



• we are

Salton >

2003 Annual Report

we are

Strategic. Smart. Setting the pace.

The Salton that began in 1988 with 10 products and \$8 million in sales has grown up. We have evolved into a nearly \$1 billion international innovator and marketer. Our products are in everyone's homes. Our brands are some of the most recognized in the world. Our future prospects are bright. The time is right to present a focused profile that reveals Salton's strengths, leadership, and growth into a global presence. >

FINANCIAL HIGHLIGHTS

(In thousands except per share data)	Fiscal Year Ended June 29, 2003	Fiscal Year Ended June 30, 2002
Net Sales	\$ 894,908	\$ 922,479
Gross Profit	257,607	317,501
Operating Income	48,604	91,344
Net Income	7,971	30,147
Net Income per share: diluted	.53	2.00
Weighted Average Common and Common Equivalent Shares Outstanding	15,114	15,042
BALANCE SHEET DATA		
Working Capital	\$ 348,514	\$ 279,519
Total Assets	812,372	823,927
Total Debt	374,152	460,066
Stockholders' Equity	253,904	245,036

we are

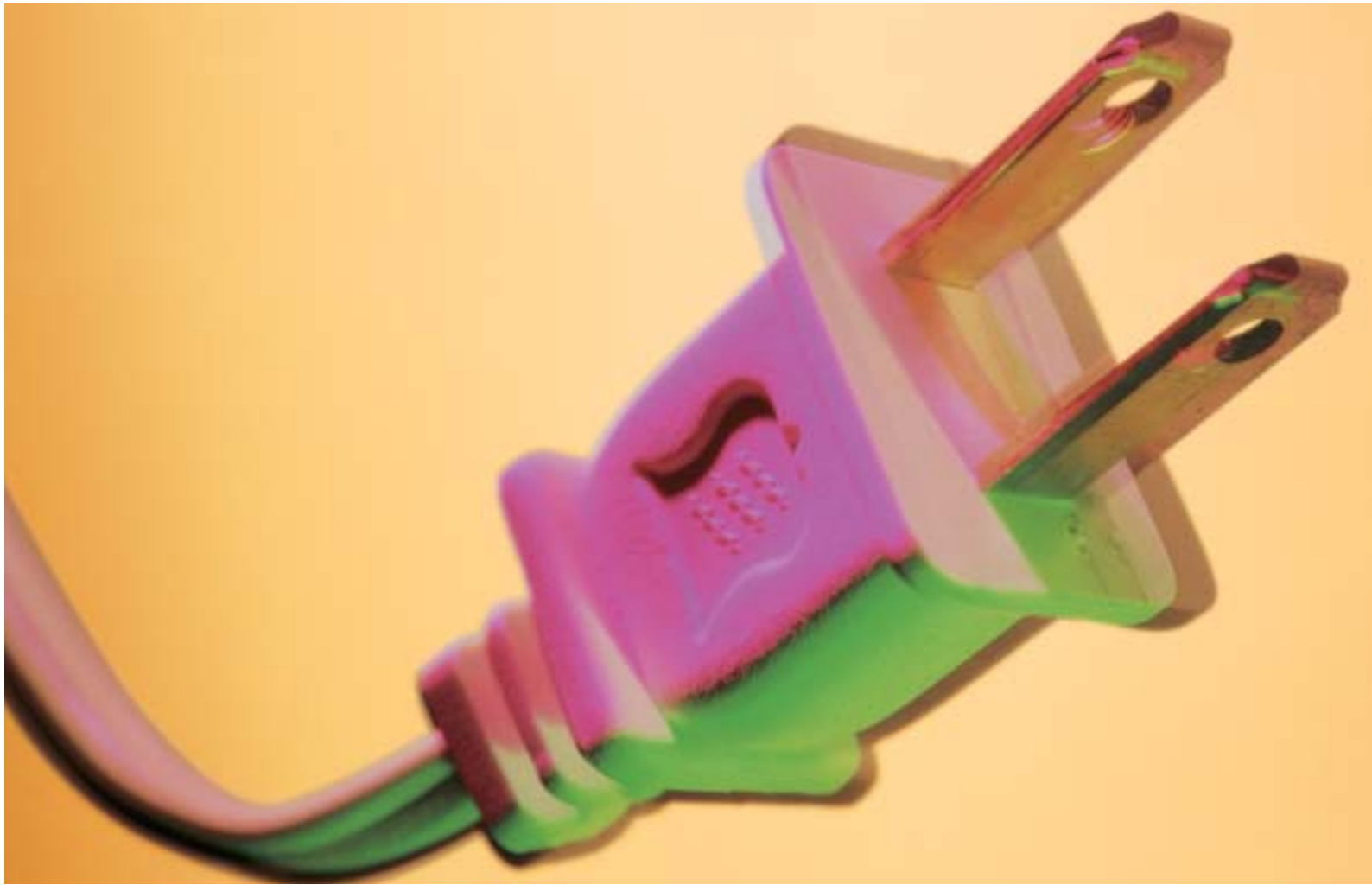
still the champ

Nobody can beat us at bold, breakthrough marketing. Our strength is bringing unique products to market and forging them into significant brands. It's how we made the George Foreman® products into champions! >



we are
connected to
the consumer

We are totally plugged in to what consumers want. Not just in the U.S., but around the globe. It's a dynamic synergy that will continue to power the future via the connected home. >



we are
building a
brand new world

The visionary strategy to take our domestic offerings abroad has opened up new markets and worlds of opportunity. In return, by acquiring new international brands, we have extended our global dominance in product categories. >



we are
doing what
we do best

Growth and maturity have not altered our purpose, only honed it. We continue to market creatively, acquire new brands strategically, and manage our business astutely through smart sourcing and low-cost manufacturing. >









dear

shareholders >

