SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Fiscal Year Ended June 30, 2001 or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Transition Period From ________ To ________

Commission File Number 0-19557

SALTON, INC.

(Exact Name Of Registrant As Specified In Its Charter)

Delaware **(State or other jurisdiction of Incorporation or organization)**	**36-3777824** **(I.R.S. Employer Identification Number)**
1955 W. Field Ct., Lake Forest, Illinois **(Address of Principal Executive Offices)**	**60045** **(Zip Code)**

(847) 803-4600
(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant To Section 12(b) Of The Act:
None

Securities Registered Pursuant To Section 12(g) Of The Act:
Common Stock, $.01 Par Value
(Title Of Class)

Indicate by check mark whether this registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ☐

The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of September 25, 2001 was approximately $92,659,000 computed on the basis of the last reported sale price per share ($9.60) of such stock on the NYSE. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The number of shares of the Registrant's Common Stock outstanding as of September 17, 2001 was 11,081,680.

DOCUMENTS INCORPORATED BY REFERENCE:

Part of Form 10-K Document	Incorporated By Reference
Part III (Items 10, 11, 12 and 13)	Portions of the Registrant's Definitive Proxy Statement to be used in connection with its 2001 Annual Meeting of Stockholders.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including without limitation the statements under "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The words "believes," "anticipates," "plans," "expects," "intends," "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- Our degree of leverage;
- Economic conditions and the retail environment;
- The timely development, introduction and customer acceptance of our products;
- Competitive products and pricing;
- Dependence on foreign suppliers and supply and manufacturing constraints;
- Our relationship and contractual arrangements with key customers, suppliers and licensors;
- Cancellation or reduction of orders;
- International business activities;
- Availability and success of future acquisitions;
- The risks relating to legal proceedings;
- The risks relating to intellectual property matters;
- The risks relating to regulatory matters; and
- Other risks detailed from time to time in our Commission filings.

All forward looking statements included in this annual report on Form 10-K are based on information available to us on the date of this annual report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this annual report on Form 10-K.

PART I

Item 1. *Business*

As used in this annual report on Form 10-K, "we," "our," "us", "the Company", and "Salton" refer to Salton and our subsidiaries, unless the context otherwise requires.

General

We are a leading domestic designer, marketer and distributor of a broad range of branded, high quality small appliances under well-recognized brand names such as Salton®, George Foreman™, Toastmaster®, Breadman®, Juiceman®, Juicelady®, White-Westinghouse®, Farberware®, Melitta®, Welbilt®, Aircore®, Russell Hobbs®, Tower®, Haden® and Pifco®. We believe that we have the leading domestic market share in indoor grills, toasters, juice extractors, bread makers, griddles, waffle makers and buffet ranges/hotplates and a significant market share in other product categories. We also design and market tabletop products, time products, lighting products and personal care and wellness products under brand names such as Block China®, Atlantis® Crystal, Sasaki®, Calvin Klein®, Timex®, Ingraham®, Westclox®, Big Ben®, Spartus®, Stiffel®, Ultrasonex®, Relaxor®, Carmen®, Hi-Tech®, Mountain Breeze® and Salton®. We believe that our strong market position results from our well-known brand names, the breadth, quality and innovation of our product offerings, our strong relationships with retailers and our focused outsourcing strategy.

We develop and introduce a wide selection of new products and enhance existing products to satisfy the various tastes, preferences and budgets of consumers and to service the needs of a broad range of retailers. Our product categories include:

Product Category	Sample Products	
SMALL APPLIANCES		
Health Conscious	• Thermal grills • Juice extractors • Juicers • Smoothie makers	• Rice cookers • Vegetable steamers • Ice cream makers • Yogurt and soy milk makers
Thermal and Cooking	• Toasters • Bread makers • Waffle makers • Griddles • Countertop ovens • Buffet ranges/hotplates	• Electric and gas outdoor grills • Sandwich makers • Irons • Deep fryers • Electric pressure cookers • Electric woks
Coffee and Tea	• Drip coffee makers and percolators • Espresso and cappuccino makers • Tea kettles	• Iced tea and iced coffee makers • Latte makers • Coffee grinders
Food Preparation and Serving	• Electric knives • Crepe makers • Mixers • Can openers	• Blenders • Choppers • Pizza makers • Warming trays

Product Category	Sample Products	
SALTON AT HOME		
Tabletop Products	• Crystal products • Fine china and basic dinnerware	• Ceramic products • Flatware
Time Products	• Electric and analog alarm clocks • Electric and quartz wall clocks	• LED digital clocks • Household timers
Lighting Products.....................................	• Table lamps • Wall sconces	• Floor lamps • Function lighting
PERSONAL CARE AND WELLNESS PRODUCTS	• Massagers • Indoor calming pools • Ultrasonic toothbrushes • Aroma therapy products • Hair dryers	• Curling irons and brushes • Make-up mirrors • Manicure systems • Shower radios • Magnetic therapy products

We currently market and sell our products primarily in North America through an internal sales force and a network of independent commissioned sales representatives. We predominantly sell our products to mass merchandisers, department stores, specialty stores and mail order catalogs. Our customers include many premier domestic retailers, including Wal-Mart, Kmart, Sears, Target Corporation, Federated Department Stores, QVC, May Company Department Stores, J.C. Penney Company, Lowe's, Linens 'n Things, Bed Bath & Beyond and Kohl's Department Stores. We also sell certain of our products directly to consumers through paid half-hour television programs referred to as "infomercials" and through our Internet website.

We outsource most of our production to more than 25 independent manufacturers, located primarily in the Far East, and we believe that we are the largest purchaser of electric small appliances from unaffiliated parties in the Far East. We employ both internal and independent inspection agents to ensure that products meet our rigorous quality standards.

The Industry

Based on data compiled from the National Housewares Manufacturers Association, the small household appliance industry in which we compete was approximately a $14 billion retail business in the United States in 1999. Historically, this industry has been characterized as mature, fragmented and highly competitive. However, it has been consolidating recently in response to the merger activity and changes within the retail industry. We expect that retailers will continue to consolidate their vendor base by dealing primarily with a smaller number of suppliers that can offer a broad array of innovative, differentiated and quality products and comprehensive levels of customer service. We believe that with our broad array of innovative and quality product offerings, high level of customer service and strong brand name recognition, we are well positioned to benefit from this environment.

Competitive Strengths

We believe that the following competitive strengths contribute to our position as a leading domestic designer and marketer in the small household appliance industry and serve as a foundation for our business strategy:

Market Leadership. We believe that we have the leading domestic market share in indoor grills, toasters, juice extractors, bread makers, griddles, waffle makers and buffet ranges/hotplates and a significant market share in other product categories. We believe that our leading market share in these product lines provides us with a competitive advantage in terms of demand from major retailers and enhanced brand awareness. Through internal and joint product development and acquisitions of businesses and product lines, we have enhanced our position as a leading supplier in the U.S. housewares industry.

Strong Brand Names. We have built a portfolio of strong brand names which we use to gain retail shelf space and introduce new products. The Salton® brand name has been in continuous use since 1947, the Ingraham brand name since 1831 and the Toastmaster brand name since 1926. These names are widely recognized in the housewares industry. In addition, we have licensed the right to use the White-Westinghouse® brand name for certain small household electrical appliances, such as toasters, coffee makers, espresso/cappuccino makers and bread makers, and distribute certain products under the Farberware® brand name. We believe that White-Westinghouse® and Farberware® are time-honored traditions throughout the world for certain home appliances and benefit from strong consumer recognition. We also market products under other owned and licensed brand names, such as George Foreman™, Melitta®, Timex®, Calvin Klein®, Stiffel®, Relaxor®, Ultrasonex™, Aircore®, Russell Hobbs®, Carmen®, Hi-Tech®, Tower®, Haden®, Mountain Breeze®, Pifco®, Westclox®, Big Ben® and Spartus®, and under private-label brand names such as Kenmore® (Sears), Cook's Essentials® (QVC) and Magic Chef® (Wal-Mart).

Innovation in Product Design and Packaging. We have a reputation among retailers and consumers for innovative product design and packaging. We design our products in many contemporary styles and with a wide variety of functional and aesthetic features. We work closely with both retailers and suppliers to identify consumer needs and preferences and to develop new products to satisfy consumer demand. Our product innovations have included the first triple function (espresso, cappuccino and latte) coffee maker in the United States, George Foreman™ Grills, Toastmaster® ovens with removable liners and the Wet Tunes® shower radios. During fiscal 2001, we introduced 1,973 new stock keeping units, or SKUs, excluding 1,622 acquired in the Pifco transaction (See Pifco transaction in the Business Strategy section). Several of our products, including the Breadman® Plus, the Breadman® Ultimate, the Salton® Pro Steam iron and the George Foreman™ Lean Mean Fat Reducing Grilling machine, have been selected by various consumer organizations and magazines as top rated or best buys.

We also package our products to increase their appeal to consumers and to stand out among other brands on retailers' shelves. We believe that the distinctive packaging, designed to answer customers' questions concerning our products, has resulted in increased retail shelf space and greater sales.

Broad Range of Products. We currently sell over 8,848 SKUs, including 1,622 SKUs acquired in the Pifco transaction, across multiple housewares categories using our portfolio of more than 60 owned and licensed brand names. Our products meet the needs of a broad range of retailers and satisfy the different tastes, preferences and budgets of consumers. Our diverse product offerings enable us to help retailers differentiate themselves because we can offer them exclusive rights for designated periods of time to sell certain of our products. We believe that as the retail industry continues to consolidate, our ability to serve retailers with an extensive array of product lines under a portfolio of strong brand names will continue to become increasingly important for maintaining shelf space and for introducing new products into the retail market. For example, we have recently added to our product offerings the Ultrasonex™ line of electrically operated toothbrushes and related products and the Toastmaster® UltraVection™ countertop oven.

Established Relationships with Diverse Customer Base. We have been able to establish strong relationships with our retail customers based on our frequent product innovation, high level of customer service, breadth of product offerings, reputation for quality products and established brand names. In addition, we have been able to secure long-term supply agreements with customers such as Kmart and Zellers. We have also expanded our distribution of private-label products with certain major retailers under brand names such as Kenmore® (Sears), Cook's Essentials® (QVC) and Magic Chef® (Wal-Mart). The broad distribution of products through the mass merchant, department store and specialty retailer channels, together with sales made through infomercials and the Internet, provides us with access to a diversified group of customers and multiple channels of distribution.

Our geographically diverse customer base covers a wide cross-section of retail and distribution channels. For fiscal 2001, no one customer accounted for more than 12% of our net sales, with our top five customers accounting for approximately 47% of our net sales.

Focused Outsourcing Strategy. Our strong relationships with our suppliers provide us with a low-cost, comparable quality alternative to domestic manufacturing. We believe that we are the largest purchaser of small electric appliances from unaffiliated parties in the Far East. We source products from more than 25 different suppliers and believe that we are the largest customer of many of our suppliers. We work closely with our suppliers to develop new products

and improvements to existing products to satisfy changing consumer preferences. Our outsourcing strategy provides us with low-cost manufacturing capabilities and allows us to bring new products to the market quickly and respond rapidly to changes in consumer tastes and preferences.

Experienced Management Team with Significant Equity Ownership. Our management team has a wide range of experience in the development and marketing of housewares. This management team, consisting of Leonhard Dreimann, Chief Executive Officer, David C. Sabin, Chairman, William B. Rue, President and Chief Operating Officer, and John E. Thompson, Senior Vice President and Chief Financial Officer, has an average of more than 20 years of industry experience. Since our inception, management has successfully integrated over 12 acquisitions of companies and/or product lines.

Business Strategy

Our primary business objective is to increase net sales, profitability and cash flow by continuing to execute the following key elements of our business strategy:

Introduce New Products and Product Line Extensions. We plan to manage our existing and new brands through strong product development initiatives, including introducing new products, modifying existing products and extending existing product lines. Our product managers strive to develop and acquire new products and product line extensions which offer added value to consumers through enhanced functionality and improved aesthetics. During fiscal 2001, excluding SKUs added by the Pifco transaction, we introduced 389 new SKUs in the small appliance category, 1,434 new SKUs in the Salton At Home products category and 150 new SKUs in the personal care and wellness products category. In addition, as a result of the Pifco transaction, we introduced 1,024 new SKUs in the small appliance category, 200 new SKUs in the Salton At Home products category and 398 in the personal care and wellness products category. For example, we recently introduced:

- George Foreman™ Portable Outdoor Gas Grills for tailgates, picnic and camping use;
- George Foreman™ Indoor Grills with dual cooking sections for preparing multiple items at the same time;
- the George Foreman™ translucent colored indoor grills, which we advertised with a thirty-second commercial during Super Bowl XXXV on January 28, 2001;
- Three sizes of George Foreman™ Rotisserie Ovens, which cook up to a 16-pound turkey and have six temperature settings and a countdown timer;
- Toastmaster® oil free deep fryers, which dry fry, roast and air bake snack foods;
- Toastmaster® UltraVection™ ovens, which combine convection, conductive and radiant heat to cook faster than conventional ovens; and
- the Ultrasonex™ line of electrically operated toothbrushes, which use ultra high frequency sonic waves for cleaning.

Increase Sales to New and Existing Customers. We believe that retail merchants will continue to consolidate their vendor bases and focus on a smaller number of suppliers that can (1) provide a broad array of differentiated, quality products, (2) efficiently and consistently fulfill logistical requirements and volume demands and (3) provide comprehensive product and marketing support. We believe that we can increase sales to our existing customers by continuing to introduce new products and new product categories. While we currently sell to a diversified base of premier retail customers, we believe that we can penetrate additional channels of distribution such as grocery stores and e-commerce outlets.

Pursue Licensing Agreements and Strategic Alliances. We have entered into licensing agreements and strategic alliances in order to further differentiate our products and to accelerate our growth. For example, we supply products to Kmart, Sears and Wal-Mart, which they sell under the White-Westinghouse®, Kenmore® and Magic Chef® brand names, respectively. We also have a joint marketing alliance with Kellogg USA. As part of this alliance, we have both agreed to launch print and broadcast advertising, joint trade and on-line consumer promotions and couponing and to collaborate with Kellogg on creating Pop-Tarts® and Eggo® branded toasters. In addition, we have licensing rights to market certain products under the Farberware®, Melitta®, Sasaki®, Timex®, Indiglo®, Marilyn Monroe®, LooneyTunes® and Calvin Klein® brands. We also recently entered into a worldwide exclusive licensing agreement to market and distribute the UltraVection™ oven and the "spin fryer" home appliance and became the exclusive distributor in North America of Welbilt® small kitchen appliances.

Continue Developing Alternative Distribution Channels. We expect to continue selling products through infomercials and our Internet website. These alternative distribution channels increase our product sales and provide us with direct contact with consumers, assist us in creating and building brand and product awareness and stimulate traditional retail channel demand. We currently use these alternative channels to sell certain of our products, primarily George Foreman™ Grills, Juiceman® and Juicelady® fresh juice machines and the Rejuvenique® facial toning system, as well as Aircore® (walk-away cookware), electric woks, pizza makers, George Foreman™ Rotisserie Ovens, Ultrasonex™ line of electrically operated toothbrushes and related products, the Toastmaster® UltraVection™ oven and George Foreman™ Outdoor Grills. We plan on developing additional new products which will also be sold on infomercials.

Pursue Strategic Acquisitions. We anticipate that the fragmented small household appliance industry will provide significant growth opportunities through strategic acquisitions. We will focus our acquisition strategy on businesses or brands which (1) offer expansion into related or existing categories, (2) can be marketed through our existing distribution channels or (3) provide a platform for growth into new distribution channels including expanding our international sales of products. Our recent acquisitions include:

- the Westclox®, Big Ben® and Spartus® trademarks, molds, intellectual property, rights and patents related to these brands;
- Pifco Holdings PLC, a United Kingdom producer and marketer of a broad range of branded personal care appliances, electrical hardware, cookware and battery operated products;
- the Aircore® cookware brand and certain inventory;
- the Relaxor® brand and certain inventory, including personal massagers and other personal care and wellness items;
- certain assets and intellectual property of The Stiffel Company, a designer of lamps and related products; and
- Sonex International Corporation, a designer and distributor of electric toothbrushes which employ ultra high frequency sonic waves for cleaning.

Expand International Presence. We intend to expand our international sales by developing international distribution channels for certain of our products and by pursuing acquisitions of complementary businesses. In June 2001, we acquired Pifco Holdings PLC, a United Kingdom producer and marketer of a broad range of branded kitchen and small appliances, personal care and wellness products, cookware and battery operated products. We believe that Pifco's strong product lines and European distribution channels will enable us to expand our international distribution channels and cross-market our products in Europe. In March 1999 we entered into a five-year supply agreement with Zellers, the leading national chain of discount department stores in Canada, to supply a broad range of small appliances under the White-Westinghouse® brand name. We also recently began marketing George Foreman™ Grills through QVC Germany and the Rejuvenique® facial mask and cosmetics through QVC Marco Polo Housewares in the United Kingdom. In

addition, we recently increased our ownership of Amalgamated Appliance Holdings Limited, a public company located in South Africa which manufactures and distributes appliances and electrical accessories, to approximately 31% of its outstanding equity. We have begun marketing certain of our products in South Africa through Amalgamated Appliance Holdings Limited.

Products

Our portfolio of strong brand names enables us to service the needs of a broad range of retailers and satisfy the different tastes, preferences and budgets of consumers. Our products include full-featured and upscale models or designs as well as those which are marketed to budget conscious consumers. Our product categories include:

Product Category	Sample Products	
SMALL APPLIANCES		
Health Conscious	• Thermal grills • Juice extractors • Juicers • Smoothie makers	• Rice cookers • Vegetable steamers • Ice cream makers • Yogurt and soy milk makers
Thermal and Cooking	• Toasters • Bread makers • Waffle makers • Griddles • Countertop ovens • Buffet ranges/hotplates	• Electric and gas outdoor grills • Sandwich makers • Irons • Deep fryers • Electric pressure cookers • Electric woks
Coffee and Tea	• Drip coffee makers and percolators • Espresso and cappuccino makers • Tea kettles	• Iced tea and iced coffee makers • Latte makers • Coffee grinders
Food Preparation and Serving	• Electric knives • Crepe makers • Mixers • Can openers	• Blenders • Choppers • Pizza makers • Warming trays
SALTON AT HOME		
Tabletop Products	• Crystal products • Fine china and basic dinnerware	• Ceramic products • Flatware
Time Products	• Electric and analog alarm clocks • Electric and quartz wall clocks	• LED digital clocks • Household timers
Lighting Products	• Table lamps • Wall sconces	• Floor lamps • Function lighting
PERSONAL CARE AND WELLNESS PRODUCTS	• Massagers • Indoor calming pools • Ultrasonic toothbrushes • Aroma therapy products • Hair dryers	• Curling irons and brushes • Make-up mirrors • Manicure systems • Shower radios • Magnetic therapy products

The following table sets forth the approximate amounts and percentages of our net sales by product category during the periods shown.

	Fiscal Years Ended					
	June 30, 2001(2)		July 1, 2000		June 26, 1999(1)	
	Net Sales	% of Total	Net Sales	% of Total	Net Sales	% of Total
Small Appliances	$ 714,125	90.2%	$ 742,774	88.7%	$ 459,621	90.8%
Salton At Home	59,793	7.5%	60,709	7.3%	34,875	6.9%
Personal Care and Wellness Products	18,196	2.3%	33,819	4.0%	11,620	2.3%
	$ 792,114	100.0%	$ 837,302	100.0%	$ 506,116	100.0%

(1) Includes the sales of Toastmaster from its acquisition date of January 7, 1999.
(2) Includes the sales of Pifco from June 1, 2001 through June 30, 2001.

Small Appliances

We design and market an extensive line of small appliances under the Salton®, George Foreman™, Toastmaster®, Breadman®, Juiceman®, Juicelady®, White-Westinghouse®, Farberware®, Melitta® Welbilt®, Aircore®, Russell Hobbs®, Tower®, Haden® and Pifco® brand names. At the end of fiscal 2001, we marketed approximately 2,673 SKUs under our brand names in this category, including 1,024 acquired in the Pifco transaction. Growth within this product category has historically been driven primarily by the introduction of new or enhanced products and the development of the George Foreman™, White-Westinghouse®, Farberware® and other product lines. For example, our line of George Foreman™ products, which began as a single grill in 1995, included 160 SKUs as of June 30, 2001.

Our small appliances product category includes:

- products for health conscious consumers, including thermal grills, juice extractors, juicers, smoothie makers, rice cookers, vegetable steamers, ice cream makers and yogurt and soy milk makers;

- thermal and cooking products, including toasters, bread makers, waffle makers, griddles, countertop ovens, buffet ranges/hotplates, sandwich makers, irons, deep fryers, electric and gas outdoor grills, electric pressure cookers and electric woks;

- coffee and tea related products, including combination coffee makers, espresso/cappuccino/drip coffee makers, coffee percolators, tea kettles, iced tea/iced coffee makers, latte makers, coffee grinders, and a broad range of coffee related accessories; and

- food preparation and serving products, including electric knives, crepe makers, mixers, can openers, blenders, choppers, pizza makers and warming trays.

