(486)
Net cash from financing activities	**108,901**	8,643	17,922
The effect of exchange rate changes on cash	**2**		
Net (decrease) increase in cash	**10,579**	(1,952)	2,609
Cash—Beginning of year	**661**	2,613	4
Cash—End of year	**$ 11,240**	$ 661	$ 2,613
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	**$ 14,046**	$ 5,893	$ 3,939
Income taxes	**$ 25,022**	$ 5,799	$ 1,698

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

In the quarter ended September 26,1998, the Company repurchased 9,803 shares of the Company's common stock from Windmere—Durable Holdings Inc. ("Windmere") for a total purchase price of $90,804. The purchase price included the issuance of a six and one-half year $15,000 subordinated promissory note which bears interest at 4% per annum recorded at its fair value of $9,096 and the effective repayment of Windmere's promissory note to Salton for the principal amount of $10,848.

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Principles

Salton, Inc. ("Salton" or the "Company") is a leading domestic designer, marketer and distributor of a broad range of branded, high quality small appliances, tabletop products and personal care/time products. The Company manufactures small electrical kitchen and household appliances and time products sold under the Toastmaster® and Ingraham® labels. The Company has manufacturing facilities in Missouri and North Carolina.

The Company's portfolio of well-recognized owned and licensed brand names includes Salton®, Toastmaster®, Maxim®, Breadman®, Juiceman®, George Foreman Grills®, White-Westinghouse®, Farberware®, Melitta®, Block® China, Atlantis® Crystal, Sasaki®, Gear®, Rejuvenique®, Salton Creations®, Marilyn Monroe™, Taco Bell®, Looney Tunes®, Salton Time®, Ingraham®, Timex®, and Indiglo®.

Principles of Consolidation—The consolidated financial statements include the accounts of Salton and its subsidiaries, Toastmaster Inc., Toastmaster de Mexico S.A. de C.V., Home Creations Direct, Ltd. and Salton Hong Kong, Ltd. Intercompany balances and transactions are eliminated in consolidation.

Use of Estimates—In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, reserve for returns and allowances, and depreciation and amortization, among others.

Accounting Period—The Company's fiscal year ends on the Saturday closest to June 30. The fiscal years ended June 26, 1999, June 27, 1998 and June 28, 1997 each consisted of 52 weeks and are referred to as "fiscal 1999", "fiscal 1998", and "fiscal 1997", respectively.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method, for approximately 32% of the Company's inventories. All remaining inventory cost is determined on the first-in, first-out basis. See Note 3 "Inventories."

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Expenditures for maintenance costs and repairs are charged against income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, which range from three to forty years. For tax purposes, assets are depreciated using accelerated methods.

Intangible and Non-current Assets—Intangible assets, which are amortized over their estimated useful lives, and other non-current assets consist of:

(in thousands)	Useful life (in years)	June 26, 1999	June 27, 1998
Goodwill	10-40	**$ 32,768**	$ 2,117
Financing and organization costs	2-7	**7,051**	109
Patents and trademarks	5-20	**2,711**	2,919
Other non-current assets		**108**	
Intangible assets, net, and other non-current assets		**$ 42,638**	$ 5,145

Accumulated amortization of intangible assets was $6.7 million at June 26,1999, and $4.7 million at June 27, 1998.

Long-Lived Assets—Long-lived assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such review indicates that the carrying amount of long-lived assets is not recoverable, the carrying amount of such assets is reduced to the estimated recoverable value.

Revenue Recognition—The Company recognizes revenues when goods are shipped to its customers. Provision is made for estimated cost of returns, warranties, and product liability claims.

Distribution Expenses—Distribution expenses consist primarily of freight, warehousing, and handling costs of products sold.

Advertising—The Company sponsors various programs under which it participates in the cost of advertising and other promotional efforts for Company products undertaken by its retail customers. Advertising and promotion costs associated with these programs are recognized in the period in which the advertising or other promotion by the retailer occurs.

The Company's tradenames and, in some instances, specific products, also are promoted from time to time through direct marketing channels, primarily television. Advertising and promotion costs are expensed in the period in which direct customer response occurs.

Self-insurance—The Company maintains a self-insurance program for health claims and workers' compensation claims for certain covered employees. The Company accrues estimated future costs that will be incurred for existing employee claims. The Company does not provide any post-retirement health care benefits.

Income Taxes—The Company accounts for income taxes using the asset and liability approach. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, management does not expect to be realized.

Net Income Per Common and Common Equivalent Share—On June 28, 1999, the Company's Board of Directors authorized a 3-for-2 split of its common stock effective July 28, 1999, for stockholders of record at the close of business on July 14, 1999. All share and per-share amounts in the accompanying financial statements have been restated to give effect to the split.

The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128) in fiscal 1998. Basic net income per common share is computed based upon the weighted average number of common shares outstanding. Diluted net income per common share is computed based upon the weighted average number of common shares outstanding, adjusted for dilutive common stock equivalents applying the treasury stock method. All earnings per share data presented in these financial statements have been restated to conform with SFAS 128.

