JUICEMAN®

Juiceman® Jr.
Juiceman® II
Juiceman® Jr. Elite
Juiceman® II Elite
Juicelady Elite

"Big girls DRINK LOTS OF juice"

"time flies WHEN YOU'VE HAD six daughters"

"Don't try THIS AT HOME without a Farberware® blender"

FARBERWARE

Coffee
- "Super-Fast" Percolators
- Automatic Coffee Urns
- Drip Coffeemakers
- Cappuccino Fino™ Espresso/Cappuccino Maker
- Coffee Grinder
- Hot Water Urn

Mixers and Blenders
- Hand Mixers
- Soda Fountain Drink Mixer

Food Preparation
- Nutristeam® Rice Cookers
- Healthy Gourmet® Grill Pan
- Open Hearth® Smokeless Indoor Grill/Rotisserie
- Pasta Maker
- Skillets
- Woks
- Citrus Juicers
- Cheese Grater
- Horizontal Rotisserie

Appliances
- Can Opener
- Waffle Maker
- Toaster Oven/Broilers
- Irons

MARILYN MONROE

Glamour
- Hair Dryers
- Make-up Mirror

Spa Therapy
- Body Massagers
- Aroma Unit
- Massaging Chairs
- Tapping Massagers
- Bath Massagers
- Aroma Oils

Travel
- Hair Dryers
- Steamers
- Curling Brush
- Plug Set
- Iron
- Jumbo Hair Rolle
- Make-up Mirror

ah

hh!

"a rockin' WAY to cook"

WHITE-WESTINGHOUSE

Bread
Bread Machines
Toasters

Coffee
Espresso Makers
Coffee Makers
Coffee Grinder

Mixers, Blenders and Choppers
Hand Mixers
Stand Mixers
Blenders
Mini Choppers

Food Preparation
Sandwich Makers
Juice Extractors
Waffle Makers
Popcorn Makers
Dehydrator
Steamer
Rice Cookers
Slow Cookers

Appliances
Can Openers
Electric Knife
Irons
Buffet Ranges

Fans and Heaters
Box Fans
Stand Fans
Window Fans
Desk Fans
Table Fans
Personal Fans
Portable Fans/Clip Fans
Ceramic Heaters
Fan Heaters
Air Cleaners
Humidifers

Hair Care
Hair dryers
Curling Irons
Curling Brushes
Make-up Mirrors
Hard Hat Bonnett Dryer

MAXIM

Cappuccino/Espresso/Coffee
- Cappuccino Expres®
- Cappuccino Expres® Café Kits
- Mug Warmers
- Cappuccino Crazy®
- Kettle

Food Preparation
- Rotisserie
- Professional Woks
- Crepe Maker
- Grill Pan
- Warming Trays
- Cheese Grater
- Donut Bites™

"WOK on the wild side"

"this man has a NEW

SALTON

Cappuccino/Espresso/Coffee
123 'Spresso
Split Decision®
Three For All® Combination
    Espresso-Cappuccino-Drip
    Coffeemaker
Cappuccino Exprés
Café Kit 11 piece
    Cappuccino- Espresso Set
Café Kit 20 piece
    Cappuccino- Espresso Set
Cappuccino Dolce
Café Salton
Coffee Grinders and Mills
Hot Spot® Mug Warmers
Electric Kettle
Iced Tea-Iced Coffee Maker

Living Color
Coffeemaker
Juicers
Wafflemakers

Food Preparation
Hand/Stand Mixers
Can Opener
Salad Spinner
Snack 'N' Sandwich Makers
Belgian Waffle Makers
Pizzelle Baker
Holiday Pizzelle Baker
Heart's Delight™ Waffle Maker
Cool Touch Toaster
Electric Knife
Wonder Peeler

Healthy Alternatives
Big Chill™ Ice Cream Maker
Mini Chill™ Ice Cream Maker
Citrus Juicers
Vitamin Bar™ Juice Extractors
Vitamin Bar™ Combination
    Vegetable Steamer and
    Rice Cooker
Yogurt Makers
Rice Cookers
The Nutritionist™ Cool Touch
Vitamin Bar™ 14 Speed Blender
Hot Air Popcorn Poppers
Peanut Butter Machine
Great Eggs
Maximix Food Processor