Salton's strategic marketing and innovative products helped the Company start the year with robust sales, leading to a healthy first half. Hopes were high for a vigorous holiday season, but it simply did not occur. A port lock-out in California compounded the problem. Fearful of shortages, retailers loaded up on inventory that they were unable to sell through. They ended the calendar year seriously over-stocked, then took another blow as the build-up for war in Iraq, and the war itself, discouraged consumer spending and dampened people's enthusiasm for shopping despite enticing promotions, drastic sales, and special credit terms.

Under these circumstances, it would have been tough for any company in a retail-dependent business to emerge relatively unscathed from fiscal year 2003. But we are not just any company. We are Salton. Our unique strengths have always set us apart from our competitors, in good times and in bad. Witness our results for fiscal year 2003. Net sales were \$894.9 million, compared with \$922.5 million in the same period last year. Net income was \$8.0 million, or \$0.53 per diluted share, versus \$30.1 million, or \$2.00 per diluted share in the prior year.

Though not as robust as we might have liked, when weighed against the difficulties presented by fiscal year 2003, these results confirm that, no matter what the economic climate, we continue to do what we do best:

- Marketing innovative products to consumers around the world
- Pursuing controlled growth through strategic acquisitions
- Demonstrating leadership in sourcing quality, low-cost manufacturing and financial discipline.

These phrases not only describe our business and define who we are as a company, they also provide insight into the dynamics that allowed us to emerge from fiscal year 2003 with a positive outlook for 2004.

WE ARE SETTING THE PACE.

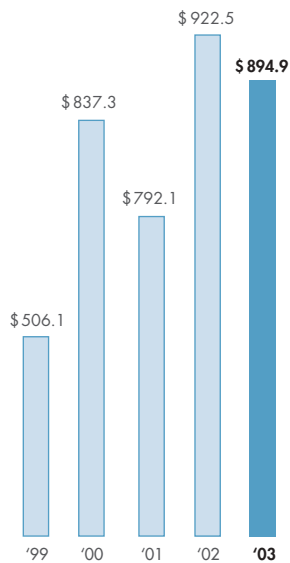
Since the very beginning, we have never wavered from our position that we are a marketing company first and foremost. We have a proven track record of successfully bringing innovative products to market, promoting them creatively, and then building off our initial success

with line extensions, other new products, and further innovations. We did it when we made George Foreman® products household champions. We did it with Juiceman® and Breadman®. Now we are in the process of doing it again with other important brands—Westinghouse®, Westinghouse Beyond™ Connected Home Products, and Melitta®, to name just a few.

