Excerpts from the fiscal 2000 10-K filing with the SEC for the period ending July 1, 2000

OVERVIEW

We are a leading domestic designer, marketer and distributor of a broad range of branded, high quality small appliances, tabletop products, and personal care and time products. We act as a marketing service provider by managing our brands and product lines in a manner that allows our retail customers to differentiate themselves to consumers. We believe we have the leading domestic market share in toasters, juice extractors, indoor grills, bread bakers, griddles, waffle makers and buffet ranges/hotplates and a significant market share in other product categories. We believe that our strong market share results from our well-known brand names, the breadth, quality and innovation of our product offerings and our strong relationships with retailers and suppliers. We outsource most of our production to independent manufacturers, primarily in the Far East.

Our portfolio of well-recognized owned and licensed brand names includes Salton(R), Toastmaster(R), Maxim(R), Breadman(R), Juiceman(R), Juicelady(R), George Foreman Grills(R), White-Westinghouse(R), Farberware(R), Melitta(R), Block(R), Atlantis(R), Sasaki(R), Rejuvenique(R), Ingraham(R), Timex(R), Indiglo(R), Calvin Klein(R), Sonex(R), Stiffel(R) and Relaxor(R). We are also a leading designer and distributor of small appliances in the U.S. under such well-known names as Kenmore(R) and Magic Chef(R).

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. Salton's customers include many premier domestic retailers, including Kmart, Target Corporation, Sears, Wal-Mart, Federated Department Stores, May Company Department Stores, QVC, Service Merchandise, Kohls Department Stores and Bed Bath & Beyond. We market and sell our products primarily in the U.S. through our own sales force and a network of independent commissioned sales representatives.

Our primary business objective is to increase sales and profits by acting as a marketing and distribution service provider to our customers. We believe we can accomplish this through active brand and product management. The key elements of our growth strategy include:

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 designers strive to develop new products and product line extensions which offer added value to consumers through enhanced functionality and improved aesthetics. During fiscal 2000, we introduced approximately 305 new stock keeping units, or SKUs, in the small appliance category, 952 new SKUs in the tabletop products category and 350 new SKUs in the personal care/time products category.

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. For example, we recently expanded our product offerings to specialty retailing, mail order catalog, home center, drug store and grocery store channels.

PURSUE LICENSING AGREEMENTS AND STRATEGIC ALLIANCES. We have entered into licensing agreements and strategic alliances 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(R), Kenmore(R) and Magic Chef(R) brand names, respectively. In addition, we have licensing rights to market certain products under the Calvin Klein(R), Sasaki(R), Marilyn Monroe(TM), LooneyTunes(TM) and Melitta(R) brands. We also recently entered into a worldwide exclusive licensing agreement to market and distribute the "Ultravection" oven and the "Spin Fryer" home appliance.

CONTINUE DEVELOPING ALTERNATIVE DISTRIBUTION CHANNELS. We expect to continue selling our 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(R), Juiceman(R) and JuiceLady(R) fresh juice machines and the Rejuvenique(R) facial toning system.

ENHANCE GROWTH AND PROFITABILITY THROUGH 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. Our recent acquisitions include:

- Toastmaster, a manufacturer and marketer of kitchen and small appliances and time products;
- certain assets of Sasaki, Inc., a leading designer of high-quality tabletop products and accessories for the home;
- Sonex International Corporation, a designer and distributor of electrically operated toothbrushes which employ ultra high frequency sonic waves for cleaning;
- certain assets and intellectual property of The Stiffel Company, a designer of lamps and related products; and
- the Relaxor(R) brand business and certain inventory, including personal massagers and other personal care items.

EXPAND INTERNATIONAL PRESENCE. We intend to expand international sales of certain of our products. For example, 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 acquired approximately 21% of the outstanding equity of Amalgamated Appliance Holding Limited, a public company located in South Africa which manufactures and distributes appliances and electrical accessories.

TRADEMARKS, PATENTS AND LICENSING ARRANGEMENTS

Salton holds a number of patents and trademarks registered in the United States and foreign countries for various products and processes. Salton has registered certain of its trademarks with the United States Patent and Trademark Office. Salton considers these trademarks to be of considerable value and of material importance to its business.

Salton holds numerous United States and foreign patents, including design patents. Salton believes that none of its product lines is dependent upon any single patent or group of patents.