Fair Value of Financial Instruments—The carrying values of financial instruments included in current assets and liabilities approximate fair values due to the short-term maturities of these instruments. The fair value of the Company's long-term, fixed rate debt was estimated based on dealer quotes and approximates the carrying value recorded. The carrying amount of short-term debt and long-term variable-rate debt approximates fair value. During fiscal 1997, the investment in Windmere common stock was accounted for as "available for sale" and was carried at fair value. The stock was sold during fiscal 1998. See Note 4 "Windmere Transaction."

Accounting Pronouncements— During the first quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." This statement requires that the Company report the change in its net assets during the period from non-owner sources. For the period ended June 26, 1999 components of other comprehensive income (loss) include foreign currency translation gains and minimum pension liability, net of tax, respectively.

During the fourth quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement requires public business enterprises to report certain information about operating segments, their products and services, the geographic areas in which they operate, and their major customers. The effect of this new statement is disclosed in Note 13 "Operating Segments".

During the fourth quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 132, "Employer's Disclosures about Pensions and other Post-Retirement Benefits." The effect of this new statement is disclosed in Note 7 "Employee Benefit Plans".

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which was amended in June 1999 with the issuance of SFAS No. 137. SFAS No. 137 delayed the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. SFAS No. 133 will change accounting and disclosure requirements for derivative instruments and hedging activities. Salton is in the process of determining the effect that this new standard will have on its consolidated financial statements and/or disclosures.

2. Acquisitions

On July 1, 1996, the Company acquired substantially all of the assets and certain liabilities of Block China Corporation, a tabletop product company, in a transaction accounted for as a purchase. The Block China Division of the Company designs and markets tabletop products, including china, crystal and glassware. The consideration paid by the Company consisted of $1,485,000 in cash and a warrant to purchase 25,000 shares of Common Stock with an exercise price of $4.75. The consideration also included an earn-out of up to $500,000 and 150,000 shares of Common Stock based on financial performance over a three-year period of the Division. The operating results of Block China before its acquisition by the Company are not material. During fiscal 1998, the Company paid $83,333 and issued 25,000 shares of common stock to Block China under the earn-out.

On January 7, 1999, the Company acquired the stock of Toastmaster Inc. ("Toastmaster"), a Columbia, Missouri based manufacturer and marketer of kitchen and small household electrical appliances and time products (the "Toastmaster Acquisition"). The Company paid Toastmaster shareholders $7.00 per share in cash, for a total purchase price of approximately $53.2 million. In addition, Toastmaster's outstanding debt of $57.8 million was paid by the Company in connection with the acquisition. The acquisition was accounted for as a purchase. The purchase price has been preliminarily allocated based upon estimated fair market values at the date of acquisition, pending final determination of certain acquired assets and liabilities. Accordingly, the purchase price allocation may change in subsequent periods. The excess of the purchase price over the fair values of the net assets acquired has been recorded as goodwill and is being preliminarily amortized on a straight-line basis over forty years.

The operating results of Toastmaster have been included in the consolidated statements of earnings from the date of acquisition. The following unaudited pro forma results of operations assume the transaction occurred at the beginning of the periods presented:

(in thousands)	June 26, 1999	June 27, 1998
Net sales	**$ 597,140**	$ 465,201
Operating income	**67,350**	38,327
Net income	**27,052**	14,317
Net income per share:		
Basic	**$ 2.51**	$ 0.73
Diluted	**$ 1.86**	$ 0.71

The pro forma results are for informational purposes only and do not purport to represent what the Company's results of operations would have actually been had the transaction been consummated for the periods indicated.

On March 31, 1999, the Company bought certain assets of Sasaski, Inc., a well known designer and manufacturer of high-quality tabletop products and accessories for the home, from Sasaki Glass Company Ltd. Under the terms of the transaction, Salton purchased Sasaki's inventory, except for the Christian Dior tabletop product line, in addition to licensing the Sasaki® brand name for a period of twenty years, with an option to renew on mutually agreed upon terms. As part of the transaction, Salton agreed to assume certain minor liabilities.

3. Inventories

A summary of inventories is as follows:

(in thousands)	June 26, 1999	June 27, 1998
Raw materials	$ 5,359	$ —
Work-in-process	1,238	—
Finished goods	137,527	76,506
Total	$ 144,124	$ 76,506

If the first-in, first-out (FIFO) method of inventory valuation had been used to determine cost for 100% of the Company's inventories at June 26, 1999, they would have been approximately $1.7 million lower than reported.