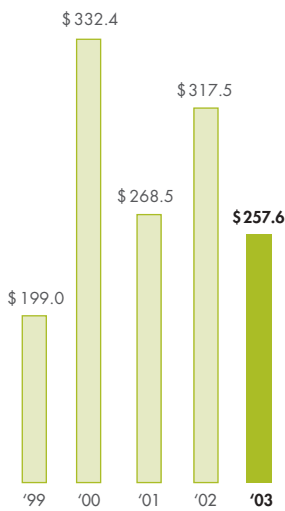
These new products alone are expected to contribute significantly in 2004 sales and will continue to diversify revenue streams. Initial orders for the new Westinghouse® cordless vacuum, for example, sold out for the first half of fiscal year 2004. Already the market is primed for this cutting-edge vacuum which features a HEPA filter, bagless technology, and recharging Power Packs for virtually continuous, cord-free operation.

The Melitta® One-to-One Pod Coffee Maker is another new product for Salton. The first set of orders for this revolutionary coffee-maker system that uses self-contained pods to brew individual cups of coffee, are on allocation for this fall.

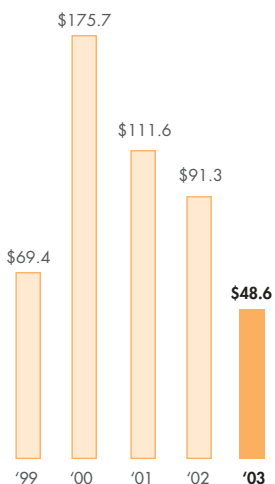
But Salton's forward-looking vision also is focused on the next generation of smart appliances—and the next generation of consumers. Salton is well-positioned for today and tomorrow with Westinghouse Beyond™ Connected Home Products. Showcased for the first time in 2003, these sophisticated devices leverage the power of home networking to save time, increase convenience, bolster home security, and improve home economics. The Beyond line includes a microwave, coffee maker, bread maker, iCEBOX®, and the Home Hub clock radio which is based on the Microsoft Windows CE.Net operating



NET SALES ALL BRANDS (dollars in millions)



GROSS PROFIT (dollars in millions)



OPERATING INCOME (dollars in millions)

system and serves as an intelligent gateway device linking appliances throughout the home and the Internet.

The potential for Beyond products going forward is tremendous. Salton sees the connected home becoming the norm in the 21st century and is already setting an example of how technology can improve the quality of life at home. As the Westinghouse Beyond™ brand expands, retailers and consumers can expect to see new wellness and other lifestyle products, as well as more entertainment options and kitchen appliances.

WE ARE STRATEGIC.

Salton's performance in fiscal year 2003 was helped significantly because we had the foresight to expand into the global marketplace. Anticipating an end to the economic "good times" in the U.S., we put ourselves in a position to capitalize on overseas market opportunities through strategic acquisitions. As a result, our thriving operations abroad supported the soft stateside performance.

Using established distribution channels developed through acquisitions like Salton Europe (formerly Pifco® Holdings PLC), the Company successfully launched an extensive lineup of domestic Salton products abroad, with minimal modification and maximum consumer acceptance. In return, the Company also was able to leverage its alliances with its global partners to promote quality new international brands, such as Russell Hobbs®, in the American marketplace and re-energize U.S. sales. We now have operations in Europe, Asia, Australia, New Zealand, and South Africa. We intend to open Brazil this year.

Salton continued to sharpen its focus on pursuing increased international market share during fiscal year 2003. The Company's wholly-owned subsidiary, Salton Hong Kong Limited, moved to increase its interest in South Africa's Amalgamated Appliance Holdings Limited to a majority stake of 52.6% in an all-cash transaction valued at approximately \$7.5 million. Amalgamated manufactures and distributes appliances and electrical accessories primarily to the South African market. Based on the success of our initial investment in Amalgamated, which took place in 1999, the strengthening of this relationship is expected to provide additional access and

further expansion of our brands and product categories in this market.

WE ARE SMART.

During fiscal year 2003, the Company also made a concerted decision to tighten financial discipline and significantly strengthen the balance sheet. By June 30, 2003, the Company had reduced inventory to \$192 million (exclusive of Amalgamated), improved collections of receivables, and embarked on a series of initiatives to successfully lower its cost of goods sold.