On December 9, 1999, Salton acquired from George Foreman and his partners the right to use in perpetuity and worldwide the name "George Foreman", including pictures and likeness of George Foreman, in connection with the marketing and sale of food preparation appliances. This transaction terminated as of July 1, 1999 Salton's obligation to pay royalties to George Foreman and his partners based on the sale of "George Foreman" products. The aggregate purchase price payable to George Foreman was $113,750,000 in cash, payable in five annual installments of $22,750,000 commencing on the closing date, and 779,191 shares of Salton common stock.

During 1996, Salton entered into license agreements with White Consolidated Industries, Inc. ("White Consolidated") for use of the White-Westinghouse(R) trademark for small kitchen appliances, personal care products, fans, heaters, air cleaners and humidifiers. The license agreements grant Salton the exclusive right and license to use the White-Westinghouse(R) trademark in the United States and Canada in exchange for certain license fees, royalties and minimum 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 such agreement upon one-year's notice or upon a breach by Salton.

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

Salton has a license agreement with Aesthetics, Inc. The license covers the manufacturing, marketing and distributing of the Rejuvenique(R) facial product lines.

In the fourth quarter of fiscal 1999, Salton 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(R) brand name.

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

On September 8, 2000, Salton entered into a worldwide exclusive licensing agreement to market and distribute the "Spin Fryer" home appliance.

Salton has 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(R), Timex(TM), Indiglo(TM), Gino's East Pizza(R), Gear(R), Taco Bell(R), Hershey Kiss(R), Looney Tunes(R), Andy Warhol, Marilyn Monroe(TM), James Dean and Campbell Soup(R). Salton believes that these other license arrangements help to demonstrate its creativity and versatility in product design and the enhancement of existing products.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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(R) product line, including the initial shipments of the George Foreman indoor/outdoor electric grills, sales of Toastmaster(R) products for a full fiscal year, and sales of Farberware(R), Juicelady(R) and Juiceman(R) products. Net sales of the White-Westinghouse(R) 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 2000, operating activities provided cash of $5.6 million and $47.1 million of cash was used in investing activities. The cash provided from operating activities resulted primarily from the growth in net income in the period, offset by higher levels of receivables and inventory and lower levels of accounts payable when compared to year-end June 26, 1999. The primary investing activities included the George Foreman transaction and equity investments in Amalgamated and ePods, as well as increased investment in capital assets, primarily tooling. Financing activities provided net cash of $37.8 million, primarily from draws under the revolving line of credit of $36.4 million.

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 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. The first cash installment of $22.75 million was paid during fiscal 2000. In connection with the transaction, Salton issued a five-year $91.0 million non-interest bearing subordinated promissory note recorded at its present value of $74.5 million accreted to the present value of $80.8 million as of July 1, 2000. The effect of the George Foreman transaction was an elimination of royalty expense, partially offset by the recording of amortization of $8.1 million and imputed interest of $6.3 million.

On September 7, 2000 Salton announced that it had reached an agreement to satisfy $22.75 million of payment obligations, which otherwise would have been due on June 30, 2001, that it incurred in connection with its acquisition of the George Foreman name by issuing 621,074 shares of its common stock to George Foreman and other venture partners. Salton has agreed, under certain circumstances, to pay an amount of cash and/or additional shares of its common stock if the shares issued to George Foreman and the others are sold for less than $36.625 per share during a specified one year period. George Foreman and the others have agreed, under certain circumstances, to pay Salton in cash 50% of the excess over $36.625 per share of any shares sold during such one year period, plus 50% of the excess of the market value over $36.625 for any shares retained at the end of such one year period. **(Please Note that this event occurred after the end of fiscal 2000 and is therefore not reflected in the current financial statements.)**

At July 1, 2000, Salton had debt outstanding of $327.2 million, including $125.0 million of 10-3/4% senior subordinated notes due 2005, and had the ability to borrow up to an additional $30.0 million under its revolving credit facility. Typically, given the seasonal nature of Salton's business, Salton's borrowings tend to be the highest in mid-fall and early winter.

Salton amended and restated its credit agreement among Salton, Lehman Brothers Inc., as arranger, Lehman Commercial Paper Inc., as syndication agent and administration agent, and a syndicate of banks (the "Amended Credit Agreement") during the quarter ended December 25, 1999. Salton increased its existing revolving credit facility from $80.0 million to $115.0 million. The Amended Credit Agreement also provides 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 the Company's election, a eurodollar rate (equivalent to the LIBOR rate) plus an applicable margin of 325 basis points maturing in twenty-four consecutive quarterly installments commencing on March 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 the Company's 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 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.