4. Windmere Transaction

On July 11, 1996, the Company consummated a transaction (the "Windmere Transaction") with Windmere—Durable Holdings, Inc. ("Windmere"), pursuant to a Stock Purchase Agreement dated February 27, 1996, as amended (the "Stock Purchase Agreement"). Windmere is a corporation engaged principally in manufacturing and distributing a wide variety of personal care products and household appliances. Pursuant to the Stock Purchase Agreement, Windmere purchased from the Company 9,762,858 newly issued shares of Common Stock (the "Purchase"), which represented 50% of the outstanding shares of Common Stock of the Company on February 27, 1996 after giving effect to the Purchase. As consideration for the purchase, Windmere paid the Company: (i) $3.2 million in cancellation of a loan, as described below; (ii) a subordinated promissory note in the aggregate principal amount of $10.8 million (the "Note"), which Note was payable July 11, 2001, bore interest at 8%, payable quarterly, and was secured by certain assets of Windmere and its domestic subsidiaries and guaranteed by such domestic subsidiaries; and (iii) 748,112 shares of Windmere's common stock. Windmere's common stock is traded on the New York Stock Exchange. A portion of the consideration for the Purchase was paid by the cancellation of the Company's obligation to repay a loan in the principal amount of $3.2 million which Windmere had made to the Company in April 1996. Windmere was also granted an option (the "Option") to purchase up to 727,500 shares of Common Stock at $3.22 per share, which option was exercisable only if and to the extent that options to purchase shares of Common Stock which were outstanding on February 27, 1996 were exercised. Accordingly, Windmere exercised options to purchase 39,750 shares of Common Stock during 1998.

During fiscal 1998, the Company sold 748,112 shares of Windmere's common stock, realizing a gain of approximately $8.9 million.

On July 28, 1998, Salton repurchased (the "Stock Repurchase") 9,802,608 shares of Salton common stock owned by Windmere pursuant to a Stock Agreement dated as of May 6, 1998 (the "Windmere Stock Agreement") by and among Salton, Windmere and the executive officers of Salton. Prior to the Stock Repurchase, Windmere owned approximately 50% of Salton's outstanding common stock. The price for the Stock Repurchase was $8 per share in cash plus a $15.0 million subordinated promissory note (the "Junior Subordinated Note"). The Junior Subordinated Note, which has a term of six and one-half years and bears interest at 4.0% per annum payable annually, is subject to offsets of 5% of the total purchase price paid by Salton for product purchases from Windmere and its affiliates during the term of the note. During fiscal 1999 the Company reduced this debt and interest by approximately $1.5 million for related purchases of products from Windmere. The principal amount of the Junior Subordinated Note is also subject to cancellation in the event Salton's supply agreement with Kmart is terminated for any reason.

In connection with the Stock Repurchase: (i) Windmere effectively repaid (the "Note Repayment") the Note; (ii) Salton repurchased for approximately $3.3 million Windmere's Option (the "Option Repurchase"); and (iii) Windmere and Salton agreed to continue various commercial and other arrangements, including a fee agreement relating to Salton's supply agreement with Kmart, subject to certain modifications. The Stock Repurchase, the Option Repurchase and the Note Repayment are collectively referred to herein as the "Repurchase."

Effective upon the closing of the Repurchase, each of the persons who had been designated by Windmere to serve on Salton's Board of Directors resigned from Salton's Board of Directors.

5. Revolving Line of Credit, Letters of Credit and Long-term Debt

Salton entered into a credit agreement dated as of July 27, 1998 (the "New Credit Agreement") among Salton, Lehman Brothers Inc., as arranger, and Lehman Commercial Paper Inc., as syndication agent. The New Credit Agreement provided for $215.0 million in senior secured credit facilities consisting of a $90.0 million Tranche A Term Loan (the "Tranche A Term Loan"), a $75.0 million Delayed Draw Term Loan (the "Delayed Draw Term Loan") and a $50.0 million revolving credit facility (the "Revolving Credit Facility"). As further explained below, the New Credit Agreement was amended and restated on January 7, 1999.

On December 16, 1998, the Company issued $125.0 million of 10 3/4% Senior Subordinated Notes (the "Subordinated Notes") due 2005. Proceeds of the Subordinated Notes were used to repay outstanding indebtedness and for working capital and general corporate purposes. The Subordinated Notes contain a number of significant covenants that, among other things, restrict the ability of the Company to dispose of assets, incur additional indebtedness, prepay other indebtedness, pay dividends, repurchase or redeem capital stock, enter into certain investments, enter into sale and lease-back transactions, make certain acquisitions, engage in mergers and consolidations, create liens, or engage in certain transactions with affiliates, and will otherwise restrict corporate and business activities. In addition, under the Subordinated Notes, the Company is required to comply with a specified financial fixed charge coverage ratio. At June 26, 1999, the Company was in compliance with all the covenants described above.