We enhanced our small appliance offerings in January 1999 by acquiring Toastmaster Inc. Toastmaster markets and distributes a wide array of small appliances under the Toastmaster® brand name.

We further enhanced our small appliance offerings in June 2001 by acquiring Pifco Holdings, PLC. In addition to small appliance offerings, Pifco also markets products under the Salton At Home and Personal Care and Wellness categories.

Salton At Home

We design and market an extensive line of tabletop products, time products and lighting products. At the end of fiscal 2001, we marketed approximately 5,488 SKUs under our brand names in this category, including 200 acquired in the Pifco transaction. Tabletop products include crystal products offered under the Block®, Atlantis®, Sasaki® and Jonal® brand names, fine china and basic dinnerware in various designs and patterns under the Block®, Calvin Klein®, Sasaki® and Hi-Tech® brand names, and ceramic products under the Block® brand name.

We began offering tabletop products in fiscal 1997. We enhanced our tabletop product offerings on April 5, 1999 by acquiring certain assets of Sasaki, Inc., a designer of high-quality tabletop products and accessories for the home. The Sasaki® product lines which we acquired include dinnerware, barware, flatware and crystal giftware designed by well-known tabletop and domestic designers.

In the fourth quarter of fiscal 2000, we entered into an exclusive licensing agreement for the manufacture and distribution of tabletop and giftware items under the Calvin Klein® tabletop label.

Our time products are comprised of electric and analog alarm clocks, electric and quartz wall clocks with plastic, wood and/or metal cases, imported key-wound clocks and L.E.D. digital clocks. We market our time products under the Ingraham®, Farberware®, Salton® Time, Timex®, Timex® Indiglo, Westclox®, Big Ben® and Spartus® brand names. We also market household (electromechanical and electronic) timers, which are used for, among other purposes, switching electric lights and other appliances on and off at pre-determined times.

We recently began offering table lamps, wall sconces, floor lamps and function lighting after our acquisition of the trademarks, other intellectual property assets and molds of The Stiffel Company, a designer of lamps and related products. We offer our lighting products under the Decor by Stiffel™, Expressions by Stiffel™ and Stiffel® brand names.

Personal Care and Wellness Products

We design and market a broad range of personal care and wellness products under brand names such as Wet Tunes®, Salton®, White-Westinghouse®, Rejuvenique®, Ultrasonex™, Relaxor® and Carmen®. At the end of fiscal 2001, we marketed approximately 687 SKUs in the personal care and wellness products category, including 398 acquired in the Pifco transaction.

Our personal and beauty care appliances marketed under the Salton® brand name include hair dryers, curling irons and brushes, make-up mirrors, massagers, manicure systems and shower radios. Our Wet Tunes® series of shower radios are sold under the Salton® brand name and feature AM/FM radio with waterproof mylar speakers and wall mount brackets. Our personal and beauty care appliances also include the Rejuvenique® system, which we began marketing through infomercials in early 1999.

We enhanced our personal and beauty care appliances offerings on July 19, 2000 through our acquisition of Sonex International Corporation, a designer and distributor of electrically operated toothbrushes which employ ultra high frequency sonic waves for cleaning, flossers and related products.

On September 21, 2000, we further enhanced this product category through our acquisition of the Relaxor® business and certain inventory, including personal massagers, aromatherapy products, indoor calming pools, magnetic therapy products and other personal care items, from JB Research, Inc.

We also have a "gifts" program designed for department stores. Under this program, we provide department stores with practical, special occasion and small gift products. Our gifts programs include the mini tool, calcutape, travel smoke alarm, emergency auto flasher, deluxe art and the 7-piece gardening kits.

New Product Development

We believe that the enhancement and extension of our existing products and the development of new products are necessary for our continued success and growth. We design the style, features and functionality of our products to meet customer requirements for quality, performance, product mix and pricing. We work closely with both retailers and suppliers to identify consumer needs and preferences and to generate new product ideas. We evaluate new ideas and seek to develop and acquire new products and improve existing products to satisfy industry requirements and changing consumer preferences.

During fiscal 2001, excluding SKUs added by the Pifco transaction, we introduced 389 new SKUs in the small appliance category, 1,434 new SKUs in the Salton At Home products category and 150 new SKUs in the personal care and wellness products category. In addition, as a result of the Pifco transaction, we introduced 1,024 new SKUs in the small appliance category, 200 new SKUs in the Salton At Home products category and 398 in the personal care and wellness products category.

Marketing and Distribution

We currently market and sell our products primarily in North America through an internal sales force and a network of independent commissioned sales representatives. We predominantly sell our products to mass merchandisers, department stores, specialty stores and mail order catalogs. Our customers include many premier domestic retailers, including Wal-Mart, Kmart, Sears, Target Corporation, Federated Department Stores, QVC, May Company Department Stores, J.C. Penney Company, Lowe's, Linens 'n Things, Bed Bath & Beyond and Kohl's Department Stores.

In addition to directing our marketing efforts toward retailers, we sell certain of our products, primarily George Foreman™ Grills, Juiceman® and Juicelady® fresh juice machines and the Rejuvenique® facial toning system, as well as Aircore® (walk-away cookware), electric woks, pizza makers, George Foreman™ Rotisserie Ovens, Ultrasonex line of electrically operated toothbrushes and related products, the Toastmaster® UltraVection™ oven and George Foreman™ Outdoor Grills, directly to consumers through infomercials and our Internet website. We provide promotional support for our products with the aid of national television, radio and print advertising, cooperative advertising with retailers, and in-store displays and product demonstrations. We believe that these promotional activities are important to strengthening our brand name recognition.

We rely on our management's ability to determine the existence and extent of available markets for our products. Our management has an extensive marketing and sales background and devotes a significant portion of its time to marketing-related activities. We market our products primarily through our own sales force and independent sales representatives. Our representatives are located throughout the United States and Canada and are paid a commission based upon sales in their respective territories. Our sales representative agreements are generally terminable by either party upon 30 days' notice.

We direct our marketing efforts toward retailers and believe that obtaining favorable product placement at the retail level is an important factor in our business, especially when introducing new products. In an effort to provide our retail customers with the highest level of customer service, we have an advanced electronic data interchange system to receive customer orders and transmit shipping and invoice information electronically. Our management also uses this system to monitor point-of-sale information at certain accounts. We also maintain an Internet site which enables our retail customers to access on-line shipment information.

We emphasize the design and packaging of our products to increase their appeal to consumers and to stand out among other brands on retailers' shelves. We believe that distinctive packaging, designed to answer consumers' questions concerning our products, has resulted in increased shelf space and greater sales. We also have a consumer relations department with over 50 persons to answer consumer questions about our products.

Our total net sales to our five largest customers during fiscal 2001 were approximately 47% of net sales, with Wal-Mart representing approximately 12% of our net sales and Kmart representing approximately 11% of our net sales.

Our total net sales to our five largest customers during fiscal 2000 were approximately 46% of net sales, with Wal-Mart representing approximately 13% of our net sales and Kmart representing approximately 12% of our net sales.

In 1997, we entered into a seven-year supply agreement with Kmart for Kmart to purchase, distribute, market and sell a broad range of small appliances under the White-Westinghouse® brand name. Kmart is the exclusive United States mass merchant to market these White-Westinghouse® products. The supply agreement provides Kmart sole distribution rights to the White-Westinghouse® brand name for the mass merchandiser market, but allows distribution through other retail channels under certain conditions. Sales to Kmart approximated 11% and 12% of our total net sales for fiscal years 2001 and 2000, respectively.

The supply agreement with Kmart provides for minimum purchases by Kmart, which increase through the term of the supply agreement, and for the payment of penalties for shortfalls. If the aggregate United States retail sales in the consumer electronics industry for any specified category decrease by more than 10% in any year from that sold in the prior year, Kmart has the right to reduce the minimum purchase requirements for that category to an amount not less than 80% of the minimum for that period. We have paid Applica, Inc. (formerly known as Windmere-Durable Holdings, Inc.) a fee based upon our net sales less specified costs and expenses relating to the Kmart supply agreement in consideration of Applica's guarantee of our obligations under the supply agreement. See "Item 3--Legal Proceedings".

In 1999, we entered into a five-year supply agreement with Zellers, the leading national chain of discount department stores in Canada, to supply a broad range of small appliances under the White-Westinghouse® brand name. We also have expanded our distribution of private-label products with certain major retailers under brand names such as Kenmore® (Sears), Cook's Essentials® (QVC) and Magic Chef® (Wal-Mart).

Sources of Supply

Most of our products are manufactured to our specifications by over 25 unaffiliated manufacturers located primarily in Far East locations, such as Hong Kong, the People's Republic of China and Taiwan, and in Europe. Many of these suppliers are ISO 9000 certified. We believe that we maintain good business relationships with our overseas manufacturers.

We do not maintain long-term purchase contracts with manufacturers and operate principally on a purchase order basis. We believe that we are not currently dependent on any single manufacturer for any of our products. However, one supplier located in China, accounted for approximately 35.2% of our product purchases during fiscal 2001. During fiscal 2000, one supplier also located in China, which acted as our purchasing agent from several other suppliers, accounted for approximately 38.0% of our product purchases. We believe that the loss of any one manufacturer would not have a long term material adverse effect on our business because other manufacturers with which we do business would be able to increase production to fulfill our requirements. However, the loss of a supplier could, in the short term, adversely effect our business until alternative supply arrangements are secured.

Our purchase orders are generally made in United States dollars in order to maintain continuity in our pricing structure and to limit exposure to currency fluctuations. Our policy is to maintain an inventory base to service the seasonal demands of our customers. In certain instances, we place firm commitments for products from six to twelve months in advance of receipt of firm orders from customers.

Quality assurance is particularly important to us and our product shipments are required to satisfy quality control tests established by our internal product design and engineering department. We employ both internal and independent agents to perform quality control inspections at the manufacturers' factories during the manufacturing process and prior to acceptance of goods.

Salton Hong Kong, Ltd. (Salton Hong Kong), our wholly-owned subsidiary, has been granted status in Hong Kong and the People's Republic of China as a manufacturing company. Salton Hong Kong has developed a key relationship with one of its suppliers whereby the supplier produces certain products for us using materials purchased by Salton Hong Kong and certain assets provided by Salton Hong Kong. The purpose of this relationship is to secure for us a long term supply relationship at favorable pricing.

Competition

Our industry is mature and highly fragmented. Competition is based upon price, access to retail shelf space, product features and enhancements, brand names, new product introductions and marketing support and distribution approaches.

In the sale of small appliances, we compete with, among others, Applica, Inc., Braun, Hamilton Beach, Holmes/Rival, Krups, National Presto, Rowenta and Sunbeam. In the sale of Salton At Home products, we compete with, among others, Baccarat Crystal, Lenox, Mikasa, Miller Rogaska, Villeroy Boch, Waterford Crystal, Wedgewood, Westwood Lighting, Robert Abbey, Advance Corp. and M.Z. Berger. In the sale of personal care and wellness products, we compete with, among others, Andis, Applica, Clairol, Inc. (a wholly-owned subsidiary of Bristol-Myers Squibb Company), Conair Corporation, Helen of Troy and Sunbeam. We believe that our success is dependent on our ability to offer a broad range of existing products and to continually introduce new products and enhancements of existing products which have substantial consumer appeal based upon price, design, performance and features. We also believe that our brand names are important to our ability to compete effectively and give us the capability to provide consumers with appealing, well priced products to meet competition.

Employees

As of June 30, 2001, we employed approximately 1,326 persons, including over 500 employees from our acquisition of Pifco. Approximately 80 employees, who work at our Kenilworth, New Jersey facility and approximately 80 employees at our recently acquired Pifco Holdings, PLC, Wolverhampton, England facility, were covered by collective bargaining agreements. The Kenilworth, New Jersey agreement expires on February 28, 2002 and the Wolverhampton, England agreement is ongoing and has no expiration date. We generally consider our relationship with our employees to be satisfactory and have never experienced a work stoppage.

Regulation

We are subject to federal, state and local regulations concerning consumer products safety. Foreign jurisdictions also have regulatory authorities overseeing the safety of consumer products. In general, we have not experienced difficulty complying with such regulations and compliance has not had an adverse effect on our business. Most of our products are listed by Underwriters Laboratory, Inc.

In July 2000, we received a letter from the Food and Drug Administration warning that our marketing and sale of the Rejuvenique® facial mask violates certain FDA rules and regulations. On August 8, 2001, the FDA granted us clearance to market our Rejuvenique® facial toning system directly to consumers.

Backlog

Our backlog consists of commitments to order and orders for our products, which are typically subject to change and cancellation until shipment. Customer order patterns vary from year to year, largely because of annual differences in consumer acceptance of product lines, product availability, marketing strategies, inventory levels of retailers and differences in overall economic conditions. As a result, comparisons of backlog as of any date in a given year with backlog at the same date in a prior year are not necessarily indicative of sales for that entire given year. As of June 30, 2001, we had a backlog of approximately $346.8 million, including approximately $4.6 million from our Pifco acquisition, compared to approximately $426.4 million as of July 1, 2000. We do not believe that backlog is necessarily indicative of our future results of operations or prospects.

Trademarks, Patents and Licensing Arrangements

We hold numerous patents and trademarks registered in the United States and foreign countries for various products and processes. We have registered certain of our trademarks with the United States Patent and Trademark Office. We consider these trademarks to be of considerable value and of material importance to our business.

During 1996, we entered into license agreements with White Consolidated Industries, Inc. for use of the White-Westinghouse® trademark for small kitchen appliances, personal care products, fans, heaters, air cleaners and humidifiers. The license agreements grant us the exclusive right and license to use the White-Westinghouse® trademark in the United States and Canada in exchange for certain license fees and royalties. The license agreements also contain minimum sales requirements which, if not satisfied, may result in the termination of the agreements. Each of these license agreements is also terminable on or after the fifth anniversary of the agreement upon one-year's notice or upon a breach by us.

In the second quarter of fiscal 1997, we obtained the exclusive, worldwide right to distribute Farberware® small electric appliances. Farberware® is a time-honored trade name in the cookware and small electric appliance industry.

We entered into a license agreement with Aesthetics, Inc. in the third quarter of fiscal 1999. The license covers the manufacturing, marketing and distributing of the Rejuvenique® facial product lines.

In the fourth quarter of fiscal 1999, we obtained the exclusive right to manufacture, market and distribute throughout the United States small electrical coffee preparation products, including drip coffee makers, percolators, espresso machines, coffee grinders, and coffee mills, under the Melitta® brand name.

On November 9, 1999, we entered into an exclusive worldwide licensing agreement with UltraVection International to market ovens using UltraVection™'s patented technology.

On December 9, 1999, we acquired from George Foreman and other venture participants the right to use in perpetuity and worldwide the name George Foreman, including pictures and the likeness of George Foreman, in connection with the marketing and sale of food preparation and non-alcoholic drink preparation and serving appliances. This transaction terminated as of July 1, 1999 our obligation to pay royalties based on the sale of George Foreman products. The aggregate purchase price was $113.75 million in cash, payable in five annual installments of $22.75 million commencing on the closing date, and 779,191 shares of our common stock.

On September 7, 2000, we entered into agreements with George Foreman and other venture participants pursuant to which we satisfied $22.75 million of payment obligations we incurred in connection with our acquisition of the "George Foreman" name by issuing 621,161 shares of our common stock to George Foreman and other venture participants. Under the terms of the transaction we guaranteed under certain circumstances the value of these 621,161 shares. We registered for resale the shares of common stock issued in connection with the transaction.

On July 2, 2001, we took back 456,175 of the 546,075 shares issued to George Foreman on September 7, 2000 and paid him $18 million. This payment, which represented $20 million less the proceeds George Foreman received from the sale of shares on the open market previously issued to him, terminated our guarantee obligation with respect to the shares issued to him and satisfied the third annual installment due under the note payable to George Foreman. As a result of this transaction, we now have only two installments remaining under the note as well as our outstanding guarantee obligation to the other venture participants.

In the fourth quarter of fiscal 2000, we entered into an exclusive licensing agreement for the manufacture and distribution of tabletop and giftware items under the Calvin Klein® Tabletop label.

On July 20, 2000, we entered into a joint marketing alliance with Kellogg USA. We have both agreed as part of this alliance to launch print and broadcast advertising, joint trade and on-line consumer promotions and couponing and to collaborate with Kellogg on creating Pop-Tarts® and Eggo® branded toasters.

On September 8, 2000, we entered into a worldwide exclusive licensing agreement to market and distribute the "spin fryer" home appliance.

On January 12, 2001, Appliance Co. of America LLC appointed us as its exclusive distributor in North America of Welbilt® small kitchen electric appliances. In connection with the distribution agreement, we agreed to offer China Resources Electrical Appliance (Zuhai Co.) Ltd., one of our suppliers located in the Far East and the parent company of Appliance Co. of America LLC, orders to manufacture an aggregate of at least $200 million of small kitchen electric appliances by the end of 2006 (with minimum offered orders of $25 million per year). If we offer China Resources an order but fail to reach an agreement on delivery, payment and other terms, our offered order counts against the minimum offered orders requirement if we place the order with a third party on terms which are more favorable to us, in our sole discretion, than those offered by China Resources to us.

On August 7, 2001 we acquired all of the trademarks, molds, intellectual property, rights and patents related to the Westclox®, Big Ben® and Spartus® brands for $9.8 million.

We have other licensing arrangements with various other companies to market products bearing the trademark or likeness of the subject matter of the license. These licenses include the right to market various products under Sasaki®, Timex®, Indiglo®, Hershey Kiss®, LooneyTunes® and Marilyn Monroe®. We believe that these other license arrangements help to demonstrate our creativity and versatility in product design and the enhancement of existing products.

In general, our joint venture and licensing arrangements place marketing obligations on us and require us to pay fees and royalties based upon net sales or profits. Typically, each of these agreements may be terminated within 30 to 180 days if we do not satisfy minimum sales obligations or breach the agreement.

Warranties

Our products are generally sold with a limited one-to-three year warranty from the date of purchase. A limited number of products are sold with a lifetime warranty. In the case of defects in material or workmanship, we agree to replace or repair the defective product without charge.

RISK FACTORS

Prospective investors should carefully consider the following risk factors, together with the other information contained in this annual report on Form 10-K, in evaluating us and our business before purchasing our securities. In particular, prospective investors should note that this annual report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act and that actual results could differ materially from those contemplated by such statements. See "Special Note Regarding Forward-Looking Statements." The factors listed below represent certain important factors which we believe could cause such results to differ. These factors are not intended to represent a complete list of the general or specific risks that may affect us. It should be recognized that other risks may be significant, presently or in the future, and the risks set forth below may affect us to a greater extent than indicated.

OUR SUBSTANTIAL INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL HEALTH AND PREVENT US FROM FULFILLING OUR PAYMENT OBLIGATIONS.

We have a significant amount of indebtedness relative to our equity size. As of June 30, 2001, we had total consolidated indebtedness of $423.4 million, including $148.3 million of the 12 1/4% senior subordinated notes due 2008 and $125.0 million of 10 3/4% senior subordinated notes due 2005, and total stockholders' equity of $211.5 million. We also had additional availability under our revolving credit facility of $97.3 million. We may incur additional indebtedness in the future, including through additional borrowings under our amended and restated credit agreement, subject to the satisfaction of certain financial tests.

Our ability to service our debt obligations, including the notes, and to fund planned capital expenditures will depend upon our future operating performance, which will be affected by prevailing economic conditions in the markets we serve and financial, business and other factors, certain of which are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available under our amended and restated credit agreement in an amount sufficient to enable us to service our indebtedness, including the notes, or to fund our other liquidity needs. We may need to refinance all or a portion of the principal of the notes on or prior to maturity. We cannot assure you that we will be able to effect any refinancing on commercially reasonable terms or at all.

Our high level of debt could have important consequences for you, such as:

- our debt level makes us more vulnerable to general adverse economic and industry conditions;
- our ability to obtain additional financing for acquisitions, or to fund future working capital, capital expenditures or other general corporate requirements may be limited;
- we will need to use a substantial portion of our cash flow from operations for the payment of principal of, and interest on, our indebtedness, which will reduce the amount of money available to fund working capital, capital expenditures or other general corporate purposes;
- our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete may be limited; and
- our debt level may place us at a competitive disadvantage to our less leveraged competitors.

OUR DEBT INSTRUMENTS CONTAIN RESTRICTIVE COVENANTS THAT COULD ADVERSELY AFFECT OUR BUSINESS BY LIMITING OUR FLEXIBILITY.