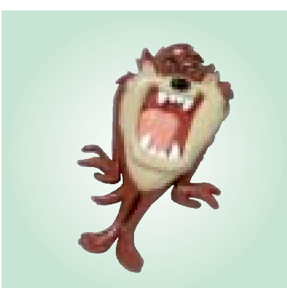
George Foreman's Lean Mean Fat Reducing Grilling Machine®
Small, Medium and Large
    Grilling Machines
Fusion Grill

best friend"

"everyone's life
should be
a little
LOONEY"

LOONEY TUNES

Shower Radio
Waffle Makers
Mug Warmer Sets
Snow Cone Makers
Hair Dryer



TACO BELL

Food Preparation
Tortilla Makers
Oven Grill
Slow Cookers
Rice Cookers

Mixers, Blenders, and Choppers
Hand Blender with Chopper
Mini Food Processor

"let's HAVE A fiesta"

"it even
sounds
good
WITH YOUR CLOTHES
on"

SALTON CREATIONS

Shower Radio Wet Tunes

Wet Tunes™ 3 Shower Radio
Wet Tunes™ 4 The Wet Cassette
Wet Tunes™ 6 Wet Reflections
Wet Tunes™ 30 Seashell
Wet Tunes™ 70 Dispenser

Personal Care

Facial Salon™
Manicure Station™ Nail Care Units
Jewelry Spa™ Jewelry Cleaner
ProSteam® Iron
Men's Grooming Sets

BREADMAN

Breadman Plus®
Breadman® Pro
Breadman Ultimate
Breadman Dream Machine
Breadman® Cool Touch Toasters
I ♥ Bagels™
Bagel Lovers Bagel Slicer
Gino's East Pizza Oven
Bread Maker Accessories
  Toppings, Mixes, Bread Box, Scales, Slicing Rack and Bread Knife

"I SMELL HOT BREAD I must be dreaming"

BLOCK CHINA

Atlantis
Full Lead, Mouth Blown Crystal

Block Crystal
Mouth Blown, Lead Free Crystal

Block 24% Lead Crystal

Block Basics
Housewares Lifestyle Glass

Gear Collection
Stoneware
Hand-painted Ceramics
Decorative Glass
Decorative Oven to
Table Bakeware

Raymond Waites
Vintage Collection
Fine China
Mouth Blown Cased Glass
Decorative Accessories

Bone China

Porcelain Dinnerware

Jonal Glass and Dinnerware

Nabisco Licensed Giftwares

The Andy Warhol Collection
Campbell Soup
Marilyn Monroe
James Dean
Dinnerware
Glassware
Giftware

"flowers & crystal... A MATCH MADE IN heaven"

Salton/Maxim Housewares, Inc. designs and markets a broad range of kitchen and home appliances, personal and beauty care appliances, time products, giftware and tabletop products.

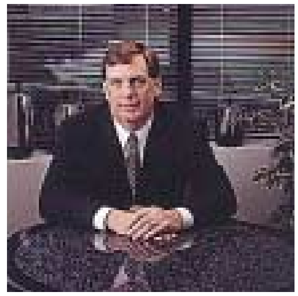
...Sal

Noted for innovation, the company focuses on developing unique new products and enhancing existing products. We market and distribute small appliances under recognized brand names, including Salton®, Maxim®, Breadman®, Juiceman®, George Foreman Grills®, Salton Creations®, Salton Time®, White-Westinghouse® and Farberware®. The Company also markets fine china, crystal and ceramic tabletop products under the Block® China, Atlantis® Crystal, Jonal®, and Gear® brand names. The company's products are sold by its own sales force, plus a network of independent sales representatives, to department stores, gourmet and lifestyle merchants, upscale mass merchandisers, direct mail catalogs and showrooms, specialty stores, warehouse clubs, direct television merchandisers, and other direct distribution channels. Salton markets "George Foreman's Lean Mean Fat Reducing Grilling Machine," and Juiceman directly to consumers via television infomercials. The company contracts for the manufacture of most of its products with independent overseas manufacturers, primarily in the Far East and Europe. Certain appliances are manufactured and assembled at its plant in Kenilworth, New Jersey.

ton®

product."