Salton amended and restated the New Credit Agreement on January 7, 1999 (the "Amended Credit Agreement"). The Amended Credit Agreement, among Salton, Lehman Brothers Inc., as arranger, Lehman Commercial Paper Inc., as syndication agent and administration agent, and a syndicate of banks, provides for $125.0 million in a senior secured credit facility consisting of a $45.0 million Term Loan (the "Term Loan") at an established base rate (equivalent to the prime rate of interest) plus an applicable margin of 225 basis points or, at the Company's election, a eurodollar rate (equivalent to the LIBOR rate) plus an applicable margin of 325 basis points maturing in twenty-four consecutive quarterly installments commencing on March 15, 1999; and a $80.0 million revolving credit facility (the "Revolving Credit Facility") at an established base rate (equivalent to the prime rate of interest) plus an applicable margin of 200 basis points or, at the Company's election, a eurodollar rate (equivalent to the LIBOR rate plus an applicable margin of 300 basis points) based on a range of ratios of total debt to earnings before interest, taxes, depreciation and amortization maturing on March 26, 2003. The Amended Credit Facility is secured by a first lien on substantially all the Company's assets. Credit availability is based on a formula related to trade accounts receivable, inventories and outstanding letters of credit. The Amended Credit Agreement contains a number of significant covenants that, among other things, restrict the ability of the Company to dispose of assets, incur additional indebtedness, prepay other indebtedness, pay dividends, repurchase or redeem capital stock, enter into certain investments, enter into sale and lease-back transactions, make certain acquisitions, engage in mergers and consolidations, create liens, or engage in certain transactions with affiliates, and will otherwise restrict corporate and business activities. In addition, under the Amended Credit Agreement, the Company is required to comply with specified financial ratios and tests, including a net average debt ratio, a net average senior debt ratio, a consolidated fixed charge coverage ratio, and a consolidated interest coverage ratio. At June 26, 1999, the Company was in compliance with all of the covenants described above. At June 26, 1999, the base rate plus applicable margin on the Term Loan was 10.0% and the eurodollar rate plus applicable margin was 8.5% and the base rate plus applicable margin on the Revolving Credit Facility was 9.75% and the eurodollar rate plus applicable margin was 8.3%

Information regarding short-term borrowings under the Revolving Credit Facility is:

(in thousands)	**June 26, 1999**	**June 27, 1998**
Balance at end of fiscal period	**$ 30,000**	$ 50,475
Interest rate at end of fiscal period	**8.29%**	9.43%
Maximum amount outstanding at any month-end	**$ 50,000**	$ 68,522
Average amount outstanding	**$ 25,655**	$ 56,374
Weighted average interest rate during fiscal period	**7.98%**	9.48%
Outstanding letters of credit at end of fiscal period	**$ 9,414**	$ 5,567
Unused letters of credit at end of the fiscal period	**586**	1,433

Notes payable consist of the Junior Subordinated Note to Windmere (see Note 4), and certain other notes payable created in connection with the Toastmaster acquisition.

Long-term debt matures as follows:

(in thousands) **Fiscal Year Ended**	**Subordinated Notes**	**Term Loan**	**Junior Subordinated Note**	**Other Notes Payable**	**Total**
2000		$ 500			$ 500
2001		500		$ 1,000	1,500
2002		500		500	1,000
2003		500		500	1,000
2004		11,000	$ 8,949	500	20,449
Thereafter	$ 125,000	31,875		1,505	158,380
	$ 125,000	$ 44,875	$ 8,949	$ 4,005	182,829
Less current maturities					(500)
					$ 182,329

In addition to the preceding maturity schedules, the Company is required to make additional mandatory payments of 50% of the defined annual excess cash flow of the Company, 100% of the net proceeds of any sale or disposition of certain assets, and 100% of the net proceeds of the incurrence of certain indebtedness. All such amounts are first applied to the prepayment of outstanding term loans and secondly to the reduction of the Revolving Credit Facility.

6. Capital Stock

The Company has authorized 20,000,000 shares of $.01 par value common stock. On June 28, 1999, the Company's Board of Directors authorized a 3-for-2 split of its common stock effective July 28, 1999, for stockholders of record at the close of business on July 14, 1999. All share and per-share amounts in the accompanying financial statements and notes thereto have been restated to give effect to the split. At June 26, 1999 there were 10,251,828 shares issued and outstanding. As more fully described in Note 4 "Windmere Transaction," on July 28, 1998, Salton repurchased from Windmere 9,802,608 shares of common stock which represented 50% of the outstanding shares of common stock of the Company at that time.

On July 28, 1998, the Company issued $40 million of convertible preferred stock in connection with a Stock Purchase Agreement dated July 15, 1998. The convertible preferred stock is generally non-dividend bearing and is convertible into 3,529,411 shares of Salton common stock (reflecting a $11.33 per share conversion price). The holders of the convertible preferred stock are entitled to one vote for each share of Salton common stock that the holder would receive upon conversion of the convertible preferred stock.

In connection with the convertible preferred stock issuance, two individuals representing the purchasers of the preferred stock were appointed to serve on the Company's Board of Directors.

7. Earnings Per Share

(In thousands, except earnings per share)	Year ended June 26, 1999	Year ended June 27, 1998	Year ended June 28, 1997
Net Income*	**$ 34,543**	$ 19,981	$ 4,399
Average common shares outstanding	**10,760**	19,594	19,260
Earnings per share-basic	**$ 3.21**	$ 1.02	$ 0.23
Dilutive stock equivalents	**3,802**	665	363
Average common and common equivalent shares outstanding	**14,562**	20,259	19,623
Earnings per share-diluted	**$ 2.37**	$ 0.99	$ 0.22

** Net income is the same for purposes of calculating basic and diluted EPS*

Options to purchase 212,160 and 195,000 shares of common stock at prices of $8.17 and $8.00 per share were outstanding at June 27, 1998 and June 28, 1997, respectively, but were not included in the computation of diluted EPS because the options exercise prices were greater than the average market price of the common shares.