Our amended and restated credit agreement and the indentures governing the 12 1/4% senior subordinated notes and the 10 3/4% senior subordinated notes impose restrictions that affect, among other things, our ability to incur debt,

pay dividends, sell assets, create liens, make capital expenditures and investments, merge or consolidate, enter into transactions with affiliates, and otherwise enter into certain transactions outside the ordinary course of business. Our amended and restated credit agreement also requires us to maintain specified financial ratios, including a minimum fixed charge coverage ratio and a maximum leverage ratio, and meet certain financial tests. Our ability to continue to comply with these covenants and restrictions may be affected by events beyond our control. A breach of any of these covenants or restrictions would result in an event of default under our amended and restated credit agreement and the indentures. Upon the occurrence of a breach, the lenders under our amended and restated credit agreement could elect to declare all amounts borrowed thereunder, together with accrued interest, to be due and payable, foreclose on the assets securing our amended and restated credit agreement and/or cease to provide additional revolving loans or letters of credit, which could have a material adverse effect on us. A failure to comply with the restrictions in the indentures could result in an event of default under the indentures.

IF WE WERE TO LOSE ONE OR MORE OF OUR MAJOR CUSTOMERS, OUR FINANCIAL RESULTS WOULD SUFFER.

Our success depends on our sales to our significant customers. Our total net sales to our five largest customers during fiscal 2001 were approximately 47% of net sales, with Wal-Mart representing approximately 12% of our net sales and Kmart representing approximately 11% of our net sales. Our total net sales to our five largest customers during fiscal 2000 were approximately 46% of net sales, with Wal-Mart representing approximately 13% of our net sales and Kmart representing approximately 12% of our net sales. Except for our supply agreements with Kmart and Zellers, we do not have long-term agreements with our major customers, and purchases are generally made through the use of individual purchase orders. A significant reduction in purchases by any of these major customers or a general economic downturn in retail sales could have a material adverse effect on our business, financial condition and results of operations.

THE TERMINATION OF OUR SUPPLY AGREEMENT WITH KMART WOULD ADVERSELY AFFECT OUR NET SALES.

In January 1997, we entered into a seven-year supply agreement with Kmart. Under this agreement, Kmart is the exclusive discount department store in the United States to market and sell a broad range of small appliances under the White-Westinghouse® brand name.

The initial term of our agreement with Kmart expires on June 30, 2004. However, Kmart may terminate the agreement without cause after June 30, 2002. Kmart may also terminate our agreement on the basis of any claim which Kmart reasonably believes impairs or would impair Kmart's ability to receive the benefits of its supply agreement with Applica, Inc. (formerly known as Windmere-Durable Holdings, Inc.) or us.

Sales to Kmart of White-Westinghouse products, approximated 3.8%, and 7.3% of our total net sales for fiscal years 2001 and 2000 , respectively. The termination or any significant modification of our supply agreement with Kmart could have a material adverse effect on our business, financial condition and results of operations.

IF WE DO NOT DEVELOP AND INTRODUCE NEW PRODUCTS, OUR ABILITY TO GROW OUR BUSINESS WILL BE LIMITED.

We believe that our future success will depend in part upon our ability to continue to introduce innovative designs in our existing products and to develop, manufacture and market new products. We may not successfully introduce, market and manufacture any new products or product innovations or develop and introduce in a timely manner innovations to our existing products which satisfy customer needs or achieve market acceptance. Our failure to develop products and introduce them successfully and in a timely manner would harm our ability to grow our business.

WE DEPEND HEAVILY ON OUR FOREIGN SUPPLIERS, WHICH SUBJECTS US TO THE RISKS OF DOING BUSINESS ABROAD.

We depend upon unaffiliated foreign companies for the manufacture of most of our products. One supplier located in China, accounted for approximately 35.2% of our product purchases during fiscal 2001. During fiscal 2000,

one supplier also located in China, which acted as our purchasing agent from several other suppliers, accounted for approximately 38.0% of our product purchases. We believe that the loss of any one supplier would not have a long term material adverse effect on our business because other suppliers with which we do business would be able to increase production to fulfill our requirements however, the loss of a supplier could, in the short term, adversely effect our business until alternative supply arrangements are secured.

Our arrangements with our suppliers are subject to the risks of doing business abroad, including:

- import duties;
- trade restrictions;
- production delays due to unavailability of parts or components;
- increase in transportation costs and transportation delays;
- work stoppages;
- foreign currency fluctuations; and
- political and economic instability.

The small household appliance industry is highly competitive and we may not be able to compete effectively.

We believe that competition is based upon several factors, including:

- price;
- access to retail shelf space;
- product features and enhancements;
- brand names;
- new product introductions; and
- marketing support and distribution approaches.

The current general slowdown in the retail sector has resulted in, and we expect it to continue to result in, additional pricing pressures on us.

We compete with established companies, some of which have substantially greater facilities, personnel, financial and other resources than we have. Significant new competitors or increased competition from existing competitors may adversely affect our business, financial condition and results of operations.

IF THE RETAIL INDUSTRY EXPERIENCES AN ECONOMIC SLOWDOWN, OUR FINANCIAL RESULTS WILL BE ADVERSELY AFFECTED.

We sell our products to consumers through major retail channels, primarily mass merchandisers, department stores, specialty stores and mail order catalogs. As a result, our business and financial results can fluctuate with the financial condition of our retail customers and the retail industry. As we have previously announced, the current general slowdown in the retail sector has adversely impacted our net sales of products. If such conditions continue or worsen, it could have a material adverse effect on our business, financial condition and results of operations.

Certain of our retail customers have filed for bankruptcy protection in recent years. We continually monitor and evaluate the credit status of our customers and attempt to adjust sales terms as appropriate. Despite these efforts, a bankruptcy filing by, or other adverse change in the financial condition of, a significant customer could adversely affect our financial results.

ACQUISITIONS MAY BE DIFFICULT TO INTEGRATE AND MAY DISRUPT OUR BUSINESS.

We continue to seek opportunities to acquire businesses and product lines that fit within our acquisition strategy, including the expansion of our international sales through the acquisition of complementary businesses. We may not successfully identify acceptable acquisition candidates or integrate any acquired operations. For instance, we cannot assure you that the anticipated benefits of our recent acquisitions of the Westclox®, Big Ben® and Spartus® brands, Pifco Holdings PLC, Sonex International Corporation, certain assets and intellectual property of The Stiffel Company and the Relaxor® brand and certain inventory will be realized. Opportunities for growth through acquisitions, future operating results and the success of acquisitions may be subject to the effects of, and changes in, U.S. and foreign trade and monetary policies, laws and regulations, political and economic developments, inflation rate and tax laws.

Our acquisitions of additional businesses and product lines may require additional capital and the consent of our lenders and may have a significant impact on our business, financial condition and results of operations. We may finance acquisitions with internally generated funds, bank borrowings, public offerings or private placements of debt or equity securities, or through a combination of these sources. This may have the effect of increasing our debt and reducing our cash available for other purposes.

Acquisitions may also require substantial attention from, and place substantial additional demands upon, our senior management. This may divert senior management's attention away from our existing businesses, making it more difficult to manage effectively. In addition, unanticipated events or liabilities relating to these acquisitions or the failure to retain key personnel could have a material adverse effect on our business, results of operations and financial condition.

EXPANDING OUR INTERNATIONAL SALES WILL SUBJECT US TO ADDITIONAL BUSINESS RISKS AND MAY CAUSE OUR PROFITABILITY TO DECLINE DUE TO INCREASED COSTS.

We intend to pursue growth opportunities internationally. Our international sales accounted for less than 7% of our total net sales for fiscal 2001. We expect international sales will increase in fiscal 2002 as we include a full year of results from Pifco Holdings PLC. Our pursuit of international growth opportunities may require significant investments for an extended period before returns on these investments, if any, are realized. International operations are subject to a number of other risks and potential costs, including:

- the risk that because our brand names may not be locally recognized, we must spend significant amounts of time and money to build a brand identity without certainty that we will be successful;
- unexpected changes in regulatory requirements;
- inadequate protection of intellectual property in foreign countries;
- foreign currency fluctuations;
- transportation costs;
- adverse tax consequences; and
- political and economic instability.

We cannot assure you that we will not incur significant costs in addressing these potential risks.

IF WE HAVE TO EXPEND SIGNIFICANT AMOUNTS TO REMEDIATE ENVIRONMENTAL LIABILITIES, OUR FINANCIAL RESULTS WILL SUFFER.

Prior to January 2001, we manufactured certain of our products at our owned plants in Laurinburg, North Carolina, Macon, Missouri, Boonville, Missouri, Moberly, Missouri and Kirksville, Missouri. Our previous manufacturing of products at these sites, which have been converted to warehouse and distribution facilities, exposes us to potential liabilities for environmental damage that these facilities may have caused or may cause nearby land owners. During the ordinary course of our operations, we have received, and we expect that we may in the future receive, citations or notices from governmental authorities asserting that our facilities are not in compliance with, or require investigation or remediation under, applicable environmental statutes and regulations. Any citations or notices could have a material adverse effect on our business, results of operations and financial condition.

THE SEASONAL NATURE OF OUR BUSINESS COULD ADVERSELY IMPACT OUR OPERATIONS.

Our business is highly seasonal, with operating results varying from quarter to quarter. We have historically experienced higher sales during the months of August through November primarily due to increased demand by customers for our products attributable to holiday sales. This seasonality has also resulted in additional interest expense for us 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. Lower sales than expected by us during this period, a lack of availability of product, a general economic downturn in retail sales or the inability to service additional interest expense due to increased borrowings could have a material adverse effect on our business, financial condition and results of operations.

PRODUCT RECALLS OR LAWSUITS RELATING TO DEFECTIVE PRODUCTS COULD ADVERSELY IMPACT OUR FINANCIAL RESULTS.

We face exposure to product recalls and product liability claims in the event that our products are alleged to have manufacturing or safety defects or to have resulted in injury or other adverse effects. We cannot assure you that we will be able to maintain our product liability insurance on acceptable terms, if at all, or that product liability claims will not exceed the amount of our insurance coverage. As a result, we cannot assure you that product recalls and product liability claims will not adversely affect our business.

THE INFRINGEMENT OR LOSS OF OUR PROPRIETARY RIGHTS COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS.

We regard our copyrights, trademarks, service marks and similar intellectual property as important to our success. We rely on copyright and trademark laws in the United States and other jurisdictions to protect our proprietary rights. We seek to register our trademarks in the United States and elsewhere. These registrations could be challenged by others or invalidated through administrative process or litigation. If any of these rights were infringed or invalidated, our business could be materially adversely affected.

We license various trademarks and tradenames from third parties for use on our products. These licenses generally place marketing obligations on us and require us to pay fees and royalties based on net sales or profits. Typically, each license may be terminated if we fail to satisfy minimum sales obligations or if we breach the license. The termination of these licensing arrangements could adversely affect our business, financial condition and results of operations.

WE MAY BE SUBJECT TO LITIGATION AND INFRINGEMENT CLAIMS, WHICH COULD CAUSE US TO INCUR SIGNIFICANT EXPENSES OR PREVENT US FROM SELLING OUR PRODUCTS.

We cannot assure you that others will not claim that our proprietary or licensed products are infringing their intellectual property rights or that we do not in fact infringe those intellectual property rights. If someone claimed that our proprietary or licensed products infringed their intellectual property rights, any resulting litigation could be costly and time consuming and would divert the attention of management and key personnel from other business issues. We also

may be subject to significant damages or an injunction against use of our proprietary or licensed products. A successful claim of patent or other intellectual property infringement against us could harm our financial condition.

COMPLIANCE WITH GOVERNMENTAL REGULATIONS COULD SIGNIFICANTLY INCREASE OUR OPERATING COSTS OR PREVENT US FROM SELLING OUR PRODUCTS.

Most federal, state and local authorities require certification by Underwriters Laboratory, Inc., an independent, not-for-profit corporation engaged in the testing of products for compliance with certain public safety standards, or other safety regulation certification prior to marketing electrical appliances. Foreign jurisdictions also have regulatory authorities overseeing the safety of consumer products. Our products, or additional electrical appliances which may be developed by us, may not meet the specifications required by these authorities. A determination that we are not in compliance with these rules and regulations could result in the imposition of fines or an award of damages to private litigants.

IF WE DO NOT ATTRACT AND RETAIN SKILLED PERSONNEL, OUR ABILITY TO GROW AND DEVELOP OUR BUSINESS WILL SUFFER.

Our continued success will depend significantly on the efforts and abilities of David C. Sabin, Chairman; Leonhard Dreimann, Chief Executive Officer; and William B. Rue, President and Chief Operating Officer. The loss of the services of one or more of these individuals could have a material adverse effect on our business. In addition, as our business develops and expands, we believe that our future success will depend greatly on our ability to attract and retain highly qualified and skilled personnel. We do not have, and do not intend to obtain, key-man life insurance on our executive officers.

THE INTERESTS OF OUR SIGNIFICANT STOCKHOLDER MAY CONFLICT WITH YOUR INTERESTS.

As of June 30, 2001, Centre Partners Management LLC and entities directly or indirectly controlled by Centre Partners beneficially owned in the aggregate approximately 26% of our common stock. Centre Partners is able to exercise significant influence with respect to the election of directors or major corporate transactions such as a merger or sale of all or substantially all of our assets. Centre Partners generally has the right to designate two directors as long as it and its affiliates own at least 12.5% of the total voting power of our outstanding common stock and one director as long as it and its affiliates own at least 7.5% of the total voting power of our outstanding common stock. The interests of Centre Partners may conflict with your interests in certain circumstances.

TAKEOVER DEFENSE PROVISIONS WHICH WE HAVE IMPLEMENTED MAY ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

Various provisions of Delaware corporation law and of our corporate governance documents may inhibit changes in control not approved by our board of directors and may have the effect of depriving stockholders of an opportunity to receive a premium over the prevailing market price of our common stock in the event of an attempted hostile takeover or may deter takeover attempts by third parties. In addition, the existence of these provisions may adversely affect the market price of our common stock. These provisions include:

- a classified board of directors;
- a prohibition on stockholder action through written consents;
- a requirement that special meetings of stockholders be called only by the board of directors;
- availability of "blank check" preferred stock.

WE DO NOT ANTICIPATE PAYING DIVIDENDS.

We have not paid dividends on our common stock and we do not anticipate paying dividends in the foreseeable future. We intend to retain future earnings, if any, to finance the expansion of our operations and for general corporate purposes, including future acquisitions. In addition, our credit agreement and senior subordinated notes prohibit us from paying dividends on our capital stock.

Item 2. ***Properties***

A summary of our leased properties is as follows:

Location	Description	Area (Sq. Ft.)	Lease Expiration
Rancho Dominguez, CA	Warehouse	340,672	October 31, 2002
Mira Loma, CA	Warehouse and distribution facility	216,300	October 30, 2007
Elizabeth, NJ	Warehouse	188,000	October 31, 2004
Harrison, NJ	Warehouse and sales office	146,555	May 31, 2002
Lake Forest, IL	Corporate offices and showrooms	58,680	September 30, 2011
McColl, SC	Warehouse	52,628	October 15, 2001
Maxton, NC	Warehouse	50,000	March 14, 2002
Gurnee, IL	Retail outlet and warehouse	34,649	November 30, 2006
Laurinburg, NC	Warehouse	18,000	Month to month
Kenilworth, NJ	Marketing and sales office	12,309	September 30, 2007
New York, NY	Sales office	6,959	August 31, 2004
New York, NY	Sales office	6,802	December 31, 2001
High Point, NC	Showroom	4,500	Month to month
Westend, NJ	Retail outlet	2,400	May 31, 2004
Mississauga, Ontario	Sales Office	2,158	April 30, 2002
Troy, MI	Sales office	1,435	May 31, 2004
Eden Prairie, MN	Sales office	1,262	April 30, 2005
Laurinburg, NC	Showroom	1,000	Month to month
Chicago, IL	Retail store	560	October 31, 2007

We own all of the facilities listed below, which we acquired in connection with the acquisition of Pifco Holdings PLC in June 2001 and Toastmaster in January 1999. These facilities have been pledged as collateral to secure payment of our senior debt obligations. The following table sets forth the location and approximate square footage of each of our significant owned facilities.

Location	Description Area	(Sq. Ft.)
Wolverhampton, England	Manufacturing and warehouse	323,306
Laurinburg, NC	Sales and warehouse facility	223,000
Macon, MO	Warehouse and service center	171,000
Boonville, MO	Warehouse and service center	169,000
Manchester, England	Administrative offices and warehouse	168,000
Moberly, MO	Warehouse	134,000
Staffordshire, England	Warehouse	115,000
Kirksville, MO	Warehouse	114,000
Columbia, MO	Warehouse	107,000
Columbia, MO	Warehouse	65,000
Columbia, MO	Administrative offices	62,000
Boonville, MO	Warehouse	58,000
Manchester, England	Factory Store	2,000

We believe that our facilities generally are suitable and adequate for our current level of operations and provide sufficient capacity for our foreseeable needs without the need for material capital expenditures.

In addition to the facilities mentioned above, we acquired 6.3 acres of vacant land located in Manchester, England as part of our acquisition of Pifco Holdings PLC in June 2001.

Item 3. ***Legal Proceedings***

General

In September 1999, Linda Evans Fitness Centers, Inc. (the "Fitness Centers"), Mark Golub and Thomas Gergley filed suit against us and our principal executive officers in the Superior Court of Contra Costa County, California alleging that we 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 us, 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. We believe that we have valid defenses against the claims made against us by the Fitness Centers.

On January 23, 2001, we filed a lawsuit against Applica, Inc. (formerly known as Windmere-Durable Holdings, Inc.) and its affiliate in the United States District Court for the Northern District of Illinois. The lawsuit alleges that Applica intentionally, willfully and maliciously breached its noncompetition agreement with us, attempted to conceal the breach, tortiously interfered with our business and contractual relationships and breached its duty of good faith and fair dealing. The lawsuit seeks compensatory damages, punitive damages and attorneys' fees and costs. As a result of Applica's actions, we have terminated an agreement which requires us to pay Applica a fee based upon our net sales less specified costs and expenses relating to our supply agreement with Kmart. The terms of the agreement between the Company and Applica expressly provide for termination upon a violation by Applica of its noncompetition provisions. In March 2001, Applica filed an answer with the court.

On July 2, 2001, we were served with a complaint for patent infringement alleged by AdVantage Partners LLC in the United States District Court for the Central District of California. In this complaint, AdVantage alleged that we and retailers that sell our "George Foreman Jr." rotisserie grills were infringing two of AdVantage's patents. AdVantage sought a permanent injunction against sale of George Foreman rotisserie grills utilizing the inventions claimed by those patents and unspecified monetary damages including a request for treble damages. These patents relate to accessory products for rotisserie ovens including spit rod and basket assemblies. We filed an answer and counterclaim denying the allegations of the complaint and asserting a number of affirmative defenses and request for declaratory relief. AdVantage had also sought preliminary injunctive relief; however, on August 24, 2001, the court denied AdVantage's motion. On August 28, 2001, AdVantage filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit to review the preliminary injunction.

On August 9, 2001, AdVantage Partners LLC filed a second complaint against us for patent infringement in the United States District Court for the Central District of California. In this complaint, AdVantage alleges that we have infringed a patent assigned to AdVantage, and seeks a permanent injunction against our sale of the "Baby George Foreman" rotisserie grill, which purportedly utilizes an invention claimed by that patent, and unspecified monetary damages including a request for treble damages. The patent relates to a gear driven spit assembly for rotisserie ovens. We filed an answer and counterclaim denying the allegations of the complaint and asserting a number of affirmative defenses and request for declaratory relief.

We are a party to various other actions and proceedings incident to our normal business operations. We believe that the outcome of any litigation will not have a material adverse effect on our business, financial condition or results of operations. We also have product liability and general liability insurance policies in amounts we believe to be reasonable given our current level of business. Although historically we have not had to pay any material product liability claims, it is conceivable that we could incur claims for which we are not insured.

Environmental

We are participating in environmental remediation activities at four sites which we own or operate. As of June 30, 2001, we have accrued approximately $150,000 for the anticipated costs of investigation, remediation and/or operation and maintenance costs at these sites. Although the costs could exceed that amount, we believe that any excess will not have a material adverse effect on our financial condition or results of operations.

Regulatory

In July 2000, we received a letter from the Food and Drug Administration warning that our marketing and sale of the Rejuvenique® facial mask violates certain FDA rules and regulations. On August 8, 2001, the FDA granted us clearance to market our Rejuvenique® facial toning system directly to consumers.

Item 4. ***Submission of Matters to Vote of Security Holders***

(a) Not applicable

(b) Not applicable

(c) Not applicable

(d) Not applicable

PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

The registrant'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". The following table sets forth, for the periods indicated, the high and low sales prices for the common stock as reported on the Nasdaq National Market prior to February 26, 1999 and on the New York Stock Exchange after such date, in each case adjusted for the three-for-two stock split effected on July 28, 1999.