Salton's Amended Credit Agreement and senior subordinated notes contain a number of significant covenants that, among other things, restrict the ability of Salton to dispose of assets, incur additional indebtedness, prepay other indebtedness, pay dividends, repurchase or redeem capital stock, 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 that will otherwise restrict corporate and business activities. In addition, under the Amended Credit Agreement, Salton is required to comply with specified financial ratios and tests, including a minimum net worth test, a fixed charge coverage ratio, an interest coverage ratio and a leverage ratio.

On August 24, 2000 Salton signed a commitment letter with Lehman Commercial Paper Inc. and Lehman Brothers Inc. to amend and restate the Amended Credit Agreement, to increase by $50,000,000 the amount of the credit facilities made available thereunder, reduce the pricing grid for interest rates under certain circumstances and to amend certain of the terms applicable thereto.

Salton's ability to make scheduled principal and interest payments on, or to refinance, its indebtedness, or to fund planned capital expenditures will depend upon its future performance, which is subject to general economic, financial, competitive and other factors that are beyond its control. Salton's ability to fund its operating activities is also dependent upon its rate of growth, ability to effectively manage its inventory, the terms under which it extends credit to customers and its ability to collect under such terms and its ability to access external sources of financing. Based upon the current level of operations and anticipated growth, management believes that future cash flow from operations, together with available borrowings under the Amended Credit Agreement and funds anticipated to be available from the issuance of additional debt and/or equity securities, will be adequate to meet Salton's anticipated requirements for capital expenditures, working capital, interest payments and scheduled principal payments over the next 12 months. There can be no assurance, however, that Salton's business will continue to generate sufficient cash flow from operations in the future to service its debt and make necessary capital expenditures after satisfying certain liabilities arising in the ordinary course of business. If unable to do so, Salton may be required to refinance all or a portion of its existing debt, to sell assets or to obtain additional financing. There can be no assurance that any such refinancing would be available or that any such sales of assets or additional financing could be obtained.

SEASONALITY

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

SALTON, INC.
CONSOLIDATED BALANCE SHEETS JULY 1, 2000 AND JUNE 26, 1999
(IN THOUSANDS EXCEPT SHARE DATA)

ASSETS	**2000**	**1999**
CURRENT ASSETS:		
Cash	$ 7,606	$ 11,240
Accounts receivable, less allowance:		
2000 - $7,111; 1999 - $6,102	129,850	96,179
Inventories	219,230	144,124
Prepaid expenses and other current assets	10,146	6,350
Deferred income taxes	3,713	3,134
Total current assets	370,545	261,027
PROPERTY, PLANT AND EQUIPMENT:		
Land	1,625	928
Buildings	8,079	4,696
Molds and tooling	35,749	26,364
Warehouse equipment	7,061	6,142
Office furniture and equipment	9,373	6,097
	61,887	44,227
Less accumulated depreciation	(27,244)	(19,576)
	34,643	24,651
PATENTS AND TRADEMARKS, NET OF ACCUMULATED AMORTIZATION	127,074	2,711
OTHER INTANGIBLES, NET OF ACCUMULATED AMORTIZATION, AND OTHER NON-CURRENT ASSETS	32,014	39,927
TOTAL ASSETS	$ 564,276	$ 328,316
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit and other current debt	$ 112,155	$ 32,229
Accounts payable	35,113	40,997
Accrued expenses	21,028	21,865
Income taxes payable	4,578	
Total current liabilities	172,874	95,091
NON-CURRENT DEFERRED INCOME TAXES	2,529	157
LONG-TERM DEBT	215,065	182,329
Total liabilities	390,468	277,577
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: 2000 - 11,351,927; 1999 - 6,834,572	135	133
Treasury stock - at cost	(30,211)	(90,804)
Additional paid-in capital	62,572	91,968
Accumulated other comprehensive income (loss)	6	(48)
Retained earnings	141,306	49,490
Total stockholders' equity	173,808	50,739
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 564,276	$ 328,316

SALTON, INC.

CONSOLIDATED STATEMENTS OF EARNINGS YEARS ENDED JULY 1, 2000, JUNE 26, 1999, AND JUNE 27, 1998 (IN THOUSANDS EXCEPT PER SHARE DATA)

	2000	1999	1998
NET SALES	$ 837,302	$ 506,116	$ 305,599
COST OF GOODS SOLD	467,250	285,526	179,376
DISTRIBUTION EXPENSES	37,639	21,621	12,327
GROSS PROFIT	332,413	198,969	113,896
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	156,749	129,588	84,216
OPERATING INCOME	175,664	69,381	29,680
COSTS ASSOCIATED WITH REFINANCING			(1,133)
REALIZED GAIN ON MARKETABLE SECURITIES			8,972
INCOME BEFORE INCOME TAXES	146,903	53,863	32,186
INCOME TAX EXPENSE	55,087	19,320	12,205
NET INCOME	91,816	34,543	19,981
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	11,221	10,760	19,594
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	15,526	14,562	20,259
NET INCOME PER COMMON SHARE: BASIC	$ 8.18	$ 3.21	$ 1.02
NET INCOME PER COMMON SHARE: DILUTED	$ 5.91	$ 2.37	$ 0.99