8. Employee Benefit Plans

The Company has two 401(k) defined contribution plans that cover eligible employees. The employees are eligible for benefits upon completion of a specified number of years of service. Under the terms of the plans the Company currently matches a portion of the employee contributions. The Company's dis-cretionary matching contribution is based on a portion of participants' eligible wages, as defined, up to a maximum amount ranging from two percent to six percent. The Company's matching contributions were approximately $95,000, $97,000, and $69,000 in 1999, 1998, and 1997, respectively.

The Company has two defined benefit plans that were assumed in the 1999 acquisition of Toastmaster and cover substantially all of the employees of Toastmaster. The plans' assets consist of a balanced portfolio of investments in money market, common stock, bond and real estate funds. The Company uses March 31 as the measurement date for determining pension plan assets and obligations. Effective June 26, 1999, the Company adopted SFAS No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits" SFAS No. 132 requires the disclosure of the information presented below:

(in thousands)	June 26, 1999
Change in benefit obligation:	
Benefit obligation at beginning of year	**$ 11,589**
Service cost	**315**
Interest cost	**408**
Actuarial loss	**(401)**
Benefits paid and expenses	**(163)**
Benefit obligation at end of year	**$ 11,748**
Change in plan assets:	
Fair value of plan assets at beginning of year	**$ 10,808**
Actual return on plan assets	**47**
Employer contribution	**359**
Benefits paid from plan assets	**(163)**
Fair value of plan assets at end of year	**$ 11,050**
Funded status	**$ (698)**
Unrecognized net actuarial loss	**92**
Unrecognized transitional asset	**—**
Unrecognized prior service cost	**—**
Additional pension liability in excess of unrecognized prior service cost	**(78)**
Accrued pension cost recorded in other accrued liabilities in the accompanying consolidated balance sheet	**$ (684)**
Weighted average assumptions:	
Discount rate	**7%**
Rate of increase in compensation	**5%**
Expected return on plan assets	**9%**
Components of net periodic pension cost:	
Service cost-benefits earned during the year	**$ 315**
Interest cost on projected benefit obligation	**408**
Actuarial return on plan assets	**(480)**
Net amortization and deferral	**—**
Net pension cost	**$ 243**

Under the requirements of SFAS No. 87 "Employers' Accounting for Pensions," an additional minimum pension liability for one plan, representing the excess of accumulated benefits over the plan assets and accrued pension costs, was recognized at June 26, 1999. The minimum pension liability, net of tax, of $50,000 is included in accumulated other comprehensive income as a reduction of stockholders' equity.

9. Stock Option Plans

In October 1995, SFAS No. 123, "Accounting For Stock-Based Compensation," was issued and is effective for financial statements for fiscal years beginning after December 15, 1995. As permitted by the statement, the Company continues to measure compensation cost for stock option plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees." Accordingly, no compensation cost has been recognized for the Company's fixed stock option plans. Had compensation cost for the Company's stock option plans been determined consistent with the fair value method outlined in SFAS No. 123, the impact on the Company's net income and earnings per common share would have been as follows:

(in thousands, except per share data)	1999	1998	1997
Net Income	**$ 34,543**	$ 19,981	$ 4,399
As reported	**$ 33,241**	$ 18,941	$ 4,193
Pro forma			
Net income per common share: Basic	**$ 3.21**	$ 1.02	$ 0.23
As reported	**$ 3.09**	$ 0.97	$ 0.22
Pro forma			
Net income per common share: Diluted			
As reported	**$ 2.37**	$ 0.99	$ 0.22
Pro forma	**$ 2.28**	$ 0.93	$ 0.21

Options to purchase common stock of the Company have been granted to employees under the 1992, 1995, and 1998 stock option plans at prices equal to the fair market value of the stock on the dates the options were granted. Options have also been granted to non-employee directors of the Company, which are exercisable one year after the date of grant. All options granted expire 10 years from the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used during the respective years to estimate the fair value of options granted:

	1999	1998	1997
Dividend yield	**0.0%**	0.0%	0.0%
Expected volatility	**60.60%**	61.74%	65.96%
Risk-free interest rate	**6.16%**	5.38%	6.11%
Expected life of options	**7.81 years**	7.42 years	7.92 years

In addition, on July 11, 1996, Windmere was granted an option to purchase up to 727,500 shares of common stock at $ 3.22 per share. This option was exercisable only if and to the extent that options to purchase shares of common stock which were outstanding on February 27, 1996 were exercised. During fiscal 1998, Windmere exercised their option to purchase 39,750 shares of Salton common stock. The Company repurchased the remaining options held by Windmere. See Note 4 "Windmere Transaction." A summary of the Company's fixed stock options for the fiscal years ended June 26, 1999, June 27, 1998 and June 28, 1997 is as follows:

	1999 Shares (000)	1999 Weighted average exercise price	1998 Shares (000)	1998 Weighted average exercise price	1997 Shares (000)	1997 Weighted average exercise price
Outstanding at beginning of year	**1,689**	**$ 6.06**	1,449	$ 3.27	727	$ 3.22
Granted	**505**	**16.74**	308	7.21	740	3.25
Exercised	**(405)**	**5.47**	(68)	2.07	(18)	0.59
Expired or Canceled	**(688)**					
Outstanding at end of year	**1,101**	**$ 8.31**	1,689	$ 4.04	1,449	$ 3.27
Options exercisable at end of year	**1,101**	**$ 5.54**	1,677	$ 4.03	1,437	$ 3.25
Weighted-average fair value of options granted during the year		**$ 12.09**		$ 5.43		$ 3.03

The following information summarizes the stock options outstanding at June 26, 1999:

	Options outstanding			Options exercisable	
Range of exercise prices	Shares (000)	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Shares (000)	Weighted-average exercise price
$0.583 - $1.667	239	5.84	$ 1.61	239	$ 1.61
$2.292 - $2.904	27	8.28	2.84	27	2.84
$5.333 - $8.167	532	7.55	7.34	532	7.34
$13.917-$15.917	303	2.61	15.79	303	15.79
$0.583 - $15.917	1,101	N/A	N/A	1,101	$ 5.54

10. Related Party Transactions

The Company purchased inventory from Windmere of approximately $32,340,000, $27,068,000, and $23,511,000, in fiscal years ended June 26, 1999, June 27, 1998, and June 29, 1997, respectively.

The Company purchased inventory and paid commissions to Markpeak, Ltd., ("Markpeak") a Hong Kong company, of approximately $187,925,000, $15,971,000, and $8,247,000 in fiscal years 1999, 1998, and 1997, respectively. A director of the Company was the former Managing Director of Markpeak. The company had a receivable from Markpeak of approximately $13,685,000 and $126,000 at June 26, 1999 and June 27, 1998, respectively. The Company owed Markpeak approximately $3,075,000 at June 26, 1999. Markpeak acts as a buying agent on behalf of the Company with certain suppliers in the Far East.

The Company paid Shapiro, Devine and Craparo, Inc. ("SDC"), a manufacturers representation firm, commissions of approximately $498,000, $290,000, and $241,000 in 1999, 1998 and 1997, respectively. A director of the Company was a co-founder of SDC. At June 26, 1999, the Company owed SDC approximately $42,000 for current commissions.

11. Commitments and Contingencies

The Company leases certain facilities and equipment under long-term operating leases. Rental expense under all leases was approximately $3,474,000, $1,183,000, and $665,000, for the fiscal years ended June 26, 1999, June 27, 1998, and June 28, 1997, respectively.

The future minimum rental commitments as of June 26, 1999 were as follows:

Fiscal Year Ended	(Dollars in thousands)
2000	$ 3,765
2001	3,591
2002	3,131
2003	1,209
2004	444
Thereafter	155
Total	$ 12,295

The Company has employment agreements with its three executive officers that are in effect until June 30, 2001. Such agreements provide for minimum salary levels as well as for incentive bonuses that are payable if the Company achieves specified target performance goals. The agreements also provide for lump sum severance payments upon termination of employment under certain circumstances. The Company's aggregate annual commitment for future salaries at June 26, 1999, excluding bonuses, was approximately $1,350,000.

The Company has license agreements with White Consolidated Industries, Inc. ("White Consolidated"), which require minimum royalty payments through the year 2011. The current level of royalty payments are in excess of the minimum requirements. The Company also has various license agreements with other parties for periods usually not exceeding three years. The agreements are then typically renewable upon mutual consent. These license agreements require royalty payments based on the sales of licensed product in the period. Total royalties paid under these agreements, including the White Consolidated Industries, Inc. agreement, were $43,918,000 in fiscal year 1999, $20,266,000 in fiscal year 1998, and $6,300,000 in fiscal year 1997.

12. Legal Proceedings

Trademark Litigation

In November 1996, White Consolidated filed suit for injunctive relief and damages against CBS in the United States District Court for the Northern District of Ohio alleging that CBS's grant of licenses to the Westinghouse® name for use on lighting products, fans and electrical accessories for use in the home violates White Consolidated's rights to the Westinghouse® name and constitutes a breach of the agreements under which CBS's predecessor sold White Consolidated its appliance business and licensed certain trademark rights in 1975. In response to that suit, CBS filed a related action in December 1996 in the United States District Court for the Western District of Pennsylvania, naming White Consolidated, Windmere, Salton and certain other parties as defendants. The two actions were consolidated in the Pennsylvania court. CBS sought an injunction prohibiting Salton, Windmere and White Consolidated from using the White-Westinghouse® name on products not specifically enumerated in the sale documents between CBS's predecessor and White Consolidated, and unspecified damages and attorneys' fees.

On June 30, 1999, CBS and White Consolidated entered into a settlement agreement relating to the ownership of the White-Westinghouse® name for certain consumer products. Under the settlement, we retain our existing rights under our license from White Consolidated for the use of the White-Westinghouse® name (See Note 16 Subsequent Events.)