	High	Low
FISCAL 2001		
First Quarter	$ 41.50	$ 28.63
Second Quarter	$ 33.38	$ 16.56
Third Quarter	$ 23.00	$ 14.96
Fourth Quarter	$ 21.80	$ 12.85
FISCAL 2000		
First Quarter	$ 50.00	$ 21.69
Second Quarter	$ 39.44	$ 24.25
Third Quarter	$ 60.88	$ 27.69
Fourth Quarter	$ 49.81	$ 26.88
FISCAL 1999		
First Quarter	$ 11.17	$ 7.67
Second Quarter	$ 15.50	$ 5.92
Third Quarter	$ 22.83	$ 14.00
Fourth Quarter	$ 33.58	$ 14.67

We have not paid dividends on our common stock and we do not anticipate paying dividends in the foreseeable future. We intend to retain future earnings, if any, to finance the expansion of our operations and for general corporate purposes, including future acquisitions. We are also prohibited from declaring or paying cash dividends on our capital stock under our terms of our credit agreement and senior subordinated notes. As of September 20, 2001, there were approximately 347 holders of record of our common stock.

Preferred Stock

We have 40,000 outstanding shares of the convertible preferred stock. The convertible preferred stock is generally non-dividend bearing; however, if we breach in any material respect any of our material obligations in the preferred stock agreement or the certificate of incorporation relating to the convertible preferred stock, the holders of convertible preferred stock are entitled to receive quarterly cash dividends on each share of convertible preferred stock from the date of such breach until it is cured at a rate per annum equal to 12 1/2% of the Liquidation Preference (as defined below). The payment of dividends is limited by the terms of our credit agreement.

Each holder of the convertible preferred stock is generally entitled to one vote for each share of Salton common stock which such holder could receive upon the conversion of the convertible preferred stock. Each share of convertible preferred stock is convertible at any time into that number of shares of Salton common stock obtained by dividing $1,000 by the Conversion Price in effect at the time of conversion. The "Conversion Price" is equal to $11.33, subject to certain anti-dilution adjustments.

In the event of a Change of Control (as defined), each holder of shares of convertible preferred stock has the right to require us to redeem such shares at a redemption price equal to the Liquidation Preference plus an amount equivalent to interest accrued thereon at a rate of 7% per annum compounded annually on each anniversary date of July 28, 1998 for the period from July 28, 1998 through the earlier of the date of such redemption or July 28, 2003.

In the event of a liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Convertible Preferred Stock are entitled to be paid out of the assets of the Company available for distribution to its stockholders an amount in cash equal to $1,000 per share, plus the amount of any accrued and unpaid dividends thereon (the "Liquidation Preference"), before any distribution is made to the holders of any Salton common stock or any other of Salton's capital stock ranking junior as to liquidation rights to the convertible preferred stock.

We may optionally convert in whole or in part, the convertible preferred stock at any time on and after July 15, 2003 at a cash price per share of 100% of the then effective Liquidation Preference per share, if the daily closing price per share of Salton's common stock for a specified 20 consecutive trading day period is greater than or equal to 200% of the then current Conversion Price. On September 15, 2008, we will be required to exchange all outstanding shares of convertible preferred stock at a price equal to the Liquidation Performance per share, payable at the Company's option in cash or shares of Salton common stock.

As of September 21, 2001, there were 40,000 shares of the convertible preferred stock outstanding held by 7 shareholders of record. There is no established market for the convertible preferred stock.

Item 6. ***Selected Financial Data***

The following selected historical financial data as of and for the fiscal years ended June 30, 2001, July 1, 2000, June 26, 1999, June 27, 1998 and June 28, 1997 have been derived from, and should be read in conjunction with, our audited consolidated financial statements, including the notes thereto. All of the following information is qualified in its entirety by, and should be read in conjunction with our audited consolidated financial statements, including the notes thereto.

	Fiscal Years Ended				
	June 30, 2001	July 1, 2000	June 26, 1999	June 27, 1998	June 28, 1997
STATEMENT OF EARNINGS:					
Net sales	$ 792,114	$ 837,302	$ 506,116	$ 305,599	$ 182,806
Cost of goods sold	474,256	467,250	285,526	179,376	121,590
Distribution expenses	49,395	37,639	21,621	12,327	7,809
Gross profit	268,463	332,413	198,969	113,896	53,407
Selling, general and administrative expenses	156,885	156,749	129,588	84,216	42,944
Operating income	111,578	175,664	69,381	29,680	10,463
Interest expense, net	(37,732)	(28,761)	(15,518)	(5,333)	(4,063)
Cost associated with refinancing	--	--	--	(1,133)	--
Realized gain on sale of marketable securities	--	--	--	8,972	--
Income before income taxes	73,846	146,903	53,863	32,186	6,400
Income tax expense	27,692	55,087	19,320	12,205	2,001
Net income	$ 46,154	$ 91,816	$ 34,543	$ 19,981	$ 4,399
Weighted average common shares outstanding	11,750	11,221	10,760	19,594	19,260
Net income per share:					
Basic	$ 3.93	$ 8.18	$ 3.21	$ 1.02	$ 0.23
Weighted average common shares and common equivalent shares outstanding	16,065	15,526	14,562	20,259	19,623
Net income per share:					
Diluted	$ 2.87	$ 5.91	$ 2.37	$ 0.99	$ 0.22
BALANCE SHEET DATA (AT PERIOD END):					
Working capital	$ 310,648	$ 197,671	$ 165,936	$ 44,768	$ 17,996
Total assets	722,884	564,276	328,316	141,397	102,343
Total debt	423,366	327,220	214,558	50,475	43,410
Stockholders' equity	211,497	173,808	50,739	57,710	38,622

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

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 we believe that our expectations are based on reasonable assumptions, we can give no assurance that our 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: our degree of leverage; economic conditions and the retail environment; the timely development, introduction and customer acceptance of our products; competitive products and pricing; dependence on foreign suppliers and supply and manufacturing constraints; our relationship and contractual arrangements with key customers, suppliers and licensors; cancellation or reduction of orders; international business activities; the risks relating to legal proceedings, the risks relating to intellectual property rights; the risks relating to regulatory matters, as well as other risks referenced from time to time in our filings with the commission. All subsequent written and oral forward-looking statements attributable to us or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. We do 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

We are a leading domestic designer, marketer and distributor of a broad range of branded, high quality small appliances under well-recognized brand names such as Salton®, George Foreman™, Toastmaster®, Breadman®, Juiceman®, Juicelady®, White-Westinghouse®, Farberware®, Melitta®, Welbilt®, Aircore®, Russell Hobbs®, Tower®, Haden® and Pifco®. We believe that we have the leading domestic market share in indoor grills, toasters, juice extractors, bread makers, griddles, waffle makers and buffet ranges/hotplates and a significant market share in other product categories. We outsource most of our production to independent manufacturers, primarily in the Far East. We also design and market tabletop products, time products, lighting products and personal care and wellness products under brand names such as Block China®, Atlantis® Crystal, Sasaki®, Calvin Klein®, Timex®, Ingraham®, Westclox®, Big Ben®, Spartus®, Stiffel®, Ultrasonex™, Relaxor®, Carmen®, Hi-Tech®, Mountain Breeze® and Salton®.

We predominantly sell our products to mass merchandisers, department stores, specialty stores and mail order catalogs. We also sell certain of our products directly to consumers through infomercials and our Internet website. We market and sell our products primarily in the United States through our own sales force and a network of independent commissioned sales representatives.

The general slowdown in the retail sector which began during our second fiscal quarter of 2001 has continued to have an adverse effect on our sales. During our fourth fiscal quarter of 2001 we experienced a shift in our customers' buying patterns from higher-priced products to lower price point products. Our wide range of products at different price points has allowed us to adapt to this shift in buying patterns. This shift to lower priced products also lowered gross margins as opening and mid-price point products generally have lower gross margins than our higher price point products. Our products, and our market leading position in so many categories, gives us a solid foundation to actively face the difficult economic environment.

With the assumption that the economic climate and customer buying patterns will remain unchanged, we expect that sales over the first two quarters of fiscal 2002 will range between $450 million and $475 million in an operating environment that will be highly promotional and price sensitive. At these levels, we currently anticipate that fully diluted earnings per share will range between $1.80 and $2.20 per share for this period.

On January 7, 1999, we acquired Toastmaster, a Columbia, Missouri based marketer of kitchen and small appliances and time products. Through Toastmaster, we design, market and service a wide array of kitchen and small appliances and time products under the brand names Toastmaster® and Ingraham®.

Our operating results for fiscal 1999 include the operating results of Toastmaster from our acquisition date of January 7, 1999.

In July 2000, we received a letter from the Food and Drug Administration warning us that our marketing and sale of the Rejuvenique® facial mask violates certain FDA rules and regulations. Our sales of the Rejuvenique® facial mask have been adversely impacted because many of our retail customers decided to stop selling the product pending the resolution of this matter. On August 8, 2001, the FDA granted us clearance to market the Rejuvenique® facial toning system directly to consumers. We are working with our retail customers to restore their inventories of the Rejuvenique® facial toning system.

On June 4, 2001, we acquired Pifco Holdings PLC, a United Kingdom based producer and marketer of a broad range of branded kitchen and small appliances, personal care and wellness products, cookware and battery operated products. Our operating results for fiscal 2001 include the operating results of Pifco from June 1, 2001 through June 30, 2001.

On July 9, 2001 we announced the appointment of Dr. Bruce J. Walker to our Board of Directors, increasing the board to eight members. Dr. Walker currently serves as Dean and Professor of Marketing at the College of Business at the University of Missouri-Columbia.

In August 2001 we appointed Martin Burns to oversee the operations of Salton Europe (formerly Pifco Holdings PLC). Martin most recently served as Managing Director of Morphy Richards at the Glen Dimplex Group, a manufacturer of electrical heating and small kitchen appliances in the United Kingdom.

The following table sets forth our results of operations as a percentage of net sales for the periods indicated:

	Fiscal Year Ended		
	June 30, 2001	July 1, 2000	June 26, 1999
Net sales	100%	100.0%	100.0%
Cost of Goods sold	59.9	55.8	56.4
Distribution expenses	6.2	4.5	4.3
Gross profit	33.9	39.7	39.3
Selling, general and administrative expenses	19.8	18.7	25.6
Operating income	14.1%	21.0%	13.7%

Year Ended June 30, 2001 Compared to Year Ended July 1, 2000

Net Sales. Net sales in the fifty-two weeks ended June 30, 2001 ("fiscal 2001") were $792.1 million, a decrease of approximately $45.2 million or 5.4%, compared to net sales of $837.3 million in the fifty-three weeks ended July 1, 2000 ("fiscal 2000"). This decrease is primarily attributable to reduced sales of products under the White-Westinghouse® product line, primarily sold to Kmart, and reduced sales of products under the Rejuvenique® brand, which was subject to a warning letter from the FDA during the period. We were additionally impacted by reduced sales of products under the brands of Juiceman®, Farberware®, Breadman®, Magic Chef®, and Ingraham®. These decreases in sales were partially offset by an increase in sales of products under the Melitta® brand, Toastmaster® brand, the George Foreman® brand and the Kenmore® brand. Sales of new product lines, primarily under the Relaxor®, Sonex®, Aircore®, Welbilt® and Stiffel® brands and the addition of one month's results of newly acquired Pifco Holdings PLC, also helped offset the sales decreases. Net sales of the White-Westinghouse® brand to Kmart approximated 3.8% of net sales in fiscal 2001 compared to 7.3% of net sales in fiscal 2000.

Gross Profit. Gross profit in fiscal 2001 was $268.5 million or 33.9% of net sales as compared to $332.4 million or 39.7% of net sales in fiscal 2000. Cost of goods sold during fiscal 2001 increased to 59.9% of net sales compared to 55.8% in fiscal 2000. Gross profit decreased primarily from a reduction in sales of higher priced items with higher gross margins, particularly large and extra large size George Foreman™ indoor grills, Rejuvenique®, Juiceman® and Juicelady® brand products. We also had increased sales of products with lower gross margins, primarily Toastmaster® brand products. Distribution expenses were $49.4 million or 6.2% of net sales in fiscal 2001 compared to $37.6 million or 4.5% of net sales in fiscal 2000. Distribution expenses increased, as a percentage of sales, due to higher costs for shipping to customers, primarily due to higher fuel costs and an increase in sales to customers purchasing on prepaid freight terms that ordered in smaller quantities on a more frequent basis, thereby increasing our freight costs. Additionally we incurred a full year of expenses in fiscal 2001 related to the addition of two warehouses during fiscal 2000 and two former manufacturing facilities were converted to distribution centers and are now carried in distribution costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to 19.8% of net sales or $156.9 million in fiscal 2001 compared to 18.7% of net sales or $156.7 million for fiscal 2000. Expenditures for television, royalty expense, certain other media and cooperative advertising and trade show expenses were 9.9% of net sales or $78.5 million in fiscal 2001 compared to 10.7% of net sales or $89.7 million in fiscal 2000. This reduction was primarily from less spending on infomercials, as well as lower royalties on White-Westinghouse products, partially offset by increased spending on cooperative and direct advertising. The remaining selling, general and administrative costs increased to $78.4 million or 9.9% of net sales in fiscal 2001 compared to $67.0 million or 8.0% of net sales in fiscal 2000. This was primarily attributable to increased salaries, rent, travel and product development costs to support our sales activities, increased legal expenses and settlement costs, primarily related to

Rejuvenique® and the FDA, patent infringement claims and other corporate activities and increases in certain other administrative expenses to support the activities of the company.

Operating Income. As a result of the foregoing, operating income decreased by $64.1 million or 36.5%, to $111.6 million in fiscal 2001 from $175.7 million in fiscal 2000. Operating income as a percentage of net sales decreased to 14.1% in fiscal 2001 from 21.0% in fiscal 2000.

Net Interest Expense. Net interest expense was $37.7 million for fiscal 2001 compared to $28.8 million in fiscal 2000. The increase is primarily attributable to interest paid of $5.1 million on increased borrowings under our revolver and term debt, interest of $3.0 million related to the $150.0 million senior subordinated debt offering completed in April, 2001 and a reduction in interest income of $1.8 million for funds kept on deposit during fiscal 2000. Salton's rate of interest on amounts outstanding under the revolver, term loan and senior subordinated debt was a weighted average annual rate of 9.8% in fiscal 2001 compared to 10.0% in fiscal 2000. The average amount of all debt outstanding was $369.8 million for fiscal 2001 compared to $279.5 million for fiscal 2000. These increases contributed to higher interest expense and the increased borrowings were used to make acquisitions and provide working capital necessary to support the business.

Income Tax Expense. Salton had tax expense of $27.7 million in fiscal 2001 as compared to tax expense of $55.1 million in fiscal 2000.

Net Income. Net income decreased 49.7% to $46.2 million in fiscal 2001, compared to $91.8 million in fiscal 2000.

Earnings Per Share. Basic earnings per common share were $3.93 per share on weighted average common shares outstanding of 11,750,206 in fiscal 2001 compared to earnings of $8.18 per share on weighted average common shares outstanding of 11,221,379 in fiscal 2000. Diluted earnings per common share were $2.87 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 16,065,036 in fiscal 2001 compared to earnings of $5.91 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 15,525,991 in fiscal 2000. 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 July 1, 2000 Compared to Year Ended June 26, 1999

Net Sales. Net sales in the fifty-three weeks ended July 1, 2000 ("fiscal 2000") were $837.3 million, an increase of approximately $331.2 million or 65.4%, compared to net sales of $506.1 million in the fifty-two weeks ended June 26, 1999 ("fiscal 1999"). This increase is primarily attributable to increased sales of products within the George Foreman® product line, including the initial shipments of the George Foreman indoor/outdoor electric grills, sales of Toastmaster® products for a full fiscal year, and sales of Farberware®, Juicelady® and Juiceman® products. Net sales of the White-Westinghouse® brand and other products to Kmart approximated 12% of net sales in fiscal 2000 compared to 16% of net sales in fiscal 1999.

Gross Profit. Gross profit in fiscal 2000 was $332.4 million or 39.7% of net sales as compared to $199.0 million or 39.3% of net sales in fiscal 1999. Cost of goods sold during fiscal 2000 decreased to 55.8% of net sales compared to 56.4% in fiscal 1999. Distribution expenses were $37.6 million or 4.5% of net sales in fiscal 2000 compared to $21.6 million or 4.3% of net sales in fiscal 1999. Distribution expenses increased slightly as a percentage of sales due to higher costs for shipping to customers, primarily due to higher fuel costs and expenses related to the addition of two warehouses during fiscal 2000. Gross profit in fiscal 2000 as a percentage of net sales increased primarily due to a more favorable mix of sales with lower costs in their respective channels of distribution when compared to fiscal 1999.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to 18.7% of net sales or $156.7 million in fiscal 2000 compared to 25.6% of net sales or $129.6 million for fiscal 1999. Expenditures for television, royalty expense, certain other media and cooperative advertising and trade show expenses were 10.7% of net sales or $89.7 million in fiscal 2000 when compared to 17.4% of net sales or $88 million in fiscal

1999. The effect of the acquisition of the George Foreman name related to fiscal 2000 was the elimination of royalty payments partially offset by amortization expense of $8.1 million and imputed interest of $6.3 million, compared to payments of royalties of $38.3 million in fiscal 1999. The remaining selling, general and administrative costs increased to $67 million or 8% of net sales in fiscal 2000 compared to $41.6 million or 8.2% of net sales in fiscal 1999, primarily attributable to higher costs related to the higher level of sales.

Operating Income. As a result of the foregoing, operating income increased by $106.3 million or 153.2%, to $175.7 million in fiscal 2000 from $69.4 million in fiscal 1999. Operating income as a percentage of net sales increased to 21.0% in fiscal 2000 from 13.7% in fiscal 1999.

Net Interest Expense. Net interest expense was approximately $28.8 million for fiscal 2000 compared to $15.5 million in fiscal 1999. The increase is primarily attributable to imputed interest of $6.3 million on the George Foreman note payable and a full year of actual interest of $11.1 million on debt incurred to complete the Toastmaster acquisition compared to $5.1 million of interest expense from the January 7, 1999 completion date of the Toastmaster acquisition. Salton's rate of interest on amounts outstanding under the revolver, term loan and senior subordinated debt was a weighted average annual rate of 10.0% in fiscal 2000 compared to 9.2% in fiscal 1999. The average amount of all debt outstanding was $279.5 million for fiscal 2000 compared to $155.7 million for fiscal 1999. These increases contributed to higher interest expense and the increased borrowings were used to provide working capital necessary to support the growth in sales.

Income Tax Expense. Salton had tax expense of $55.1 million in fiscal 2000 as compared to tax expense of $19.3 million in fiscal 1999.

Net Income. Net income increased 165.8% to $91.8 million in fiscal 2000, compared to $34.5 million in fiscal 1999.

Earnings Per Share. Basic earnings per common share were $8.18 per share on weighted average common shares outstanding of 11,221,379 in fiscal 2000 compared to earnings of $3.21 per share on weighted average common shares outstanding of 10,760,455 in fiscal 1999. Diluted earnings per common share were $5.91 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 15,525,991 in fiscal 2000 compared to earnings of $2.37 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 14,561,964 in fiscal 1999. 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 2001, we provided net cash of $44.1 million in operating activities and used net cash of $98.0 million in investing activities. The cash provided from operating activities resulted primarily from net income, the reduction of inventory levels in fiscal 2001, as compared to fiscal 2000, as well as lower anticipated sales levels during the next several quarters and non cash expenses for depreciation, amortization and imputed interest on notes that carry lower than market interest charges. These sources of cash were partially offset by an increase in accounts receivable. This increase was caused by a significant reduction of sales of White-Westinghouse® brand products, generally sold to K-Mart on 10 day terms, and sales made to certain credit worthy customers on longer terms, generally 30 days to 60 days longer than their normal sales terms, as an inducement to keep stores stocked with merchandise. In addition, we experienced a shift in sales mix to customers that generally receive longer terms on a regular basis. Income tax payments also were higher as estimated payments made earlier in the year did not anticipate the loss experienced in the fourth quarter. These prepaid taxes of $14.9 million will be used to offset taxes for the year ended June 29, 2002 ("fiscal 2002") or will be refunded in fiscal 2002. Cash used in investing activities included $63.6 million related to the acquisitions of Pifco Holdings PLC and Sonex International Corp., and $11.4 million for certain ongoing product development activities, the buyout for $5.3 million of the Juiceman® brand name, cash payments related to the acquisition of Stiffel lamps, as well as increased investments in capital assets, primarily tooling. Additional cash of approximately $10 million will be expended in fiscal 2002 to complete the acquisition of Pifco Holdings PLC. Financing activities provided net cash of $76.4 million.