With its commitment to innovation, Salton/Maxim Housewares, Inc. continues to provide the nation's top retailers with unique products that meet the different needs, tastes, preferences and budgets of millions of consumers.

Dear Shareholder:

In today's bottom-line oriented business environment, successful companies often lose sight of what really makes them work…people. The people who design and manufacture their products. The people who market, sell, and distribute their products. The people who manage and oversee all these operations. And, most importantly, the people who buy their products.

For Salton, however, 1998 was a year focused on faces as well as figures, on partnerships as well as products, on the shareholders as well as market share. As a result, fiscal 1998 was a watershed year for Salton in which the Company made significant strides toward strengthening and expanding its operations, increasing its commitment to improved financial performance, and extending its brand awareness among consumers.

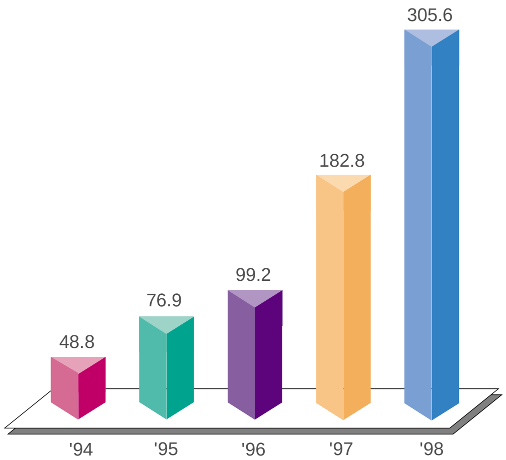
Net sales increased 67.2% to a record $305.6 million in 1998, compared to $182.8 million in 1997. Gross profit increased to $113.9 million, or 37.3% of net sales in 1998, compared to $53.4 million, or 29.2% of net sales in 1997. Income before income taxes increased more than five-fold to $32.2 million in 1998, compared to $6.4 million in 1997. Net income was $20 million, after income taxes of $12.2 million, or $1.48 per share on 13,506,263 shares outstanding in 1998, versus $4.4 million, after income taxes of $2 million, or 34 cents on 13,082,254 shares outstanding in 1997.

All of these financial gains were made possible by Salton management's unflagging pursuit of what is in the best interest of Salton, its stockholders, and its customers. The most significant effect of this focus was the repurchase in July of 6.5 million shares of Salton common stock formerly owned by Windmere-Durable Holdings, Inc. The buy-back allowed Salton to regain its independence and concentrate solely on implementing its long-term strategy of improving market share with products that provide steady growth.

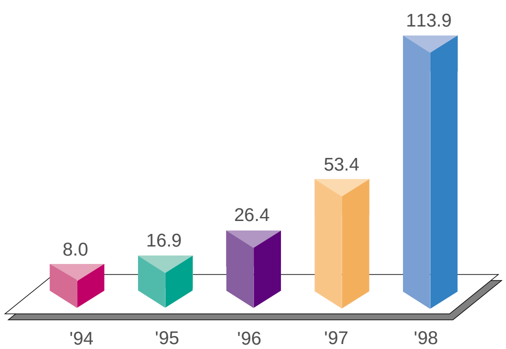
The repurchase of Windmere's 50% interest was an accretive transaction for Salton shareholders. Simultaneously, Salton entered into $215 million senior credit facility with Lehman Brothers, Inc. and a $40 million preferred stock purchase agreement with Centre Partners Management LLC. As a result of these combined actions, diluted shares outstanding were reduced from approximately 13.5 million to 9.1 million and control of the Company's destiny rests securely with the people who care most about its future.