In September, 1999, Linda Evans Fitness Centers, Inc. (the "Fitness Centers"), Mark Golub and Thomas Gergley filed suit against the Company and its principal executive officers alleging that the Company tortiously interfered with a contract between the Fitness Centers and Ms. Evans by hiring Ms. Evans to act as a spokesperson for the Rejuvenique™ facial toning system. Before Ms. Evans was hired by the Company, Ms. Evans had brought suit against the Fitness Centers seeking a determination that her contract with the Fitness Centers had been terminated on the basis of fraud and the failure of the Fitness Centers to make certain payments. The Company believes that it has valid defenses against the claims made against it by the Fitness Centers. Ms. Evans has agreed to indemnify the Company against matters relating to her services to the Company.

Environmental

Salton is participating in environmental remediation activities at four sites which it owns or operates. As of June 26, 1999, Salton has accrued approximately $300,000 for the anticipated costs of investigation, remediation and/or operation and maintenance costs at these sites. Although such costs could exceed that amount, Salton believes that any such excess will not have a material adverse effect on the financial condition or annual results of operations of Salton.

Arbitration

On April 20, 1999, an individual filed a notice of arbitration asserting a breach of contract claim against Salton due to Salton's alleged failure to pay royalties to this individual for the sale of certain juice extractors and related health products. This individual also asserts various other causes of action for an accounting, breach of covenant of good faith and fair dealing, forgery, trademark infringement, unfair competition, permanent injunction, fraud, negligent misrepresentation, age discrimination, Lanham Act violations, breach of fiduciary duty and rescission of contract, and is seeking compensatory and punitive damages of $15 million. An initial arbitration hearing solely with respect the forgery claim has been scheduled for October 21, 1999.

Salton believes that these claims are without merit, and Salton intends to vigorously defend itself in the arbitration proceeding.

Other

Salton is a party to various other actions and proceedings incident to its normal business operations. Salton believes that the outcome of such litigation will not have a material adverse effect on the financial condition or annual results of operations of Salton. Salton also has product liability and general liability insurance policies in amounts it believes to be reasonable given its current level of business.

13. Operating Segments

The Company consists of a single operating segment that designs, markets and distributes housewares, including small appliances, tabletop products and personal care/time products. This segmentation is appropriate because the Company makes operating decisions and assesses performance based upon brand management, and such brand management encompasses a wide variety of products and types of customers. Most of the Company's products are procured through independent manufactures, primarily in the Far East, and are distributed through similar distribution channels.

Product Information - Net Sales (in thousands)	June 26, 1999	June 27, 1998	June 28, 1997
Small appliances	**$ 464,272**	$ 280,607	$ 155,972
Tabletop products	**18,969**	18,597	16,756
Personal care/time products	**22,875**	6,395	10,078
Total	**$ 506,116**	$ 305,599	$ 182,806

Major Customers and Suppliers

The Company entered into a major supply contract with Kmart Corporation ("Kmart") on January 31, 1997. Under the contract, the Company supplies Kmart with small kitchen appliances, personal care products, heaters, fans and electrical air cleaners and humidifiers under the White-Westinghouse® brand name. Sales to Kmart approximated 16%, 19% and 16% of total net sales of the Company in fiscal years 1999, 1998 and 1997, respectively.

On March 30, 1999, Salton entered into a five-year supply agreement with Zellers, the leading national chain of discount department stores in Canada. Under the contract, the Company supplies Zellers with small kitchen appliances under the White-Westinghouse® brand name. The agreement has a minimum purchase requirement by Zellers of approximately $17 million, over an initial period of five years, with rights to extend the contract for additional one-year periods.

The Company's net sales in the aggregate to its five largest customers during the fiscal years ended June 26, 1999, June 27, 1998 and June 28, 1997 were 50%, 47% and 47% of total net sales in these periods, respectively. In addition to Kmart, one customer accounted for 10%, 7%, and 9%, of total net sales during the fiscal years ended June 26, 1999, June 27, 1998, and June 28, 1997, respectively.

Although the Company has long-established relationships with many of its customers, with the exception of Kmart Corporation and Zellers, it does not have long-term contracts with any of its customers. A significant concentration of the Company's business activity is with department stores, upscale mass merchandisers, specialty stores, and warehouse clubs whose ability to meet their obligations to the Company is dependent upon prevailing economic conditions within the retail industry.

During fiscal 1999, one supplier located in China accounted for approximately 57.3% of our product purchases. During fiscal 1998, three manufacturers located in China accounted for approximately 13%, 12% and 10%, respectively, of our product purchases.