At June 30, 2001, we had debt outstanding of $423.4 million, including $148.3 million of 12 1/4% senior subordinated notes due 2008, $125.0 million of 10 3/4% senior subordinated notes due 2005, $85.6 million outstanding under our amended and restated credit agreement (exclusive of unused commitments of up to $97.3 million under the revolving credit facility) and $17.7 million related to the loan notes issued in the Pifco Holdings PLC acquisition. The loan notes are shown on the balance sheet at a present value of $11.3 million to reflect the below market interest on the loan notes. The loan notes are cash collateralized at a bank in the United Kingdom. At June 30, 2001, we had the ability to borrow up to an additional $97.3 million under our revolving credit facility. Typically, given the seasonal nature of our business, our borrowings tend to be the highest in mid-fall and early winter.

In the quarter ended December 25, 1999, we acquired, effective July 1, 1999, the right to use in perpetuity and worldwide the name George Foreman™ in connection with the marketing and sale of food preparation and non-alcoholic drink preparation and serving appliances. The aggregate purchase price payable to George Foreman and other venture participants was $137.5 million, of which $22.75 million was paid in cash and the remainder was paid through the issuance by us of 779,191 shares of our common stock and a $91.0 million non-interest bearing subordinated promissory note. We paid the first installment in cash to George Foreman during fiscal 2001, as well as issued stock to the other venture participants as described in the following paragraph. The note, as of June 30, 2001, has a face amount of $48.3 million, and is recorded at its present value of $43.2 million. The effect of the George Foreman transaction was an elimination of substantial royalty expense.

On September 7, 2000 we announced that we had reached an agreement to satisfy payment obligations of $22.75 million under the note by issuing 621,161 shares of our common stock to George Foreman and other venture participants. We agreed, under certain circumstances, to guarantee the value of these shares. We registered for resale the shares of common stock issued to George Foreman and the other venture participants.

On July 2, 2001, we took back 456,175 of the 546,075 shares issued to George Foreman on September 7, 2000 and paid him $18 million. This payment, which represented $20 million less the proceeds George Foreman received from the sale of shares on the open market previously issued to him, terminated our guarantee obligation with respect to the shares issued to him and satisfied the third annual installment due under the note payable to George Foreman. As a result of this transaction, we now have only two installments remaining under the note as well as our outstanding guarantee obligation to the other venture participants.

During the fiscal quarter ended December 25, 1999, we amended and restated our credit agreement among us, Lehman Brothers Inc., as arranger, Lehman Commercial Paper Inc., as administrative agent, and a syndicate of banks. We increased our existing revolving credit facility from $80.0 million to $115.0 million. The amended and restated credit agreement provided for $160.0 million in a senior secured credit facility consisting of a $45.0 million term loan at an established base rate (equivalent to the prime rate of interest) plus an applicable margin of 225 basis points or, at our 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 $115.0 million revolving credit facility at an established base rate (equivalent to the prime rate of interest) plus an applicable margin or, at our election, a eurodollar rate (equivalent to the LIBOR rate) plus an applicable margin based on a range of ratios of total debt to earnings before interest, taxes, depreciation and amortization maturing on January 7, 2004. The amended and restated credit agreement is secured by a first lien on substantially all of our assets. Credit availability is based on a formula related to trade accounts receivable, inventories and outstanding letters of credit.

During the fiscal quarter ended September 30, 2000, we further amended and restated our credit agreement. The amended and restated credit agreement increased the senior secured credit facilities to an aggregate of $235.0 million, consisting of a $75.0 million term loan amortizing over sixteen consecutive quarterly installments commencing on March 31, 2001 and a $160.0 million revolving credit facility maturing on January 7, 2004. The term loan and revolving credit facility bear interest at an established base rate (equivalent to the prime rate of interest) or, at our election, a eurodollar rate (equivalent to the LIBOR rate), plus in either case an applicable margin based on total debt to earnings before interest, taxes, depreciation and amortization.

Our principal uses of liquidity will be to meet debt service requirements, pay royalties and other fees under our license and other agreements, finance our capital expenditures and possible acquisitions and fund working capital.

We expect that ongoing requirements for debt service, royalty payments, capital expenditures, potential acquisitions and working capital will be funded by internally generated cash flow and borrowings under our amended and restated credit agreement. We anticipate capital expenditures of approximately $16 million and $18 million for fiscal years 2002 and 2003. We incurred approximately $9.6 million for capital expenditures during fiscal 2001.

Our senior credit facilities contain a number of significant covenants that, among other things, restrict our ability 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 otherwise restrict our corporate and business activities. In addition, under the senior credit facilities, we are 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.

The indenture governing our 12 1/4% senior subordinated notes and 10 3/4% senior subordinated notes contains, covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to incur additional indebtedness and issue preferred stock, pay dividends or make certain other restricted payments, create certain liens, enter into certain transactions with affiliates, enter into sale and lease-back transactions, sell assets or enter into certain mergers and consolidations.

Our ability to make scheduled payments of principal of, or to pay the interest or liquidated damages, if any, on, or to refinance, indebtedness (including the notes), to pay royalties and other fees under our license and other agreements or to fund planned capital expenditures and/or possible acquisitions, will depend upon our future performance, which, in turn, is subject to general economic, financial, competitive and other factors that are beyond our control. Based upon our current level of operations and anticipated growth, we believe that future cash flow from operations, together with available borrowings under our amended and restated credit agreement, and other sources of debt fundings, will be adequate to meet our anticipated requirements for capital expenditures, potential acquisitions, royalty payments, working capital, interest payments and scheduled principal payments. We cannot assure you that our business will continue to generate sufficient cash flow from operations in the future to service our debt and make necessary capital expenditures after satisfying certain liabilities arising in the ordinary course of business. If unable to do so, we may be required to refinance all or a portion of our existing debt, including the notes, sell assets or obtain additional financing. We cannot assure you that any refinancing would be available or that any sales of assets or additional financing could be obtained.

Seasonality

Our business is highly seasonal, with operating results varying from quarter to quarter. We have historically experienced higher sales during the months of August through November primarily due to increased demand by customers for our products attributable to holiday sales. This seasonality has also resulted in additional interest expense to us 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.

Effects of Inflation and Foreign Currency Exchange

Our results of operations for the periods discussed have not been significantly affected by inflation or foreign currency fluctuation. We generally negotiate our purchase orders with our foreign manufacturers in United States dollars. Thus, our 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.

Accounting Pronouncements

During the first quarter of fiscal year 2001, we adopted Statement of Financial Accounting Standards Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). SFAS No. 133 sets forth accounting and reporting standards for derivative instruments and hedging activities, requiring recognition of

all derivative instruments (including certain derivatives embedded in other contracts) as either assets or liabilities in the balance sheet measured at fair value. SFAS No. 133 also establishes criteria for a derivative to qualify as a hedge for accounting purposes. The adoption of SFAS No. 133 did not affect our consolidated financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and other Intangible Assets". The guidance in SFAS No. 141 supersedes Accounting Principles Board Opinion No. 16, "Business Combinations" and is applicable to business combinations initiated after June 30, 2001. Upon adoption of SFAS No. 142, goodwill will cease to be amortized and will instead be subject to periodic impairment reviews as set forth in the new standard. We are currently evaluating the Statement's impairment provisions and have not yet determined what effect, if any, they might have on our consolidated financial position and results of operations.

We have approximately $43.3 million in goodwill recorded in our consolidated balance sheet as of June 30, 2001. Under the provisions of SFAS No. 142, goodwill will cease to be amortized for fiscal years beginning after December 15, 2001 (fiscal year 2003 for the Company.) We recorded approximately $.7 million in amortization expense related to goodwill in fiscal 2001. We will also assess the useful lives of our patents and trademarks for indefinite economic useful lives, which will also cease to be amortized under SFAS No. 142. We have $132.1 million of patents and trademarks as of June 30, 2001 and recorded $9.8 million of related amortization expense. We intend to adopt SFAS No. 142 for the 2003 fiscal year.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risks***

Our major market risk exposure is changing interest rates in the United States. Our policy is to manage interest rates through the use of a combination of fixed and variable rate debt.

On June 4, 2001 we entered into a $150 million Notional Amount fixed-for-floating interest rate swap agreement for First Union National Bank, related to our $150 million 12 1/4% senior subordinated notes due 2008. The interest rate swap agreement provides that floating rate payments of LIBOR plus an agreed upon spread will be exchanged for fixed payments at a rate of 12 1/4% with the floating rate payments initially set at approximately 10.5%. The floating rate will be reset at each semi-annual interest payment date of the 12 1/4% senior subordinated notes. After execution of the interest rate swap, approximately 30% of the outstanding indebtedness will be fixed rate debt at a rate of 10 3/4% through December 15, 2005.

The following tables provide information about our market sensitive financial instruments and constitutes a "forward-looking statement." Our major risk exposure is changing interest rates in the United States. Our policy is to manage interest rates through the use of a combination of fixed and variable rate debt. The fair value of our 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.

(Dollars in thousands)

	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
FISCAL YEAR 2001								
Liabilities:								
Revolver	$20,000						$ 20,000	$20,000
Average interest rates	8.79%							
Jr. subordinated note payable			$ 13,406				$ 13,406	$ 9,864
Average interest rate			8.00%					
Foreman note payable	$ 2,750	$ 22,750	$ 22,750				$ 48,250	$43,246
Average interest rate	8.5%	8.5%	8.5%					
Other notes payable	$ 30	$ 5					$ 35	$ 35
Average interest rate	5.37%	5.37%						
Long-term debt including current portion fixed rate amount				$125,000		$150,000	$275,000	$273,325
Average interest rate				10.75%		12.25%		
Variable rate amount	$18,750	$ 18,750	$ 18,750	9,375		(3)	$ 65,622	$65,625
Average interest rates	8.91%	(2)	(2)	(2)				

	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
FISCAL YEAR 2000								
Liabilities:								
Revolver	$68,000						$ 68,000	$68,000
Average interest rates	8.73%							
Jr. subordinated note payable				$ 13,406			$ 13,406	$ 9,015
Average interest rate				8.0%				
Foreman note payable	$45,500	$ 22,750	$ 22,750				$ 91,000	$80,854
Average interest rate	8.5%	8.5%	8.5%					
Other notes payable	$ 62	$ 35	$ 4				$ 101	$ 101
Average interest rate	5.37%	5.37%	5.37%					
Long-term debt including current portion fixed rate amount				$	125,000	$	125,000$	125,000
Average interest rate					10.75%			
Variable rate amount	$ 375	$ 500	$ 500	$ 11,000	$31,875		$ 44,250	$44,250
Average interest rates	9.77%	(1)	(1)	(1)	(1)			

---

(1) The variable rate $45.0 million Term Loan is set quarterly 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.

(2) The variable rate $75.0 million Term Loan is set periodically at an established base rate (equivalent to the prime rate of interest) plus an applicable margin of 125 basis points or, at the Company's election, a Eurodollar rate plus an applicable margin of 225 basis points.

(3) At June 30, 2001 the Company had an interest rate swap contract to pay a variable-rate interest of three-month LIBOR plus 6.13% and receive fixed-rate interest of 12.25% on $150 million notional amount of indebtedness.

ITEM 8. ***Financial Statements and Supplementary Data***

The following pages contain the Financial Statements and Supplementary Data as specified by Item 8 of Part II of Form 10-K

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Salton, Inc.
Lake Forest, Illinois

We have audited the accompanying consolidated balance sheets of Salton, Inc. (the "Company") as of June 30, 2001 and July 1, 2000 and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14 of the Annual Report on Form 10-K. These financial statements and the financial statement schedule 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 auditing standards generally accepted in the United States of America. 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 the Company as of June 30, 2001 and July 1, 2000 and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP

Chicago, Illinois
September 10, 2001

SALTON, INC.

CONSOLIDATED BALANCE SHEETS
June 30, 2001 and July 1, 2000
(In thousands except share data)

	2001	2000
ASSETS		
Current Assets:		
Cash	$ 30,097	$ 7,606
Accounts receivable, less allowance:		
2001 - $9,223; 2000 - $7,111	185,881	129,850
Inventories	192,502	219,230
Prepaid expenses and other current assets	10,100	10,146
Prepaid income taxes	14,907	--
Deferred income taxes	4,419	3,713
Total current assets	437,906	370,545
Property, Plant and Equipment:		
Land	3,768	1,625
Buildings	14,169	8,079
Molds and tooling	41,715	35,749
Warehouse equipment	8,939	7,061
Office furniture and equipment	16,116	9,373
	84,707	61,887
Less accumulated depreciation	(36,983)	(27,244)
Net Property, Plant and Equipment	47,724	34,643
Patents and Trademarks, Net of Accumulated Amortization	132,128	127,074
Cash in Escrow for Pifco Loan Notes	17,748	--
Other Intangibles, Net of Accumulated Amortization, and Other Non-current Assets	87,378	32,014
TOTAL ASSETS	$ 722,884	$ 564,276
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Revolving line of credit and other current debt	$ 41,530	$ 112,155
Accounts payable	33,450	35,113
Accrued expenses	32,908	21,028
Foreman guarantee	19,370	--
Income taxes payable	--	4,578
Total current liabilities	127,258	172,874
Non-Current Deferred Income Taxes	2,293	2,529
Senior Subordinated Notes due 2005	125,000	125,000
Senior Subordinated Notes due 2008	148,325	--
Loan Notes to Pifco Shareholders	11,271	--
Term Loan and Other Notes Payable	97,240	90,065
Total liabilities	511,387	390,468
Stockholders' Equity:		
Preferred stock, $.01 par value; authorized, 2,000,000 shares, 40,000 shares issued		
Common stock, $.01 par value; authorized, 40,000,000 shares; shares issued		
and outstanding: 2001 - 11,363,934 shares, 2000 - 11,351,927	144	135
Treasury stock - at cost	(47,865)	(30,211)
Additional paid-in capital	72,932	62,572
Accumulated other comprehensive income (loss)	(1,174)	6
Retained earnings	187,460	141,306
Total stockholders' equity	211,497	173,808
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 722,884	$ 564,276

See notes to consolidated financial statements.

SALTON, INC.

CONSOLIDATED STATEMENTS OF EARNINGS
Years Ended June 30, 2001, July 1, 2000, and June 26, 1999
(In thousands except per share data)

	2001	2000	1999
Net Sales	$ 792,114	$ 837,302	$ 506,116
Cost of Goods Sold	474,256	467,250	285,526
Distribution Expenses	49,395	37,639	21,621
Gross Profit	268,463	332,413	198,969
Selling, General and Administrative Expenses	156,885	156,749	129,588
Operating Income	111,578	175,664	69,381
Interest Expense, Net	(37,732)	(28,761)	(15,518)
Income Before Income Taxes	73,846	146,903	53,863
Income Tax Expense	27,692	55,087	19,320
Net Income	$ 46,154	$ 91,816	$ 34,543
Weighted Average Common Shares Outstanding	11,750	11,221	10,760
Weighted Average Common and Common Equivalent Shares Outstanding	16,065	15,526	14,562
Net Income Per Common Share: Basic	$ 3.93	$ 8.18	$ 3.21
Net Income Per Common Share: Diluted	$ 2.87	$ 5.91	$ 2.37

See notes to consolidated financial statements.

SALTON, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended June 26, 1999 through June 30, 2001
(In thousands)

	Common Shares Outstanding	Preferred Shares Outstanding	Common Stock	Preferred Stock	Additional Paid in Capital	Retained Earnings
BALANCE, JUNE 27, 1998	13,100		$ 130		$ 53,481	$ 14,947
Net income						34,543
Other comprehensive income:						
Minimum pension liability net of tax of $28						
Foreign currency translation						
Total comprehensive income						
Issuance of preferred stock		40			37,000	
Purchase of treasury stock	(6,535)					
Stock options exercised	270		3		1,487	
BALANCE, JUNE 26, 1999	6,835	40	133		91,968	49,490
Net income						91,816
3 for 2 stock split effective 7/28/99	3,417				(47,496)	
Other comprehensive income:						
Minimum pension liability net of tax of $28						
Foreign currency translation						
Total comprehensive income						
Issuance of common stock	942				16,625	
Stock options exercised	158		2		1,475	
BALANCE, JULY 1, 2000	11,352	40	135		62,572	141,306
Net income						46,154
Other comprehensive income:						
Minimum pension liability net of tax of $314						
Foreign currency translation						
Total comprehensive income						
Issuance of common stock	930		9		29,465	
Stock options exercised	24				265	
Foreman Additional Liability					(19,370)	
Treasury Stock Repurchase	(942)					
BALANCE, JUNE 30, 2001	11,364	40	$ 144	--	$ 72,932	$187,460

	Treasury Stock	Other Comprehensive Income (Loss)	Accumulated Less Note Receivable	Total Stockholders' Equity	Total Comprehensive Income
BALANCE, JUNE 27, 1998		$ --	$ (10,848)	$ 57,710	
Net income				34,543	34,543
Other comprehensive income:					
Minimum pension liability net of tax of $28		(50)		(50)	(50)
Foreign currency translation		2		2	2
Total comprehensive income					$ 34,495
Issuance of preferred stock				37,000	
Purchase of treasury stock	$ (90,804)		10,848	(79,956)	
Stock options exercised				1,490	
BALANCE, JUNE 26, 1999	(90,804)	(48)	--	50,739	
Net income				91,816	$ 91,816
3 for 2 stock split effective 7/28/99	47,496				
Other comprehensive income:					
Minimum pension liability net of tax of $28		50		50	50
Foreign currency translation		4		4	4
Total comprehensive income					$ 91,870
Issuance of common stock	13,097			29,722	
Stock options exercised				1,477	
BALANCE, JULY 1, 2000	(30,211)	6	--	173,808	
Net income				46,154	$ 46,154
Other comprehensive income:					
Minimum pension liability net of tax of $314		(523)		(523)	(523)
Foreign currency translation		(657)		(657)	(657)
Total comprehensive income					$ 44,974
Issuance of common stock				29,474	
Stock options exercised				265	
Foreman Additional Liability				(19,370)	
Treasury Stock Repurchase	(17,654)			(17,654)	
BALANCE, JUNE 30, 2001	$ (47,865)	$ (1,174)	$ --	$ 211,497	

See notes to consolidated financial statements.

SALTON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2001, July 1, 2000, and June 26, 1999
(In thousands)

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 46,154	$ 91,816	$ 34,543
Adjustments to reconcile net income to net cash from operating activities:			
Imputed interest on note payable	6,033	6,336	
Deferred income tax provision	1,524	1,793	4,109
Depreciation and amortization	23,594	19,075	7,301
Loss on disposal of equipment	423		
Equity in net income of investees	(292)	(321)	
Purchase reduction of note payable and other noncash items	2,777	1,662	(208)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(46,259)	(33,671)	(12,176)
Inventories	42,757	(75,106)	(26,406)
Prepaid expenses and other current assets	238	(3,796)	(1,365)
Accounts payable	(4,977)	(5,884)	14,716
Taxes payable	(23,448)	4,578	(4,290)
Accrued expenses	(4,451)	(837)	(1,032)
Net cash from operating activities	44,073	5,645	15,192
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(9,557)	(13,976)	(5,390)
Increase in other non-current assets	(13,422)		
Acquisition of George Foreman Trademark		(22,750)	
Additional payment for patents and trademarks	(2,043)		
Additions to patents and trademarks	(9,382)	(737)	
Equity investment		(9,615)	
Acquisition of businesses, net of cash acquired	(63,561)		(108,126)
Net cash from investing activities	(97,965)	(47,078)	(113,516)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (repayment) proceeds from revolving line of credit and other debt	(48,065)	36,367	(20,475)
Repayment of long-term debt	(73,624)	(625)	(90,125)
Proceeds from long-term debt	75,000		260,000
Repayment of other debt			(125)
Proceeds from senior subordinated debt	148,284		
Costs associated with refinancing	(7,798)	(616)	(8,065)
Common stock issued	265	2,669	1,489
Preferred stock issued			40,000
Purchase of treasury stock	(17,654)		(70,799)
Costs associated with preferred stock issuance			(2,999)
Net cash from financing activities	76,408	37,795	108,901
The effect of exchange rate changes on cash	(25)	4	2
NET CHANGE IN CASH	22,491	(3,634)	10,579
CASH, BEGINNING OF YEAR	7,606	11,240	661
CASH, END OF YEAR	$ 30,097	$ 7,606	$ 11,240
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 28,039	$ 22,257	$ 14,046
Income taxes	50,716	50,509	25,022

(Continued)

See notes to consolidated financial statements.

SALTON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2001, July 1, 2000, and June 26, 1999
(In thousands except share data)

Supplemental Disclosure of Noncash Investing and Financing Activities:

In the quarter ended June 30, 2001, the company authorized the issuance of 167,229 shares of common stock out of treasury for payment of executive bonuses.