And we believe the future looks bright! Fiscal 1998 brought not only vigorous progress toward our business goals, it also laid the groundwork for even further advances as fiscal 1999 stepped off:

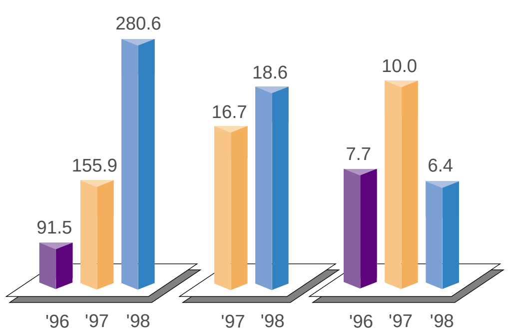
- This September, Salton was selected by Fortune Magazine for its 1998 list of America's 100 fastest-growing companies. Companies are selected on the basis of their annual earnings per share growth over the past three years. Salton ranks 19th on the list for its 143% annual earnings growth!
- Salton signed an agreement to extend its extremely successful partnership with George Foreman, a person who has been instrumental in the Company's success. Since we launched the first George Foreman Grill® in 1995, George's association with us has been tremendously productive and sales



NET SALES-ALL BRANDS
Dollars in Millions



GROSS PROFIT
Dollars in Millions



KITCHEN AND HOUSE APPLIANCES
Dollars in millions

TABLETOP PRODUCTS
Dollars in millions

PERSONAL AND BEAUTY CARE
Dollars in millions

momentum for his popular greaseless grills continues unabated. Under this new agreement, Salton also will design and market the new George Foreman Fusion Grills®, as well as other products being considered for introduction in 1999.

- Another strong indication of Salton's momentum toward continued growth is the pending acquisition of Toastmaster, Inc. In keeping with Salton's strategy to increase market share by marketing products under established brand names, the proposed merger brings many complimentary strengths to the Company. These strengths include a wide array of small household appliances sold under the widely-recognized Toastmaster® and Ingraham® banners, plus an extensive line of quality time products. Not only will the merger result in substantial revenue increases, but this synergistic acquisition also is expected to produce substantial economies over time as the Company combines the capabilities of both companies

- Salton successfully implemented private label programs under the White-Westinghouse® name at K-Mart and under the Kenmore® name at Sears. We also recently began shipping eight new small kitchen appliance SKUs to Wal-Mart under a new private label partnership. Under the terms of the partnership, Wal-Mart, America's largest mass merchant, will retail the Magic Chef brand name. These companies were no doubt attracted to the private label program by Salton's exceptional marketing capabilities and proven ability to design and develop products that service a broad range of retailers and satisfy the different needs, tastes, preferences, and budgets of their diverse customers.

- On a more personal note, Salton also recognized the numerous contributions of William B. Rue to its successful performance and announced his promotion to President of the Company. Bill continues in his roles as Chief Operating Officer and Senior Financial Officer, and has been elected to the Board of Directors.

As we tally the numbers and assess our performance for 1998, our recent achievements are reflected both in our business profile and our bottom line. But even more importantly, they are reflected in our excellent relationship with retailers and the consumer's positive response to our brands…the millions of people who can proudly say "I own a Salton product!" We expect the ranks of satisfied Salton customers – and the rewards for you, our shareholder – to continue to grow as we move into the new millennium and seek out even more profitable opportunities.

Sincerely,

David C. Sabin
Chairman and Secretary

Leonhard Dreimann
Chief Executive Officer

William B. Rue
President and Chief Operating Officer

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 the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. The important factors that could cause actual results to differ materially from those in the forward looking statements herein (the "Cautionary Statements") include, without limitation: the Company's degree of leverage; economic conditions and the retail environment; the timely development, introduction and customer acceptance of the Company's products; competitive products and pricing; dependence on foreign suppliers and supply and manufacturing constraints; the Company's relationship and contractual arrangements with key customers, suppliers and licensors; cancellation or reduction of orders; the integration of Toastmaster if the Toastmaster Acquisition (as defined) is consummated, including the failure to realize anticipated revenue enhancements and cost savings; the risks relating to pending legal proceedings, as well as other risks referenced from time to time in the Company's filings with the SEC, including the Company's Form 10K for the fiscal year ended June 27, 1998. All subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. The Company does not undertake any obligation to release publicly any revisions to such forward looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

OVERVIEW

Salton is a leading domestic designer and marketer of a broad range of kitchen and small household electrical appliances under such brand names as Salton®, Maxim®, Breadman®, Juiceman®, White-Westinghouse® and Farberware®. Salton believes that it has the leading U.S. market share in juice extractors and indoor grills and a significant U.S. market share in bread bakers and espresso makers. The Company also designs and markets personal and beauty care appliances under the Salton Creations® brand name, tabletop glass and crystal products under the Block® China, Atlantis® Crystal and Gear® brand names, and clocks under the Salton Time® brand name.