14. Income Taxes

Federal, state and foreign taxes were approximately as follows:

	Fiscal years ended		
(in thousands)	June 26, 1999	June 27, 1998	June 28, 1997
Federal			
Current	**$ 9,788**	$ 10,080	$ 371
Deferred	**3,605**	(1,134)	822
State			
Current	**2,529**	2,699	303
Deferred	**504**	(294)	
Foreign			
Current	**2,904**	854	
Deferred	**—**	—	—
Total	**$ 19,320**	$ 12,205	$ 2,001

Deferred taxes based upon differences between the financial statement and tax bases of assets and liabilities and available tax carryforwards consisted of:

(in thousands)	June 26, 1999	June 27, 1998
Allowance for doubtful accounts	**$ 1,161**	$ 1,309
Depreciation and amortization	**(2,017)**	(1,100)
Other deferred items, net	**268**	176
Net operating loss carry-forwards	**2,547**	1,764
Accrued liabilities	**2,362**	
Inventory reserves and capitalization	**(1,566)**	1,939
AMT credit carryforward	**222**	—
Net deferred tax asset	**$ 2,977**	$ 4,088

The Company has net loss carry-forwards at June 26, 1999 expiring as follows:

Year carry-forward expires	Amount (in thousands)
2009	$ 1,434
2010	60
2011	45
2018	4,924
Total	$ 6,463

As a result of certain transactions, the Company's ability to utilize its net operating loss carryforwards to offset otherwise taxable income is limited annually under Internal Revenue Code Section 382. While the annual limitations are calculated on a separate company basis, the combined limitation for the Company is approximately $5,000,000.

A reconciliation of the statutory federal income tax rate to the effective rate is as follows:

	Fiscal years ended June 26, 1999	June 27, 1998	June 28, 1997
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
Effective state tax rate	**3.5**	4.9	4.8
Permanent differences	**0.2**	0.3	2.3
Effect of foreign tax rate	**(1.9)**	(2.1)	(8.8)
Other	**(0.9)**	(0.2)	(2.0)
Effective income tax rate	**35.9%**	37.9%	31.3%

U.S. income taxes were not provided on certain unremitted earnings of Salton Hong Kong, Ltd. which the Company considers to be permanent investments. The cumulative amount of U.S. income taxes which have not been provided totaled approximately $1,319,000 at June 26, 1999.

15. Quarterly Results of Operations (unaudited)

Unaudited quarterly financial data is as follows (amounts in thousands, except per share data).

1999	First quarter	Second quarter	Third quarter	Fourth quarter
Net sales	$ 104,388	$ 142,684	$ 124,340	$ 134,704
Gross profit	45,775	53,390	43,352	56,452
Net income	10,819	11,682	5,154	6,888
Earnings per share: Basic	0.82	1.19	0.52	0.68
Earnings per share: Diluted	0.68	0.83	0.36	0.48
1998				
Net sales	$ 65,773	$ 102,153	$ 68,099	$ 69,574
Gross profit	24,797	35,029	26,159	27,911
Net income	4,124	5,448	2,778	7,631
Earnings per share: Basic	0.21	0.27	0.14	0.39
Earnings per share: Diluted	0.20	0.27	0.14	0.37

16. Subsequent Events

Acquisition

On August 30, 1999, Salton agreed to purchase approximately 21% of the outstanding shares of Amalgamated Appliance Holdings Limited, a leading manufacturer and distributor of a wide range of branded consumer electronics and appliances in South Africa, for approximately $6 million. Based in South Africa, Amalgamated is a publicly held company, listed on the Johannesburg Stock Exchange, which owns the rights to the Salton brand name in South Africa. In conjunction with this transaction, the Chief Executive Officer of Salton, Inc., will be added to Amalgamated's Board of Directors. The completion of the purchase is subject to a number of conditions including approval by Amalgamated Appliance Holdings' shareholders.

Legal Proceedings (Unaudited)

On September 22, 1999, CBS and White Consolidated finalized a settlement agreement relating to the ownership of the White-Westinghouse® name for certain consumer products. Under the settlement, we retain our existing rights under its license from White Consolidated for the use of the White-Westinghouse® name.

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.

	High	Low
Year ended June 26, 1999		
First Quarter	11-3/16	7-11/16
Second Quarter	15-1/2	5-15/16
Third Quarter	22-13/16	14
Fourth Quarter	33-9/16	14-11/16
Year Ended June 27, 1998		
First Quarter	6-11/16	7-11/16
Second Quarter	7-5/16	5-15/16
Third Quarter	7-1/2	14
Fourth Quarter	9-1/4	14-11/16

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George Foreman

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Leonhard Dreimann
Chief Executive Officer

Page 5
Linda Evans
Photography by Gary Bernstein

Page 6
Diane Prather
Executive Administrative Assistant

Dennis Crump
Credit/Collections Manager

Barbara Westfield
Vice President-Brand and Direct Marketing

Jeff McDaniel
PC Support Specialist

Harold Rice
Industrial Design Manager

Cindy Felten
Sales Administrator

Mattia Galanda
Consumer Service Representative

Ron Haffron
Retail Store Division Manager

Richard Van Bovan
Retail Division Inventory Manager

Page 7
John Thompson
Senior Vice President/Chief Financial Officer

Barbara Alonge
Vice President - Marketing

Myrna Sysler
Vice President - Sales

Sylvia Salgado
Receptionist

Keith Young
Chargeback Supervisor

Julie Piluski
Consumer Service Representative

Gladys Fuentes
Shipping Clerk

Page 9
Leonhard Dreimann
Chief Executive Officer

Page 10
William B. Rue
President/Chief Operating Officer

Page 11
David C. Sabin
Chairman

†Use of the name pursuant to licensing agreement with the licensor.

550 Business Center Dr.
Mt. Prospect, IL 60056
847.803.4600