In the quarter ended September 30, 2000, Salton acquired trademarks, other intellectual property and molds of the Stiffel Company for $6,500. The purchase was paid by the issuance of 200,000 shares of Salton, Inc. common stock. In addition, the Company reached an agreement to satisfy $22,750 of payment obligations incurred in connection with its acquisition of the "George Foreman" name by issuing 621,161 shares of Salton, Inc. common stock. In the quarter ended December 30, 2000, the Company increased its investment in an unconsolidated affiliate approximately 10% by issuing 109,000 shares of Salton, Inc. common stock. In the quarter ended March 31, 2001, in accordance with the Stiffel purchase agreement, Salton paid $2,043 under the guarantee provision to make up for the shortfall between the $6,500 purchase price and the proceeds from the sale of the 200,000 shares. In addition, the Company agreed to satisfy the $20.0 million guarantee to George Foreman by taking back 456,175 of the 546,075 shares issued to him on September 30, 2000 and paying him cash less the proceeds from the sale of the remaining shares previously issued to him. Also, the Company determined it intends to pay the other venture participants in cash for the stock price guarantee related to the 75,086 shares issued to them on September 30, 2000. As of June 30, 2001, the guarantee liability to George Foreman and the other venture participants was $19.4 million.

In the quarter ended March 25, 2000, the Company authorized the issuance of 53,977 shares of common stock out of treasury for payment of executive bonuses.

In the quarter ended December 25, 1999, the Company acquired, effective July 1, 1999, the right to use in perpetuity and worldwide the name "George Foreman" in connection with the marketing and sale of food preparation and non-alcoholic drink preparation and serving appliances. The aggregate purchase price payable to George Foreman and other participants was $137,500, of which $113,750 is payable in five annual cash installments, and the remaining $23,750 was paid through the issuance of 779,191 shares of Salton, Inc. common stock issued out of treasury. The first cash installment of $22,750 was paid during the first half of fiscal 2000. In connection with the transaction the Company issued a five-year $91,000 non-interest bearing subordinated promissory note which as of June 30, 2001, has a face amount of $48,250, and is recorded at its present value of $43,245.

In the quarter ended December 25, 1999, the Company retired a $4.0 million note payable associated with the acquisition of Toastmaster Inc. by issuing 109,090 shares common stock out of treasury. The Company received $1.2 million in cash related to the subsequent sale of this stock by the holder, per terms of the note payable retirement.

In the quarter ended September 26, 1998, the Company repurchased 6,535 shares of the Company's common stock from Applica, Inc. (formerly known as Windmere-Durable Holdings Inc.) ("Applica") for a total purchase price of $90,804. The purchase price included the issuance of six and one-half year $15,000 subordinated promissory note which bears interest at 4% per annum which is recorded at its fair value of $9,864 as of June 30, 2001 and the effective repayment of Applica's promissory note to the Company for the principal amount of $10,544.

See notes to consolidated financial statements.

(Concluded)

SALTON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001, JULY 1, 2000, AND JUNE 26, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Salton, Inc. ("Salton" or the "Company") is a domestic designer, marketer, manufacturer and distributor of a broad range of branded, high quality small appliances, tabletop, time and lighting products and personal care and wellness products.

The Company's portfolio of well-recognized owned and licensed brand names includes Salton®, Toastmaster®, Breadman®, Juiceman®, JuiceLady®, Calvin Klein®, George Foreman™, White-Westinghouse®, Farberware®, Melitta®, Welbilt®, Aircore® , Russell Hobbs®, Carmen®, Hi-Tech®, Tower®, Haden®, Mountain Breeze®, Pifco®, Westclox®, Big Ben®, Spartus® , Block® China, Atlantis® Crystal, Sasaki®, Rejuvenique®, Marilyn Monroe™, Looney Tunes®, Stiffel®, Ingraham®, Timex®, Westclox®, Big Ben®, Ultrasonex®, and Relaxor®.

Principles of Consolidation - The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments in affiliates, in which the Company has the ability to exercise significant influence, but not control, are accounted for by the equity method. Intercompany balances and transactions are eliminated in consolidation.

Use of Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 year ended June 30, 2001 consisted of 52 weeks and is referred to as "fiscal 2001." The fiscal years ended July 1, 2000 and June 26, 1999 consisted of 53 and 52 weeks, respectively, and are referred to as "fiscal 2000" and "fiscal 1999", 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 30% and 29% of the Company's inventories as of June 30, 2001 and July 1, 2000. 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.

SALTON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001, JULY 1, 2000, AND JUNE 26, 1999 (Continued)

Intangibles and Other 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 30, 2001	July 1, 2000
Patents and trademarks, net	5-20	$ 132,128	$ 127,074
Goodwill	10-40	43,317	12,807
Financing costs	2-7	14,625	9,152
Other non-current assets		29,436	10,055
Other intangibles, net, and other noncurrent assets		$ 87,378	$ 32,014

Accumulated amortization of intangible assets and patents and trademarks was $30.8 million and $17.3 million at June 30, 2001 and July 1, 2000, respectively.

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 expensed 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 the advertising and promotion 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 earnings per-share data in the accompanying consolidated financial statements give effect to the split.

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.

Accounting Pronouncements - During the first quarter of fiscal 2001, the Company adopted Statement of Financial Accounting Standards Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). SFAS No. 133 sets forth accounting and reporting standards for derivative instruments and hedging activities, requiring recognition of all derivative instruments (including certain derivatives embedded in other contracts) as either assets or liabilities in the balance sheet measured at fair value. SFAS No. 133 also establishes criteria for a derivative to qualify as a hedge for accounting purposes. The adoption of SFAS No. 133 did not affect the Company's consolidated financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". The guidance in SFAS No. 141 supersedes Accounting Principles Board Opinion No. 16, "Business Combinations," and is applicable to business combinations initiated after June 30, 2001. Upon adoption of SFAS No. 142, goodwill will cease to be amortized and will instead be subject to periodic impairment reviews as set forth in the new standard. The Company is currently evaluating the Statement's impairment provisions and has not yet determined what effect, if any, they might have on the consolidated financial position and results of operations of the Company.

The Company has approximately $43.3 million in goodwill recorded in its consolidated balance sheet as of June 30, 2001. Under the provisions of SFAS No. 142, goodwill will cease to be amortized for fiscal years beginning after December 15, 2001 (fiscal year 2003 for the Company.) The Company recorded $.7 million in amortization expense related to goodwill in fiscal 2001. The Company will also assess the useful lives of its patents and trademarks for indefinite economic useful lives, which will also cease to be amortized under SFAS No. 142. The Company has $132.1 million of patents and trademarks as of June 30, 2001 and recorded $9.8 million of related amortization expense in fiscal 2001. The Company intends to adopt SFAS No. 142 for the 2003 fiscal year.

2. ACQUISITIONS AND ALLIANCES

On May 2, 2001, the Company acquired the stock of Pifco Holdings PLC ("Pifco"), a United Kingdom based producer and marketer of kitchen and small appliances, personal care and wellness products, cookware and battery operated products (the "Pifco Acquisition"). The Company paid Pifco shareholders $4 per share, for a total purchase price of approximately $75 million. The acquisition was accounted for as a purchase. The excess of the purchase price over the fair values of the net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over forty years. The Company is completing the review and determination of the fair values of the assets acquired and liabilities assumed. Accordingly, the allocation of the purchase price is subject to revision based on the final determination of the appraised and other fair values.

Approximately $17.7 million of the purchase price was paid by issuing loan notes (the "Loan Notes") in accordance with the purchase offer, with the remainder paid in cash. The Loan Notes have been fully funded by the Company and recorded as an escrow asset as of June 30, 2001. The notes bear interest at 1% below LIBOR per annum, payable semi-annually, and are due June 30, 2006. The Loan Notes have been recorded at their net present value, or $11.3 million as of June 30, 2001. The Loan Notes may be prepaid, at the option of the holder, after June 30, 2002.

The operating results of Pifco have been included in the consolidated statements of earnings from the date of acquisition and included sales of approximately $7.2 million and net income of approximately $.3 million

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 allocated based upon estimated fair market values at the date of acquisition. The excess of the purchase price over the fair values of the net assets acquired has been recorded as goodwill and is being 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 period presented:

(In thousands)	June 26, 1999
Net sales	$ 597,140
Operating income	67,350
Net income	27,052
Net income per share:	
Basic	2.51
Diluted	1.86

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 period indicated.

On March 31, 1999, the Company bought 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. 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.

On October 6, 1999, Salton purchased approximately 21% of the outstanding shares of Amalgamated Appliance Holdings Limited ("Amalgamated"), a leading manufacturer and distributor of a wide range of branded consumer electronics and appliances in South Africa, for approximately $6 million. In the quarter ended December 30, 2000, the Company increased its investment to approximately 31% by issuing 109,000 shares of Salton, Inc. common stock. The investment is being accounted for under the equity method of accounting, and is included in the consolidated financial statements in other assets. 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., was added to Amalgamated's Board of Directors.

In the quarter ended December 25, 1999, Salton acquired, effective July 1, 1999, the right to use in perpetuity and worldwide the name "George Foreman" in connection with the marketing and sale of food preparation and non-alcoholic drink preparation and serving appliances. The aggregate purchase price payable to George Foreman and other venture participants was $137.5 million, of which $113.75 million is payable in five annual cash installments, and the remaining $23.75 million was paid through the issuance of 779,191 shares of Salton, Inc. common stock issued out of treasury. The first cash installment of $22.75 million was paid during the first half of fiscal 2000. In connection with the transaction Salton issued a five-year $91.0 million non-interest bearing subordinated promissory note which as of June 30, 2001, has a face amount of $48.3 million, and is recorded at its present value of $43.2 million and $80.8 million as of June 30, 2001 and July 1, 2000, respectively.

The following pro forma results of operations assumed the transaction occurred at the beginning of the period presented:

(In thousands)	June 26, 1999
Net sales	$ 506,116
Operating income	99,409
Net income	47,310
Net income per share:	
Basic	4.40
Diluted	3.25

The proforma 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 period indicated.

In the quarter ended September 30, 2000, the Company reached an agreement to satisfy $22.75 million of payment obligations incurred in connection with its acquisition of the "George Foreman" name by issuing 621,161 shares of Salton common stock to George Foreman and other venture participants. The Company determined, in the quarter ended March 31, 2001, that it intends to pay George Foreman and other venture participants in cash for the stock price guarantee related to the 621,161 shares. As of June 30, 2001, this liability was $19.4 million. See Note 18, Subsequent Events, for satisfaction of the guarantee obligation.

In fiscal 2001, the Company acquired Sonex International Corporation, a designer and distributor of electrically operated toothbrushes, flossers and related products; acquired the trademarks, other intellectual property, assets and molds of the Stiffel Company, a designer of lamps and related products; acquired the Relaxor brand business and inventory, including a line of personal massagers and other personal care items from J.B. Research, Inc.; acquired the right to use the Juiceman brand name on a royalty-free basis and acquired the assets of ePods, Inc. at a public foreclosure sale.

3. INVENTORIES

A summary of inventories is as follows:

(In thousands)	June 30, 2001	July 1, 2000
Raw materials	$ 5,986	$ 6,392
Work-in-process	1,293	447
Finished goods	185,223	212,391
Total	$ 192,502	$ 219,230

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 30, 2001 and July 1, 2000, they would have been approximately $ .5 million and $2.9 million lower than reported. During the fourth quarter of fiscal year 2001, the Company recorded a reduction in inventory of approximately $8.2 million for inventory losses and an additional $5.1 million in LIFO and other valuation adjustments.

4. APPLICA TRANSACTION

On July 28, 1998, Salton repurchased (the "Stock Repurchase") 6,535,072 shares of Salton common stock owned by Applica, Inc. pursuant to a Stock Agreement dated as of May 6, 1998 (the "Applica Stock Agreement") by and among Salton, Applica and the executive officers of Salton. Prior to the Stock Repurchase, Applica owned approximately 50% of Salton's outstanding common stock. The price for the Stock Repurchase was $12 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 Applica and its affiliates during the term of the note. During fiscal 2001 and fiscal 2000, the Company reduced this debt and interest by approximately $.3 and $1.5 million , respectively, for related purchases of products from Applica. 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. Effective upon the closing of the Repurchase, each of the persons who had been designated by Applica 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

On December 16, 1998, the Company issued $125.0 million of 10 3/4% Senior Subordinated Notes ("the 2005 Subordinated Notes") due 2005. Proceeds of the 2005 Subordinated Notes were used to repay outstanding indebtedness and for working capital and general corporate purposes. The 2005 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 2005 Subordinated Notes, the Company is required to comply with a specified financial fixed charge coverage ratio. At June 30, 2001, the Company was in compliance with all the covenants described above.

The Company amended and restated their Credit Agreement and replaced it with the Third Amended and Restated Credit Agreement ("Credit Agreement") during the quarter ended September 30, 2000. Salton increased its existing revolving credit facility from $115.0 million to $160.0 million. The Credit Agreement, among Salton, Lehman Brothers Inc., as arranger, Firstar Bank, N.A., as syndication agent, Lehman Commercial Paper Inc., as administrative agent, Fleet National Bank, as documentation agent, and a syndicate of banks, provides for $235.0 million in a senior secured credit facility consisting of a $75.0 million Term Loan (the "Term Loan") at an established base rate (equivalent to the prime rate of interest) plus an applicable margin of 125 basis points or, at the company's election, a Eurodollar rate plus an applicable margin of 225 basis points amortizing in sixteen consecutive quarterly installments commencing on March 31, 2001; and a $160.0 million revolving credit facility (the "Revolving Credit Facility") at an established base rate (equivalent to the prime rate of interest) plus an applicable margin or, at the Company's election, a Eurodollar rate plus an applicable margin 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 the Company'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, 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 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 30, 2001, the Company was in compliance with all of the covenants described above. At June 30, 2001, the Eurodollar rate plus applicable margin on the Term Loan was 7.0% and the Eurodollar rate plus applicable margin on the Revolving Credit Facility was 6.66%.

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

(In thousands)	June 30, 2001	July 1, 2000
Balance at end of fiscal period	$ 20,000	$ 68,000
Interest rate at end of fiscal period	6.66%	8.96%
Maximum amount outstanding at any month-end	153,000	93,000
Average amount outstanding	91,607	52,974
Weighted average interest rate during fiscal period	8.79%	8.73%
Outstanding letters of credit at end of fiscal period	4,632	17,863
Unused letters of credit at end of the fiscal period	20,368	7,137

On April 23, 2001, the Company issued $150 million of 12 1/4% Senior Subordinated notes ("the 2008 Subordinated Notes) due 2008. Proceeds of the 2008 Subordinated Notes were used to repay outstanding indebtedness and for the acquisition of Pifco Holdings PLC (see Note 2). The 2008 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 2008 Subordinated Notes, the Company is required to comply with a specified fixed charge coverage ratio. At June 30, 2001, the Company was in compliance with all the covenants described above.

Notes payable consist of the Junior Subordinated Note to Applica, Inc. (see Note 4), the long term portion of the note payable associated with the acquisition of the George Foreman trademarks (see Note 2), and the long term portion of the Term Loan.

Long-term debt matures as follows:

Fiscal Year Ended	Subordinated Notes	Term Loan	PIFCO Loan Notes	Junior Subordinated Note	Other Notes Payable	Foreman Note Payable	Total
2002		$ 18,750			$ 30	$ 2,750	$ 21,530
2003		18,750			5	21,037	39,792
2004		18,750		$ 9,864		19,459	48,073
2005	$ 125,000	9,375					134,375
2006			$ 11,271				11,271
Thereafter	148,325						148,325
	$ 273,325	$ 65,625	$ 11,271	$ 9,864	$ 35	$ 43,246	403,366
Less current maturities							(21,530)
							$ 381,836

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. All required payments have been made.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, principally an interest rate swap, to manage the interest rate risk associated with its borrowings and to manage the Company's allocation of fixed and variable-rate debt.

At June 30, 2001, the Company had an interest rate swap contract to pay a variable-rate interest of three-month LIBOR plus 6.13% and receive fixed-rate interest of 12.25% on $150 million notional amount of indebtedness. This resulted in approximately 70% of the Company's underlying debt being subject to variable interest rates. The $150 million notional amount of the outstanding contract will mature in 2008. The underlying hedged debt instrument is callable by the Company at certain dates and premiums during the term of the debt. The interest rate swap contract is also callable by the counterparty at the same dates and premiums. The Company has determined that the call feature is clearly and closely related to the hedged debt instrument as the amount paid at settlement is not based on changes in an index and the debt instrument was not issued at a substantial discount. As of June 30, 2001, the Company's balance sheet included approximately $376,000 representing the fair value of the swap and call feature. As the terms of the swap and call feature match those of the designated underlying hedged debt instrument, the change in fair value of this swap and call feature was offset by a corresponding change in fair value recorded on the hedged debt, and resulted in no net earnings impact.

7. CAPITAL 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 earnings per-share data in the accompanying financial statements and notes thereto give effect to the split.

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 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.

On December 6, 1999, the Company's Board of Directors approved the amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of $.01 par value common stock from 20,000,000 to 40,000,000.

8. EARNINGS PER SHARE

(In thousands, except earnings per share)	Year Ended June 30, 2001	Year Ended July 1, 2000	Year Ended June 26, 1999
Net Income*	$ 46,154	$ 91,816	$ 34,543
Average common shares outstanding	11,750	11,221	10,760
Earnings per share-basic	$ 3.93	$ 8.18	$ 3.21
Dilutive stock equivalents	4,315	4,305	3,802
Average common and common equivalent shares outstanding	16,065	15,526	14,562
Earnings per share-diluted	$ 2.87	$ 5.91	$ 2.37

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

Options to purchase 270,000 shares at a price of $29.25 per share were outstanding at June 30, 2001 and July 1, 2000, but were not included in the computation of diluted EPS because the options are contingent upon certain external factors. Options to purchase 486,293 shares of common stock were outstanding at June 30, 2001, but were not included in the computation of diluted EPS because the exercise prices were greater than the average market price of the common shares.

9. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) defined contribution plan that covers eligible employees. This plan combined and replaced the former Salton and Toastmaster 401(k) plans. The employees are eligible for benefits upon completion of one year of service. Under the terms of the plan, the Company may elect to match a portion of the employee contributions. The Company's discretionary matching contribution is based on a portion of participants' eligible wages, as defined, up to a maximum amount ranging typically from two percent to six percent. A higher matching percentage was approved in fiscal 2000 for Toastmaster employees affected by the freeze of the Toastmaster defined pension plans. The Company's total matching contributions were approximately $585,000, $307,000, and $95,000, in fiscal 2001, 2000, and 1999, respectively. In fiscal 2000, the Company amended the former Toastmaster 401(k) plan to allow for discretionary employer contributions to all employees, whether or not the employees contribute individually to the plan, in connection with the freeze of the Toastmaster defined pension plans. A discretionary employer contribution of approximately $287,000 was made in fiscal 2000.

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 as of the date the plans were curtailed. 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 October 30, 1999, the Company's Board of Directors approved the freezing of benefits under the Company's two defined benefit plans. Beginning October 31, 1999, no further benefits were accrued under the plans. 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:

SALTON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001, JULY 1, 2000, AND JUNE 26, 1999 (Continued)

	June 30, 2001	July 1, 2000
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 9,806	$ 11,748
Service cost	--	322
Interest cost	737	788
Actuarial (gain)/loss	814	(1,217)
Curtailment gain	--	(1,009)
Benefits paid and expenses	(1,222)	(826)
Benefit obligation at end of year	$ 10,135	$ 9,806
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 12,694	$ 11,050
Actual return on plan assets	(1,564)	1,792
Employer contribution	285	678
Benefits paid from plan assets	(1,222)	(826)
Fair value of plan assets at end of year	$ 10,193	$ 12,694

	June 30, 2001	July 1, 2000
Funded status	$ 58	$ 2,888
Unrecognized net actuarial (gain)/loss	1,666	(1,896)
Unrecognized transitional asset	--	
Unrecognized prior service cost	--	
Additional pension liability in excess of unrecognized prior service cost	(837)	--
Prepaid pension cost recorded in prepaid expenses in the accompanying consolidated balance sheet	$ 887	$ 992
Weighted average assumptions:		
Discount rate	7.50%	7.75%
Rate of increase in compensation	5.00%	5.00%
Expected return on plan assets	9.00%	9.00%
Components of net periodic pension cost:		
Service cost benefits earned during the year	$ --	$ 323
Interest cost on projected benefit obligation	737	788
Actuarial return on plan assets	(1,136)	(1,021)
Curtailment gain	--	(1,009)
Net amortization and deferral	(49)	--
Net pension benefit	$ (448)	$ (919)

The Company recorded a $1.0 million curtailment gain in fiscal 2000 as a result of a freeze in pension plan benefits. 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 30, 2001, with the balance recorded as a separate reduction of stockholders' equity, net of deferred tax effect.