The Company markets and sells its products throughout the United States through its own sales force and a network of approximately 190 independent commissioned sales representatives. The Company sells its products primarily to mass merchandisers, department stores, specialty stores, direct mail catalogs and showrooms and other direct distribution channels. Further, the Company sells certain of its products, primarily Juiceman® fresh juice machines and the George Foreman Grills®, directly to consumers via the internet and through the use of paid half-hour television programs commonly referred to as infomercials. The Company contracts for the manufacture of most of its products with independent manufacturers located overseas, primarily in the Far East and Europe. The Company also assembles certain appliances in its plant located in Kenilworth, New Jersey.

On July 28, 1998, Salton repurchased (the "Stock Repurchase") 6,535,072 shares of Salton common stock owned by Windmere-Durable Holdings, Inc. ("Windmere") pursuant to a Stock Agreement dated as of May 6, 1998 (the "Windmere Stock Agreement") by and among Salton, Windmere and the executive officers of Salton. Prior to the Stock Repurchase, Windmere owned approximately 50% of Salton's outstanding common stock. The price for the Stock Repurchase was $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 Windmere and its affiliates during the term of the note. During fiscal 1998, the Company purchased approximately $27.1 million of products from Windmere. The principal amount of the Junior Subordinated Note is also subject to reduction in the event Salton's supply agreement with K-mart is terminated for any reason.

In connection with the Stock Repurchase: (i) Windmere effectively repaid (the "Note Repayment") in full its promissory note (the "Windmere Note") in the principal amount of approximately $10.8 million, which note was issued to Salton in July, 1996; (ii) Salton repurchased (the "Option Repurchase") for approximately $3.3 million Windmere's option to purchase up to 458,500 shares of Salton, which option was granted to Windmere in July, 1996; and (iii) Windmere and Salton agreed to continue various commercial and other arrangements, including a fee agreement relating to Salton's supply agreement with K-mart, subject to certain modifications. The Stock Repurchase, the Option Repurchase and the Note Repayment are collectively referred to herein as the "Repurchase."

On July 28, 1998, Salton entered into a Credit Agreement dated as of July 27, 1998 (the "New Credit Agreement") among Salton, Lehman Brothers Inc., as arranger, and Lehman Commercial Paper Inc., as syndication agent. The New Credit Agreement provides for $215.0 million in senior secured credit facilities (the "Senior Credit Facilities") consisting of a $90.0 million Tranche A Term Loan (the "Tranche A Term Loan"), a $75.0 million Delayed Draw Term Loan (the "Delayed Draw Term Loan") and a $50.0 million revolving credit facility (the "Revolving Credit Facility").

On July 28, 1998, Salton also issued (the "Convertible Preferred Stock Issuance") $40.0 million of Series A Voting Convertible Preferred Stock of the Company (the “Convertible Preferred Stock”) to affiliates of Centre Partners Management LLC (“Centre Partners”) in connection with a Stock Purchase Agreement dated July 15, 1998 (the “Preferred Stock Agreement”). The Convertible Preferred Stock is generally non-dividend bearing and is currently convertible into 2,352,941 shares of Salton common stock (reflecting a $17 per share conversion price). Centre Partners is a private investment firm that manages the commitments and assets of Centre Capital Investors II, L.P. and related entities. Centre Capital Investors II, L.P. is a $450 million private equity fund raised in 1995. Since its inception in 1986, Centre Partners and its predecessors have invested more than $1.8 billion in nearly 50 separate investments. The Repurchase, borrowings under the New Credit Agreement and the Convertible Preferred Stock Issuance are collectively referred to herein as the “Recapitalization.”

On August 26, 1998, the Company entered into a definitive merger agreement to acquire Toastmaster Inc. (“Toastmaster”), a Columbia, Missouri based manufacturer and marketer of kitchen and small household electrical appliances and time products (the “Toastmaster Acquisition”). Toastmaster designs, manufactures, markets and services a wide array of kitchen and small household electrical appliances and time products under the brand names of Toastmaster® and Ingraham®. If the pending Toastmaster Acquisition is consummated, Salton will pay Toastmaster shareholders $7.00 per share in cash, or a total purchase price of approximately $53.6 million. Salton will also assume Toastmaster’s debt, which was approximately $48.5 million on September 15, 1998, in connection with the Toastmaster Acquisition.