As a result of these actions, the Company saw a tremendous increase in net cash flow from operating activities: \$130.6 million in fiscal year 2003 vs. \$5.3 million in fiscal year 2002. This increase enabled the Company to reduce debt by \$107.9 million in 2003, its lowest level since 2000.

A pioneer in outsourcing manufacturing, the Company has substantial experience with and expertise in managing production relationships with third-party vendors. It followed then that working with our vendor partners to move production to lower-cost locations in China would be a key part of our efforts to lower costs.

That accomplished, we made the decision to pass on the savings at the SKU level to our retailers going forward where the strategic merits of doing so were clear and where it would enable us to keep our established shelf position secure. Approximately one-third of our SKUs were affected, resulting in across-the-board average cost reductions of 5%. This initiative resulted in softer margins in the 3rd and 4th quarters, while we transitioned through higher cost inventory, however, it sets the Company in a position to be highly competitive with solid gross margins in fiscal 2004.

On May 9, 2003, Salton completed the refinancing of its bank revolving credit agreement and closed on a new \$275 million Senior Secured credit facility. Under the terms of the agreement, Salton was able to reduce its borrowing costs for working capital while improving borrowing capacity and flexibility. Also, we were able to lengthen maturity of the agreement beyond the Company's 2005 notes and eliminate near-term refinancing risk. This successful refinancing significantly improved the Company's resilience to weather market volatility.

WE ARE SALTON.

There is no other company like Salton. It is not a boast. It is a fact. From 1988 to 2002, Salton enjoyed an astounding compound annual growth rate of 33.1%. While some of this growth was from acquisitions, it was primarily organic, stemming not from outside influences, trends, or economic activity, but from within the Company's character.

It is the Salton character that sustained us during the difficulties of fiscal year 2003. It is the Salton character that makes us optimistic as we look toward 2004. We are strategic and intent on pursuing international alliances and acquisitions that offer us a positive platform for growth. We are smart and in excellent financial shape to provide better margins, lower costs, and increased profitability. We are setting the pace in a worldwide market that is anxious to see what industry-changing products we will bring next.

We are Salton and we are committed to enhancing our performance for you, our stockholders.

Sincerely,



Leonhard Dreimann
Chief Executive Officer



David C. Sabin
Chairman and Secretary



William B. Rue
President and Chief Operating Officer

BOARD OF DIRECTORS

Leonhard Dreimann
Chief Executive Officer
Salton, Inc.

David C. Sabin
Chairman, Secretary
Salton, Inc.

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

Bert Doornmalen
Foreign Trade Consultant
Doornmalen Associates

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

Frank Devine
Management Consultant

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

Bruce J. Walker*
Lansford Professor of Leadership
and Dean
College of Business
University of Missouri – Columbia

Steven M. Oyer*
Vice President
Standard & Poor's Portfolio Services

*Audit Committee member

**Compensation Committee member

SENIOR EXECUTIVE STAFF

Leonhard Dreimann
Chief Executive Officer

David C. Sabin
Chairman, Secretary

William B. Rue
President, Chief Operating Officer

David Mulder
Executive Vice President
Chief Administrative Officer

REGISTRAR AND TRANSFER AGENT

UMB Bank, n.a.
Kansas City, Missouri

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Chicago, Illinois

LEGAL COUNSEL

Sonnenschein Nath and Rosenthal
Chicago, Illinois

STOCKWATCH

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

For additional stockholder information, please write to Investor Relations, Salton, Inc., 1955 Field Court, Lake Forest, IL 60045.

QUARTERLY SHARE PRICE

Fiscal 2003	High	Low	Fiscal 2002	High	Low
First Quarter	\$ 14.43	\$ 7.61	First Quarter	\$ 19.35	\$ 8.24
Second Quarter	\$ 14.40	\$ 8.01	Second Quarter	\$ 20.20	\$ 7.96
Third Quarter	\$ 11.60	\$ 8.60	Third Quarter	\$ 23.60	\$ 16.76
Fourth Quarter	\$ 13.50	\$ 8.13	Fourth Quarter	\$ 20.66	\$ 12.16



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