10. 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)	2001	2000	1999
Net income:			
As reported	$ 46,154	$ 91,816	$ 34,543
Pro forma	40,647	85,266	33,241
Net income per common share: Basic			
As reported	$ 3.93	$ 8.18	$ 3.21
Pro forma	3.46	7.60	3.09
Net income per common share: Diluted			
As reported	2.87	5.91	2.37
Pro forma	2.53	5.49	2.28

Options to purchase common stock of the Company have been granted to employees under the 1992, 1995, 1998, 1999, and 2001 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:

	2001	2000	1999
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	64.15%	61.45%	60.60%
Risk-free interest rate	5.07%	6.50%	6.16%
Expected life of options	7.56 years	7.98 years	7.81 years

A summary of the Company's fixed stock options for the fiscal years ended June 30, 2001, July 1, 2000, and June 26, 1999, is as follows:

	2001		2000		1999	
	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price
Outstanding at beginning of year	1,688	$ 17.88	1,101	$ 7.83	1,126	$ 6.06
Granted	501	17.18	745	30.36	337	16.74
Exercised	(24)	10.91	(158)	6.64	(270)	5.47
Expired or Canceled	(1)				(459)	
Outstanding at end of year	2,164	17.77	1,688	17.88	734	11.75
Options exercisable at end of year	1,599	16.12	1,038	9.39	461	5.99
Weighted-average fair value of options granted during the year		11.37		24.05		12.09

The shares outstanding at the beginning of the year for fiscal 2000 reflect the three-for-two stock split that was effective on July 28,1999. The remaining activity in fiscal 2000 occurred on a post-split basis.

The following information summarizes the stock options outstanding at June 30, 2001:

	Options Outstanding			Options Exercisable	
Range Of Exercise Prices	Shares (000)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Average Shares (000)	Weighted-Exercise Price
$0.583 - $1.667	234	3.86	$ 1.63	234	$ 1.63
$2.292 - $5.833	38	5.94	5.23	38	5.23
$6.333 - $8.167	378	5.54	7.73	378	7.73
$13.917 - $17.50	758	8.77	15.64	488	15.35
$27.375 - $37.00	756	8.47	31.01	461	32.06
$0.583 - $37.00	2,164	N/A	$ 17.77	1,599	$ 16.12

11. RELATED PARTY TRANSACTIONS

The Company purchased inventory from Applica, Inc. of approximately $6,953,000, $26,408,000, and $32,340,000, in fiscal years ended June 30, 2001, July 1, 2000, and June 26, 1999, respectively. Applica owned shares of Salton common stock until July 1998 at which time the Company repurchased the shares (see Note 4).

The Company purchased inventory from Markpeak, Ltd. ("Markpeak"), a Hong Kong company, including commissions, of approximately $3,579,000, $184,955,000, and $187,925,000, in fiscal years 2001, 2000, and 1999, respectively. The Company had a receivable from Markpeak of approximately $19,117,000 and $9,881,000 at June 30, 2001 and July 1, 2000, respectively. The Company owed Markpeak approximately $3,683,000 and $473,000 at June 30, 2001 and July 1, 2000, respectively. Markpeak acted as a buying agent on behalf of the Company with certain suppliers in the Far East. A director of the Company is the former managing director of Markpeak.

The Company paid Shapiro, Devine and Craparo, Inc. ("SDC"), a manufacturers representation firm, commissions of approximately $502,000, $413,000, and $498,000 in fiscal 2001, 2000, and 1999, respectively. A director of the Company was a co-founder of SDC. The Company owed approximately $81,000 and $90,000 for current commissions at June 30, 2001 and July 1, 2000, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities and equipment under long-term operating leases. Rental expense under all leases was approximately $8,386,000, $5,769,000, and $3,474,000 for the fiscal years ended June 30, 2001, July 1, 2000, and June 26, 1999, respectively.

The future minimum rental commitments as of June 30, 2001 were as follows:

Fiscal Year Ended (Dollars In Thousands)	
2002	$ 7,017
2003	5,050
2004	4,034
2005	2,968
2006	2,674
Thereafter	8,201
Total	$ 29,944

The Company has employment agreements with its four executive officers that are in effect until December 30, 2002. 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 30, 2001, excluding bonuses, was approximately $1,870,000.

The Company has license agreements with White Consolidated Industries, Inc. ("White Consolidated"), which require minimum royalty payments through the year 2011. In fiscal 2001, 2000 and 1999, royalty payments were 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 $8,012,000 in fiscal 2001, $24,779,000 in fiscal 2000 and $43,918,000 in fiscal 1999. Royalties paid in fiscal 2000 decreased from fiscal 1999 due to the acquisition of the George Foreman Trademark (see Note 2).

13. LEGAL PROCEEDINGS

Litigation - 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 tortuously 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.

On January 23, 2001, the Company filed a lawsuit against Applica, Inc. (formerly known as Windmere-Durable Holdings, Inc.) and its affiliate in the United States District Court for the Northern District of Illinois. The lawsuit alleges that Applica intentionally, willfully and maliciously breached its noncompetition agreement with us, attempted to conceal the breach, tortuously interfered with our business and contractual relationships and breached its duty of good faith and fair dealing. The lawsuit seeks compensatory damages, punitive damages and attorneys' fees and costs. As a result of Applica's actions, we have terminated an agreement which requires us to pay Applica a fee based upon our net sales less specified costs and expenses relating to our supply agreement with Kmart. The terms of the agreement between the Company and Applica expressly provide for termination upon a violation by Applica of its noncompetition provisions. In March 2001, Applica filed an answer with the court.

On July 2, 2001, the Company was served with a complaint for patent infringement alleged by AdVantage Partners LLC in the United States District Court for the Central District of California. In this complaint, AdVantage alleged that the Company and retailers that sell our "George Foreman Jr." rotisserie grills were infringing two of AdVantage's patents. AdVantage sought a permanent injunction against sale of George Foreman rotisserie grills utilizing the inventions claimed by those patents and unspecified monetary damages including a request for treble damages. These patents relate to accessory products for rotisserie ovens including spit rod and basket assemblies. The Company filed an answer and counterclaim denying the allegations of the complaint and asserting a number of affirmative defenses and request for declaratory relief. AdVantage had also sought preliminary injunctive relief; however, on August 24, 2001, the court denied AdVantage's motion. On August 28, 2001, AdVantage filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit to review the preliminary injunction.

On August 9, 2001, AdVantage Partners LLC filed a second complaint against the Company for patent infringement in the United States District Court for the Central District of California. In this complaint, AdVantage alleges that the Company has have infringed a patent assigned to AdVantage, and seeks a permanent injunction against our sale of the "Baby George Foreman" rotisserie grill, which purportedly utilizes an invention claimed by that patent, and unspecified monetary damages including a request for treble damages. The patent relates to a gear driven spit assembly for rotisserie ovens. The Company filed an answer and counterclaim denying the allegations of the complaint and asserting a number of affirmative defenses and request for declaratory relief.

Environmental - The Company is participating in environmental remediation activities at four sites, which it owns or operates. As of June 30, 2001, the Company has accrued approximately $150,000 for the anticipated costs of investigation, remediation and/or operation and maintenance costs at these sites. Although such costs could exceed that amount, the Company believes that any such excess will not have a material adverse effect on the financial condition or annual results of operations of the Company.

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

14. OPERATING SEGMENTS

The Company consists of a single operating segment that designs, markets and distributes housewares, including small appliances, Salton at Home and personal care and wellness 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 manufacturers, primarily in the Far East, and are distributed through similar distribution channels.

Product Information - Net Sales -

(In Thousands)	June 30, 2001	July 1, 2000	June 26, 1999
Small appliances	$ 714,125	$ 742,774	$ 459,621
Salton at Home	59,793	60,709	34,875
Personal care and wellness products	18,196	33,819	11,620
Total	$ 792,114	$ 837,302	$ 506,116

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 11%, 12%, and 16%, of total net sales of the Company in fiscal 2001, 2000, and 1999, respectively.

On March 30, 1999, the Company 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 30, 2001, July 1, 2000, and June 26, 1999 were 47%, 46%, and 50% of total net sales in these periods, respectively. In addition to Kmart, one customer accounted for 12%, 13%, and 9% of total net sales during the fiscal years ended June 30, 2001, July 1, 2000, and June 26, 1999, respectively, while another customer accounted for 9%, 7%, and 10%, for the same respective years.

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 2001, 2000 and 1999, one supplier located in China accounted for approximately 35%, 38.0% and 57.3% of our product purchases.

15. INCOME TAXES

Federal, state and foreign taxes were approximately as follows:

(In Thousands)	Fiscal Year Ended June 30, 2001	July 1, 2000	June 26, 1999
Federal			
Current	$ 19,039	$ 44,514	$ 9,778
Deferred	1,271	1,521	3,605
State			
Current	3,999	7,954	2,529
Deferred	253	272	504
Foreign			
Current	3,130	826	2,904
Deferred			
Total	$ 27,692	$ 55,087	$ 19,320

SALTON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001, JULY 1, 2000, AND JUNE 26, 1999 (Continued)

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 30, 2001	July 1, 2000
Allowance for doubtful accounts	$ 2,015	$ 1,945
Interest	1,452	
Depreciation and amortization	(2,388)	(2,529)
Other deferred items, net	(780)	53
Net operating loss carry-forward	0	1,109
Accrued liabilities	3,063	317
Inventory reserves and capitalization	(1,359)	64
AMT credit carryforward	123	225
Net deferred tax asset	$ 2,126	$ 1,184

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

(In Thousands)	Fiscal Year Ended June 30, 2001	July 1, 2000	June 26, 1999
Statutory federal income tax rate	35.0%	35.0%	35.0%
Effective state tax rate	4.2	3.9	3.5
Permanent differences	1.2	0.4	0.2
Effect of foreign tax rate	(3.8)	(1.4)	(1.9)
Other	0.9	(0.4)	(0.9)
Effective income tax rate	37.50%	37.50%	35.90%

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 $7,354,000.

16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Net Sales	$ 207,246	$ 262,197	$ 153,558	$ 169,113
Gross Profit	79,270	97,852	57,203	34,138
Net income	21,502	26,579	9,485	(11,412)
Earning per share: Basic	1.85	2.19	0.81	(0.99)
Earning per share: Diluted	1.35	1.60	0.60	(0.99)
2000				
Net Sales	$ 196,340	$ 292,767	$ 172,100	$ 176,095
Gross Profit	78,819	116,011	67,831	69,751
Net income	13,898	47,558	15,047	15,313
Earning per share: Basic	1.35	4.25	1.33	1.35
Earning per share: Diluted	0.95	3.08	0.95	0.98

* During the fourth quarter of fiscal year 2001, the Company recorded a reduction in inventory of approximately $8.2 million for inventory losses and an additional $5.1 million in LIFO and other valuation adjustments.

17. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION

The payment obligations of the Company under the 12 1/4% senior subordinated notes (see Note 5) are guaranteed by certain of the Company's wholly-owned domestic subsidiaries (Subsidiary Guarantors). Such guarantees are full, unconditional and joint and several. Separate financial statements of the Subsidiary Guarantors are not presented because the Company's management has determined that they would not be material to investors. The following supplemental financial information sets forth, on a combined basis, balance sheets, statements of earnings and statements of cash flows for the Subsidiary Guarantors, the Company's non-guarantor subsidiaries and for Salton, Inc.

CONSOLIDATING BALANCE SHEET AS OF JUNE 30, 2001
(IN THOUSANDS)

	Guarantor Subsidiaries	Other Subsidiaries	Salton, Inc.	Eliminations	Consolidated Totals
ASSETS					
Current Assets:					
Cash	$ 8,242	$ 15,615	$ 6,240	$ --	$ 30,097
Accounts receivable	39,474	30,729	115,678	--	185,881
Inventories	57,034	23,906	111,562	--	192,502
Prepaid expenses and other current assets	3,281	460	6,359	--	10,100
Intercompany	(58,561)	(42,910)	101,471	--	--
Prepaid income taxes	4,940	(4,930)	14,897	--	14,907
Deferred income taxes	2,299	(426)	2,546	--	4,419
Total current assets	56,709	22,444	358,753	--	437,906
Property, Plant and Equipment, Net of Accumulated Depreciation	13,629	17,134	16,961	--	47,724
Investments in Subsidiaries	(141)	--	127,448	(127,307)	--
Patents and Trademarks, Net of Accumulated Amortization	11,169	3,702	117,257	--	132,128
Cash in escrow for Pifco loan notes	--	17,748	--	--	17,748
Other Intangibles, Net of Accumulated Amortization, and Other Non-current Assets	14,275	118,600	37,557	(83,054)	87,378
Total Assets	$ 95,641	$ 179,628	$ 657,976	$ (210,361)	$ 722,884

	Guarantor Subsidiaries	Other Subsidiaries	Salton, Inc.	Eliminations	Consolidated Totals
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Revolving line of credit and other current debt	$ 38,780	$ --	$ 2,750	$ --	$ 41,530
Accounts payable	3,569	23,131	6,750	--	33,450
Accrued expenses	10,345	13,299	9,264	--	32,908
Foreman guarantee	--	--	19,370	--	19,370
Total current liabilities	52,694	36,430	38,134	--	127,258
Non-current Deferred Income Taxes	474	212	1,607	--	2,293
Senior subordinated notes due 2005	--	--	125,000	--	125,000
Senior subordinated notes due 2008	--	--	148,325	--	148,325
Loan notes to Pifco shareholders	--	11,271	--	--	11,271
Other notes payable	46,881	--	50,359	--	97,240
Total liabilities	100,049	47,913	363,425	--	511,387
Stockholders' Equity	(4,408)	131,715	294,551	$(210,361)	211,497
Total Liabilities and Stockholders' Equity	$ 95,641	$ 179,628	$ 657,976	$ (210,361)	$ 722,884

CONSOLIDATING BALANCE SHEET AS OF JULY 1, 2000
(IN THOUSANDS)

	Guarantor Subsidiaries Totals	Other Subsidiaries	Salton, Inc.		Consolidated Eliminations
ASSETS					
Current Assets:					
Cash	$ 125	$ 951	$ 6,530	--	$ 7,606
Accounts receivable	27,038	12,224	90,588	--	129,850
Inventories	62,569	7,313	149,348	--	219,230
Prepaid expenses and other current assets	3,088	262	6,796		10,146
Intercompany	(17,506)	41,023	(23,517)	--	--
Deferred income taxes	1,985	--	1,728		3,713
Total current assets	77,299	61,773	231,473	--	370,545
Property, Plant and Equipment, Net of Accumulated Depreciation	17,463	2,899	14,281	--	34,643
Investments in Subsidiaries	(225)	--	49,524	(49,299)	--
Patents and Trademarks, Net of Accumulated Amortization	12,025	--	115,049	--	127,074
Other Intangibles, Net of Accumulated Amortization, and Other Non-current Assets	12,935	6,348	12,731	--	32,014
Total Assets	$ 119,497	$ 71,020	$ 423,058	$ (49,299)	$ 564,276
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Revolving line of credit and other current debt	$ 68,437	$ --	$ 43,718	$ --	$ 112,155
Accounts payable	5,904	7,382	21,827	--	35,113
Accrued expenses	10,540	1,548	8,940	--	21,028
Income taxes payable	(5,705)	8,419	1,864	--	4,578
Total current liabilities	79,176	17,349	76,349	--	172,874
Non-current Deferred Income Taxes	779	--	1,750	--	2,529
Senior subordinated notes due 2005	--	--	125,000	--	125,000
Other notes payable	43,914	--	46,151	--	90,065
Total liabilities	123,869	17,349	249,250	--	390,468
Stockholders' Equity	(4,372)	53,671	173,808	$ (49,299)	173,808
Total Liabilities and Stockholders' Equity	$ 119,497	$ 71,020	$ 423,058	$ (49,299)	$ 564,276

CONSOLIDATING STATEMENT OF EARNINGS FOR THE YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

	Guarantor Subsidiaries Totals	Other Subsidiaries	Salton, Inc.		Consolidated Eliminations
Net Sales	$ 202,331	$ 242,689	$ 565,009	$ (217,915)	$ 792,114
Cost of Goods Sold	158,345	213,075	314,751	(211,915)	474,256
Distribution Expenses	15,521	633	33,241		49,395
Gross Profit	28,465	28,981	217,017	(6,000)	268,463
Selling, General and Administrative expenses	32,217	7,641	123,027	(6,000)	156,885
Operating Income (Loss)	(3,752)	21,340	93,990	--	111,578
Interest Expense, Net	817	(379)	(38,170)	--	(37,732)
Equity in Earnings of Subsidiaries	101	--	15,698	(15,799)	--
Income (Loss) Before Income Taxes	(2,834)	20,961	71,518	(15,799)	73,846
Income Tax Expense (Benefit)	(802)	3,130	25,364		27,692
Net Income (Loss)	$ (2,032)	$ 17,831	$ 46,154	$ (15,799)	$ 46,154

CONSOLIDATING STATEMENT OF EARNINGS FOR THE YEAR ENDED JULY 1, 2000
(IN THOUSANDS)

	Guarantor Subsidiaries Totals	Other Subsidiaries	Salton, Inc.		Consolidated Eliminations
Net Sales	$ 151,326	$ 141,117	$ 648,181	$ (103,322)	$ 837,302
Cost of Goods Sold	121,165	98,651	344,756	(97,322)	467,250
Distribution Expenses	10,681	310	26,648	--	37,639
Gross Profit	19,480	42,156	276,777	(6,000)	332,413
Selling, General and Administrative expenses	23,085	7,377	132,287	(6,000)	156,749
Operating Income (Loss)	(3,605)	34,779	144,490	--	175,664
Interest Expense, Net	122	1,917	(30,800)	--	(28,761)
Equity in Earnings of Subsidiaries	(298)	--	28,241	(27,943)	--
Income (Loss) Before Income Taxes	(3,781)	36,696	141,931	(27,943)	146,903
Income Tax Expense (Benefit)	(956)	5,928	50,115	--	55,087
Net Income (Loss)	$ (2,825)	$ 30,768	$ 91,816	$ (27,943)	$ 91,816

CONSOLIDATING STATEMENT OF EARNINGS FOR THE YEAR ENDED JUNE 26, 1999
(IN THOUSANDS)

	Guarantor Subsidiaries Totals	Other Subsidiaries	Salton, Inc.		Consolidated Eliminations
Net Sales	$ 53,513	$ 35,528	$ 433,865	$ (16,790)	$ 506,116
Cost of Goods Sold	41,060	12,196	243,060	(10,790)	285,526
Distribution Expenses	4,158	173	17,290	--	21,621
Gross Profit	8,295	23,159	173,515	(6,000)	198,969
Selling, General and Administrative expenses	10,493	4,483	120,612	(6,000)	129,588
Operating Income (Loss)	(2,198)	18,676	52,903	--	69,381
Interest Expense, Net	14	114	(15,646)	--	(15,518)
Equity in Earnings of Subsidiaries	9	--	14,324	(14,333)	--
Income (Loss) Before Income Taxes	(2,175)	18,790	51,581	(14,333)	53,863
Income Tax Expense (Benefit)	(622)	2,904	17,038	--	19,320
Net Income (Loss)	$ (1,553)	$ 15,886	$ 34,543	$ (14,333)	$ 34,543

CONSOLIDATING STATEMENT OF CASH FLOWS FOR YEAR ENDED JUNE 30, 2001
(IN THOUSANDS)

	Guarantor Subsidiaries	Other Subsidiaries	Salton, Inc.	Eliminations	Consolidated Totals
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ (2,032)	$ 17,831	$ 46,154	$ (15,799)	$ 46,154
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Imputed interest on note payable	--	--	6,033	--	6,033
Deferred income tax provision	--	--	1,524	--	1,524
Depreciation and amortization	4,699	1,112	17,783	--	23,594
Loss on disposal of equipment	423	--			423
Equity in net income of investees and consolidated subsidiaries	(101)	(545)	(15,445)	15,799	(292)
Purchase reduction of note payable and other non cash items	--	--	2,777	--	2,777
Changes in assets and liabilities, net of acquisitions:					
Accounts receivable	(12,371)	(8,799)	(25,089)	--	(46,259)
Inventories	5,957	(986)	37,786	--	42,757
Prepaid expenses and other current assets	(149)	(50)	437	--	238
Intercompany	41,055	83,933	(124,988)	--	--
Accounts payable	(2,368)	12,468	(15,077)	--	(4,977)
Taxes payable	751	(4,894)	(19,305)	--	(23,448)
Accrued expenses	(1,064)	(1,236)	(2,151)	--	(4,451)
NET CASH FROM OPERATING ACTIVITIES	34,800	98,834	(89,561)	--	44,073
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	(1,072)	(1,024)	(7,461)	--	(9,557)
Increase in other non-current assets	--	--	(13,422)	--	(13,422)
Acquisition of businesses, net of cash acquired	--	(60,741)	(2,820)	--	(63,561)
Additional payment for patents and trademarks	--	--	(2,043)	--	(2,043)
Additions to intangibles, patents and trademarks	--	--	(9,382)	--	(9,382)
NET CASH FROM INVESTING ACTIVITIES	(1,072)	(61,765)	(35,128)	--	(97,965)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net (repayments) of revolving line of credit and other debt	(48,065)	--	--	--	(48,065)
Repayment of long-term debt	(53,621)	--	(20,003)	--	(73,624)
Proceeds from long-term debt	75,000	--	--	--	75,000
Proceeds from senior subordinated notes		--	148,284		148,284
Costs associated with refinancing	--	--	(7,798)	--	(7,798)
Common stock issued	--	--	265	--	265
Treasury stock purchase	--	--	(17,654)	--	(17,654)
NET CASH FROM FINANCING ACTIVITIES	(26,686)	--	103,094	--	76,408
The effect of exchange rate changes on cash	--	(25)	--	--	(25)
Cash, beginning of the period	125	951	6,530	--	7,606
Net Change in Cash	7,042	37,044	(21,595)	--	22,491
Cash, end of period	$ 7,167	$ 37,995	$ (15,065)	$ --	$ 30,097