SALTON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JULY 1, 2000, JUNE 26, 1999, AND JUNE 27, 1998 (IN THOUSANDS)

	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 91,816	$ 34,543	$ 19,981
Adjustments to reconcile net income to net cash from operating activities:			
Imputed interest on note payable	6,336		
Gain on sale of marketable securities			(8,972)
Deferred income taxes	1,793	4,109	(1,428)
Depreciation and amortization	19,075	7,301	4,301
Equity in net income of investees	(321)		
Purchase reduction of note payable and other noncash items	1,662	(208)	
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	(33,671)	(12,176)	(17,578)
Inventories	(75,106)	(26,406)	(34,537)
Prepaid expenses and other current assets	(3,796)	(1,365)	1,881
Accounts payable	(5,884)	14,716	1,599
Taxes payable	4,578	(4,290)	6,406
Accrued expenses	(837)	(1,032)	3,245
Net cash from operating activities	5,645	15,192	(25,102)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(13,976)	(5,390)	(4,565)
Proceeds from the sale of marketable securities			19,072
Acquisition of George Foreman Trademark	(22,750)		
Additions to intangibles for patents/trademarks	(737)		
Equity investment	(9,615)		
Acquisition of businesses		(108,126)	
Net cash from investing activities	(47,078)	(113,516)	14,507
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (repayment) proceeds from revolving line of credit and other debt	36,367	(20,475)	12,498
Repayment of long-term debt	(625)	(90,125)	
Proceeds from long-term debt		260,000	
Repayment of subordinated and other debt		(125)	(5,433)
Costs associated with refinancing	(616)	(8,065)	1,133
Common stock issued	2,669	1,489	445
Preferred stock issued		40,000	
Purchase of treasury stock		(70,799)	
Costs associated with preferred stock issuance		(2,999)	
Net cash from financing activities	37,795	108,901	8,643
The effect of exchange rate changes on cash	4	2	
CASH, BEGINNING OF YEAR	11,240	661	2,613

Acquisitions
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 periods presented:

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

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

On March 31, 1999, the Company bought certain assets of 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(R) 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. 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 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 recorded at its present value of $80.8 million as of July 1, 2000.

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

(IN THOUSANDS)	JUNE 26, 1999	JUNE 27, 1998
Net Sales	$506,116	$305,599
Operating Income	99,409	37,597
Net Income	47,310	20,350
Net income per share:		
Basic	4.40	1.04
Diluted	3.25	1.00

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 periods indicated.

On January 14, 2000, Salton entered into a strategic alliance with ePods, Inc., an Internet company, which offers consumers an easy, simple to use, all-in-one solution to accessing the Internet. Salton will become the exclusive distributor of ePods products in the U.S., Canada and Mexico. As part of this alliance, Salton has invested approximately $2 million in convertible preferred stock of ePods, recorded at its historical cost, and has a note receivable from ePods, Inc. of approximately $1.6 million, both of which are included in the consolidated financial statements in other assets.

Inventories

A summary of inventories is as follows:

(IN THOUSANDS)	JULY 1, 2000	JUNE 26, 1999
Raw materials	$ 6,392	$ 5,359
Work-in-process	447	1,238
Finished goods	212,391	137,527
Total	$219,230	$144,124

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 July 1, 2000 and June 26, 1999, they would have been approximately $2.9 million and $1.7 million lower than reported.

Debt

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

Long-term debt matures as follows:

FISCAL YEAR ENDED	SUBORDINATED NOTES	TERM LOAN	JUNIOR SUBORDINATED NOTE	OTHER NOTES PAYABLE	FOREMAN NOTE PAYABLE	TOTAL
2001		$ 375		$ 62	$43,718	$ 44,155
2002		500		35	19,325	19,860
2003		500		4	17,811	18,315
2004		11,000	$9,015			20,015
2005	$125,000	31,875				156,875
Thereafter						
	$125,000	$44,250	$9,015	$101	$80,854	259,220
Less current maturities						(44,155)
						$215,065

In addition to the preceding maturity schedules, the Company is required to make additional mandatory payments of 75% 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.