CONSOLIDATING STATEMENT OF CASH FLOWS FOR YEAR ENDED JULY 1, 2000
(IN THOUSANDS)

	Guarantor Subsidiaries Totals	Other Subsidiaries	Salton, Inc.		Consolidated Eliminations
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ (2,825)	$ 30,768	$ 91,816	$ (27,943)	$ 91,816
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Imputed interest on note payable	--	--	6,336	--	6,336
Deferred income tax provision	(1,057)	--	2,850	--	1,793
Depreciation and amortization	4,272	468	14,335	--	19,075
Equity in net income of investees and consolidated subsidiaries	298	(321)	(28,241)	27,943	(321)
Purchase reduction of note payable and other non cash items	--	--	1,662	--	1,662
Changes in assets and liabilities:					
Accounts receivable	(2,987)	4,232	(34,916)	--	(33,671)
Inventories	(16,747)	(5,892)	(52,467)	--	(75,106)
Prepaid expenses and other current assets	(1,206)	(134)	(2,456)	--	(3,796)
Intercompany	(15,729)	(37,392)	53,121	--	--
Accounts payable	2,510	6,423	(14,817)	--	(5,884)
Taxes payable	146	5,102	(670)	--	4,578
Accrued expenses	(1,321)	69	415	--	(837)
NET CASH FROM OPERATING ACTIVITIES	(34,646)	3,323	36,968	--	5,645
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	(1,042)	(3,099)	(9,835)	--	(13,976)
Acquisition of the George Foreman Trademark	--	--	(22,750)		(22,750)
Additions to intangibles, patents and trademarks	--	--	(737)	--	(737)
Equity Investment	--	(6,027)	(3,588)		(9,615)
NET CASH FROM INVESTING ACTIVITIES	(1,042)	(9,126)	(36,910)	--	(47,078)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net proceeds from revolving line of credit	36,367	--	--	--	36,367
Repayment of long-term debt	(591)	--	(34)	--	(625)
Costs associated with refinancing	--	--	(616)	--	(616)
Common stock issued	--	--	2,669	--	2,669
NET CASH FROM FINANCING ACTIVITIES	35,776	--	2,019	--	37,795
The effect of exchange rate changes on cash	--	4	--	--	4
Cash, beginning of the period	37	6,750	4,453	--	11,240
Net Change in Cash	88	(5,799)	2,077	--	(3,634)
Cash, end of period	$ 125	$ 951	$ 6,530	$ --	$ 7,606

CONSOLIDATING STATEMENT OF CASH FLOWS FOR YEAR ENDED JUNE 26, 1999
(IN THOUSANDS)

	Guarantor Subsidiaries Totals	Other Subsidiaries	Salton, Inc.		Consolidated Eliminations
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ (1,553)	$ 15,886	$ 34,543	$ (14,333)	$ 34,543
Adjustments to reconcile net income (loss) to net cash used in operating activities					
Imputed interest on note payable	--	--		--	--
Deferred income tax provision	3,209	--	900	--	4,109
Depreciation and amortization	2,283	75	4,943	--	7,301
Equity in net income of investees and consolidated subsidiaries	(9)	--	(14,324)	14,333	--
Purchase reduction of note payable and other non cash items	--	--	(208)	--	(208)
Changes in assets and liabilities, net of acquisitions:					
Accounts receivable	14,605	(14,208)	(12,573)	--	(12,176)
Inventories	(5,807)	(222)	(20,377)	--	(26,406)
Prepaid expenses and other current assets	(52)	(64)	(1,249)	--	(1,365)
Intercompany	13,687	586	(14,273)	--	--
Accounts payable	(3,928)	959	17,685	--	14,716
Taxes payable	(3,853)	3,317	(3,754)	--	(4,290)
Accrued expenses	(3,519)	(116)	2,603	--	(1,032)
NET CASH FROM OPERATING ACTIVITIES	15,063	6,213	(6,084)	--	15,192
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	(895)	(28)	(4,467)	--	(5,390)
Acquisition of business, net of cash acquired	6,119	65	(114,310)	--	(108,126)
NET CASH FROM INVESTING ACTIVITIES	5,224	37	(118,777)	--	(113,516)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net (repayments) of revolving line of credit	(20,000)	--	(475)	--	(20,475)
Repayment of long-term debt	(125)	--	(90,000)	--	(90,125)
Proceeds from long-term debt	--	--	260,000	--	260,000
Repayment of other debt	(125)	--	--		(125)
Costs associated with refinancing	--	--	(8,065)	--	(8,065)
Common stock issued	--	--	1,489	--	1,489
Preferred stock issued	--	--	40,000		40,000
Costs associated with preferred stock issuance	--	--	(2,999)		(2,999)
Treasury stock purchase	--	--	(70,799)	--	(70,799)
NET CASH FROM FINANCING ACTIVITIES	(20,250)	--	129,151	--	108,901
The effect of exchange rate changes on cash	--	2	--	--	2
Cash, beginning of the period	--	498	163	--	661
Net Change in Cash	37	6,252	4,290	--	10,579
Cash, end of period	$ 37	$ 6,750	$ 4,453	$ --	$ 11,240

18. SUBSEQUENT EVENTS

Westclox, Big Ben and Spartus Brands - On Aug. 7, 2001 Salton announced that it acquired the trademarks, other intellectual property assets and molds, intellectual property, rights and patents related to these brands for $9.8 million of the Westclox®, Big Ben®, and Spartus® brands from the bankrupt General Time Corporation, until recently, the largest producer and marketer of alarm, wall and occasional clocks in North America.

On July 2, 2001, we took back 456,175 of the 546,075 shares issued to George Foreman on September 7, 2000 and paid him $18 million. This payment, which represented $20.0 million less the proceeds George Foreman received from the sale of shares on the open market previously issued to him, terminated our guarantee obligation with respect to the shares issued to him and satisfied the third annual installment due under the note payable to George Foreman. As a result of this transaction, we now have only two installments remaining under the note as well as our outstanding guarantee obligation to the other venture participants.

PART II

Item 10. ***Directors and Executive Officers of the Registrant***

The information required by this Item 10 as to the Directors of the Company is incorporated herein by reference to the information set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement for the 2001 Annual Meeting of Stockholders, since such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year pursuant to Regulation 14A. Information required by this Item 10 as to the executive officers of the Company is included in Part I of this Annual Report on Form 10-K.

Item 11. ***Executive Compensation***

The information required by this Item 11 is incorporated by reference to the information set forth under the caption "Compensation of Directors and Executive Officers" in the Company's definitive Proxy Statement for the 2001 Annual Meeting of Stockholders, since such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year pursuant to Regulation 14A.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The information required by this Item 12 is incorporated by reference to the information set forth under the caption "Stock Ownership of Principal Holders and Management" in the Company's definitive Proxy Statement for the 2001 Annual Meeting of Stockholders, since such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year pursuant to Regulation 14A.

Item 13. ***Certain Relationships and Transactions***

The information required by this Item 13 is incorporated by reference to the information set forth under the caption "Certain Transactions" in the Company's definitive Proxy Statement for the 2001 Annual Meeting of Stockholders, since such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year pursuant to Regulation 14A.

PART IV

Item 14. ***Exhibits, Financial Statement Schedules, and Reports on Report 8-K(A)(1) Financial Statements***

The following Financial Statements of the registrant and its subsidiaries are included in Part II, Item 8:

	Page
SALTON	
Independent Auditors' Report	37
Consolidated Balance Sheets as of June 30, 2001 and July 1, 2000	38
Consolidated Statements of Earnings for the Years Ended June 30, 2001, July 1, 2000 and June 26, 1999	39
Consolidated Statements of Stockholders' Equity for the Years Ended June 30, 2001, July 1, 2000 and June 26, 1999	40
Consolidated Statements of Cash Flows for the Years Ended June 30, 2001, July 1, 2000 and June 26, 1999	42
Notes to the Consolidated Financial Statements	44

(a)(2) Financial Statements Schedules

The following Financial Statement Schedules of the Registrant are included in Item 14 hereof.

	Page
Schedule VIII - Valuation and Qualifying Accounts	80

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3) Exhibits

See Exhibit Index for the Exhibits filed as part of or incorporated by reference into this Report.

(b) Reports on Form 8-K

(i) Current Report on Form 8-K dated September 13, 2001 reporting under Item 5 Other Events the announcement of our fiscal 2001 financial results.

(ii) Current Report on Form 8-K dated June 4, 2001 reporting under Item 5 Other Events the Company's acquisition of Pifco Holdings PLC and our execution of a $150 million interest rate swap agreement

(iii) Current Report on Form 8-K dated May 10, 2001 reporting under Item 5 Other Events the announcement of our third quarter results.

(iv) Current Report on Form 8-K dated May 2, 2001 reporting under Item 5 Other Events our recommended cash offer to acquire the entire issued capital of Pifco Holdings PLC.

(v) Current Report on Form 8-K dated April 9, 2001 reporting under Item 5 Other Events our preliminary third quarter estimates and our intention to issue $150 million of senior subordinated notes.

(vi) Current Report on Form 8-K dated February 6, 2001 reporting under Item 5 Other Events the announcement of our financial results for second quarter.

(vii) Current Report on Form 8-K dated January 8, 2001 reporting under Item 5 Other Events the announcement of our preliminary expectations for the second quarter.

(viii) Current Report on Form 8-K dated November 8, 2000 reporting under Item 5 Other Events the announcement of our fiscal 2001 first quarter earnings results.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 25th day of September, 2001.

SALTON, INC.

By: /s/ LEONARD DREIMANN
Leonard Dreimann
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on September 25, 2001.

Signature	
/s/ LEONHARD DREIMANN Leonhard Dreimann	Chief Executive Officer and Director (Principal Executive Officer)
/s/ WILLIAM B. RUE William B. Rue	President and Chief Operating Officer and Director
/s/ JOHN E. THOMPSON John E. Thompson	Senior Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)
/s/ DAVID C. SABIN David C. Sabin	Chairman of the Board and Director
/s/ FRANK DEVINE Frank Devine	Director
/s/ BERT DOORNMALEN Bert Doornmalen	Director
/s/ ROBERT A. BERGMANN Robert A. Bergmann	Director
/s/ BRUCE G. POLLACK Bruce G. Pollack	Director
/s/ BRUCE J. WALKER Bruce J. Walker	Director

The following pages contain the Financial Statement Schedules as specified by 12(a) and 14(a)(2) of Part IV of Form 10-K. The report of Deloitte & Touche LLP with respect to the schedule required by 14(a)(2) appears at page 45 of this Form 10-K

EXHIBIT 12(a)

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
SALTON, INC.

(Thousands, Except Ratios)	2001	2000	Year Ended 1999	1998	1997
Fixed Charges					
Interest and amortization of debt issuance costs on all indebtedness	$ 39,043	$ 31,102	$ 15,864	$ 7,336	$ 4,967
Add interest element implicit in rentals	3,724	1,923	1,158	521	394
Total fixed charges	$ 42,767	$ 33,025	$ 17,022	$ 7,857	$ 5,361
Income					
Income before income taxes	$ 73,846	$146,903	$ 53,863	$32,186	$ 6,400
Add fixed charges	42,767	33,025	17,022	7,857	5,361
Income before fixed charges and income taxes	$116,613	$179,928	$ 70,885	$40,043	$11,761
Ratio of earnings to fixed charges	2.73	5.45	4.16	5.10	2.19

VALUATION AND QUALIFYING ACCOUNTS
YEAR ENDED JUNE 30, 2001

SALTON, INC.

	Beginning Balance	Charged to Net Sales, Costs and Expenses	Deductions	Ending Balance
Year Ended June 27, 1998:				
Allowance for returns, allowances and doubtful accounts	$ 2,400,000	$21,752,000	$ (21,152,000)	$ 3,000,000
Year Ended June 26, 1999:				
Allowance for returns, allowances and doubtful accounts	$ 3,000,000	$31,606,000	$ (28,504,000)	$ 6,102,000
Year Ended July 1, 2000:				
Allowance for returns, allowances and doubtful accounts	$ 6,102,000	$45,593,000	$ (44,584,000)	$ 7,111,000
Year Ended June 30, 2001:				
Allowance for returns, allowances and doubtful accounts	$ 7,111,000	$47,854,000	$ (45,742,000)	$ 9,223,000

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation of Registrant. Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42097).
3.2	By-laws of the Registrant. Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42097).
3.3	Certificate of Designation for the Series A Convertible Preferred Stock of the Registrant. Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 28,1998.
4.1	Specimen Certificate for shares of Common Stock, $.01 par value, of the Registrant. Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42097).
4.2	Form of Note for Registrant's 10 3/4% Senior Subordinated Notes. Incorporated by reference to the Registrant's Registration Statement on Form S-4 (Registration No. 333-70169)
4.3	Indenture dated December 16,1998 between Norwest Bank National Association, as Issuer, and the Registrant relating to the Registrant's 10 3/4% Senior Subordinated Notes. Incorporated by reference to the Registrant's Registration Statement on Form S-4 (Registration No. 333-70169)
4.4	Indenture, dated as of April 23, 2001, amount Salton, Inc., the Guarantors (as defined therein), and Wells Fargo Bank Minnesota, N.A., as trustee, relating to $250,000,000 in aggregate principal amount and maturity of 12 1/4% senior subordinated notes due 2008. Incorporated by Reference to the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001.
4.5	Form of Note for Registrant's 12 1/4% senior subordinated notes due April 15, 2008. Incorporated by Reference to the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001.
10.1	Salton/Maxim Housewares, Inc. Stock Option Plan. Incorporated by reference to the Registrant's Registration Statement on form S-1 (Registration No. 33-42097).
10.2	Stockholders Agreement, dated August 6, 1991, by and among the Registrant, Braddock Financial Corporation, Financo Investors Fund, L.P., and Mesirow Private Equity, Inc. (successor to Mesirow Venture Capital, Inc.) as the authorized representative of Mesirow Capital Partners III, Mesirow Capital Partners IV, Mesirow Capital Partners V and Allied Investment Corporation. Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42097).
10.3	Form of Sales Representative Agreement generally used by and between the Registrant and its sales representatives. Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42097).

Exhibit Number	Description of Document
10.4	Stock Registration Rights Agreement, dated as of August 6, 1991, by and between the Registrant, Braddock Financial Corporation, Financo Investors Fund, L.P., Mesirow Capital Partners II, Mesirow Capital Partners IV, Mesirow Capital Partners V and Allied Investment Corporation. Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42097).
10.5	Salton/Maxim Housewares, Inc. 1995 Employee Stock Option Plan. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 1995.
10.6	Salton/Maxim Housewares, Inc. Non-Employee Directors Stock Option Plan. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 1995.
10.7	Asset Purchase Agreement dated July 1, 1996 by and among the Registrant, Block China Corporation and Robert C. Block Incorporated by reference from the Company's Current Report on Form 8-K dated July 1, 1996.
10.8	License Agreement dated as of February 1, 1996 by and between White Consolidated Industries Inc. and the Registrant. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q/A for the fiscal quarter ended December 28, 1996.
10.9	License Agreement dated as of May 21, 1996 by and between White Consolidated Industries Inc. and the Registrant. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q/A for the fiscal quarter ended December 28, 1996.
10.10	Purchase, Distribution and Marketing Agreement dated as of January 27, 1997 between the Registrant and Kmart Corporation. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q/A for the fiscal quarter ended December 28, 1996.
10.11	Employment Agreement dated as of December 19, 1997 between the Registrant and Leonhard Dreimann. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 27, 1998.
10.12	Employment Agreement dated as of December 19, 1997 between the Registrant and David C. Sabin. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 27, 1998.
10.13	Employment Agreement dated as of December 19, 1997 between the Registrant and William B. Rue. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 27, 1998.
10.14	Stock Agreement, dated as of May 6, 1998, by and between the Registrant, Windmere-Durable Holdings, Inc. and the Salton Executive Related Parties (as defined therein). Incorporated by reference to the Registrant's Current Report on Form 8-K dated May 6, 1998.
10.15	Note, dated July 27, 1998, issued by the Registrant to Windmere-Durable Holdings, Inc. Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 28, 1998.

Exhibit Number	Description of Document
10.16	Agreement dated July 27, 1998, between the Registrant to Windmere-Durable Holdings, Inc. Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 28, 1998.
10.17	Credit Agreement dated July 27, 1998 among the Registrant, the several lenders from time to time parties thereto, Lehman Brothers Inc., as arranger, Lehman Commercial Paper Inc., as syndication agent, and Lehman Commercial Paper Inc., as administrative agent. Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 28, 1998.
10.18	Stock Purchase Agreement dated July 15, 1998 by and among the Registrant and Centre Capital Investors III, L.P.,Centre Capital Tax-Exempt Investors II, L.P., Centre Capital Offshore Investors, L.P., The State Board of Administration of Florida, Centre Parallel Management Partners, L.P. and Centre Partners Coinvestment, L.P. Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 15, 1998.
10.19	Registration Rights Agreement dated July 15, 1998 by and among the Registrant and Centre Capital Investors II, L.P.,Centre Capital Tax-Exempt Investors II, L.P., Centre Capital Offshore Investors II, L.P., The State Board of Administration of Florida, Centre Parallel Management Partners, L.P. and Centre Partners Coinvestment, L.P. Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 28, 1998.
10.20	The Salton, Inc. 1998 Employee Stock Option Plan. Incorporated by reference to the Registrant's Definitive Proxy Statement on Schedule 14A filed on December 2, 1998.
10.21	Agreement effective as of July 1, 1999 between Salton and George Foreman. Incorporated by reference to the Registrant's, Current Report on Form 8-K dated December 9, 1999.
10.22	Agreement effective as July 1, 1999 between Salton and Sam Perlmutter. Incorporated by reference to the Registrant's, Current Report on Form 8-K dated December 9, 1999.
10.23	Agreement effective as of July 1, 1999 between Salton and Michael Srednick Incorporated by reference to the Registrant, Current Report on Form 8-K dated December 9, 1999.
10.24	Second amended and restated credit agreement, among Salton, Inc., as borrower, the several lenders from time to time parties hereto, Lehman Brothers Inc., as arranger, Lehman Commercial Paper Inc., as syndication agent, and administration agent and Fleet National Bank as documentation agent dated as of December 10, 1999. Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended December 25, 1999.
10.25	Agreement effective January 12, 2000, between Salton, Inc. and William B. Rue. Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2000.
10.26	Agreement effective January 12, 2000, between Salton, Inc. and Leonard Dreimann. Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2000.

Exhibit Number	Description of Document
10.27	Agreement effective January 12, 2000, between Salton, Inc. and David Sabin. Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2000.
10.28	Agreement effective January 12, 2000, between Salton, Inc. and John E. Thompson. Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2000.
10.29	Agreement dated as of September 7, 2000 between Salton and George Foreman. Incorporated by reference to the Current Report on Form 8-K dated September 7, 2000.
10.30	Agreement dated as of September 7, 2000 between Salton and Sam Perlmutter. Incorporated by reference to Registrant's Current Report on Form 8-K dated September 7, 2000.
10.31	Agreement dated as of September 7, 2000 between Salton and Michael Srednick. Incorporated by reference to Registrant's Current Report on Form 8-K dated September 7, 2000.
10.32	The Salton, Inc. 1999 Employee Stock Option Plan. Incorporated by reference to the Registrant's Definitive Proxy Statement on Schedule 14A filed December 9, 1999.
10.33	Salton, Inc. 2001 Employee Stock Option Plan
10.34	Third amended and restated credit agreement among Salton, as borrower, the several lenders from time to time parties thereto, Lehman Brothers, Inc., as arranger, Firstar Bank, N.A. as syndication agent, Lehman Commercial Paper Inc., as syndication agent, and Fleet National Bank, as documentation agent dated as of September 26, 2000. Incorporated by reference to the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001.
10.35	First Amendment, dated as of April 13, 2001, to the third amended and restated credit agreement, dated as of September 26, 2000 among the Registrant, the several banks and financial institutions or entities parties thereto, Lehman Brothers Inc., as advisor and book runner, Firstar Bank, N.A., as syndication agent, Lehman Commercial Paper Inc., as administrative agent, and Fleet National Bank, N.A., as documentation agent. Incorporated by reference to Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001.
21.1	Subsidiaries of the Company. Incorporated by reference to the Registrant's Registration Statement on Form S-4 (Registration No. 333-63296).
23.1	Consent of Deloitte & Touche LL