During the last quarter of 1996, Toastmaster began implementing a restructuring plan designed to strengthen future financial performance by improving its cost structure and its competitive posture. The plan included the outsourcing of production of certain kitchen countertop appliances to overseas suppliers. As part of this plan, Toastmaster discontinued production of cool touch wafflebakers at its Boonville, Missouri plant in July 1998 and outsourced production with lower cost vendors overseas.

Salton has identified numerous opportunities for revenue enhancements and cost savings that it believes it will be able to realize as a result of the Toastmaster Acquisition. The Company believes that it can use its competitive strengths and experience in product development and marketing to improve upon Toastmaster’s product offerings, brand reputation and customer relations. For example, the Company will utilize its strong customer relationships to gain shelf space for Toastmaster’s products with retailers where Toastmaster does not currently have substantial shelf space presence and to expand the shelf space and sales of Toastmaster products with existing Toastmaster retailers by introducing certain Salton products into Toastmaster’s product lines.

Although Salton currently plans to continue the production of certain kitchen and small household electrical appliances at Toastmaster’s Macon, Missouri plant, the Company expects to implement its strategy of outsourcing appliances to overseas vendors. The Company believes that through its proven ability to source products overseas, it can achieve significant cost savings through more favorable product pricing and other terms. Other anticipated cost savings identified by the Company include advertising, ocean freight, warehousing and corporate overhead expenses.

Salton’s ability to achieve revenue enhancements and recognize cost savings from the Toastmaster Acquisition will depend to a significant extent on its ability to successfully integrate the operations of Salton and Toastmaster and other factors, including economic conditions and the retail environment.

The consummation of the pending Toastmaster Acquisition is subject to the satisfaction or waiver of certain conditions, including expiration or termination of the HartScottRodino Act waiting period and the approval of the holders of 66% of the outstanding shares of Toastmaster common stock. The Company currently expects the pending Toastmaster Acquisition to be completed during the last quarter of calendar 1998. There can be no assurance as to if or when the pending Toastmaster Acquisition will be completed, or that it will be completed on the terms described herein.

RESULTS OF OPERATIONS

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

Net sales for the fiscal year ended June 27, 1988 (“Fiscal 1998”) were $305.6 million, an increase of approximately $122.8 million or 67.2% compared to net sales of $182.8 million for the fiscal year ended June 28, 1997 (“Fiscal 1997”). This increase is primarily attributable to increased sales of the Juiceman® juice extractors and George Foreman Grills®, Farberware® products, and White-Westinghouse® sales under the K-mart supply agreement. Net sales of White-Westinghouse® products to K-mart approximated 19% and 16% of net sales in Fiscal 1998 and Fiscal 1997, respectively.

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

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

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

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

Net interest expense was approximately $5.3 million for Fiscal 1998 compared to $4.1 million in Fiscal 1997. The Company's rate of interest on amounts outstanding was a weighted average annual rate of 9.5% in Fiscal 1998 compared to 10.5% in Fiscal 1997. The average amount outstanding under the Company's Amended and Restated Loan and Security Agreement dated July 30, 1997 (the "Old Credit Agreement") between the Company and its previous lender increased about $22.2 million when compared to the average amount outstanding a year ago. This increase was used primarily to finance higher net sales and a seasonal build in inventory. Interest expense during the period was offset by interest income earned on the promissory note from Windmere issued to the Company in July 1996.

Subsequent to the year ended June 27, 1998, the Company consummated the Recapitalization. In connection therewith, the Company used a portion of the proceeds it received from the New Credit Agreement to refinance all outstanding indebtedness under the Old Credit Agreement. Accordingly, at June 27, 1998, the Company had incurred expense with the early termination of the Old Credit Agreement of approximately $1.1 million.

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

The Company had income before income taxes of $32.2 million in Fiscal 1998 compared to income before income taxes of $6.4 million in Fiscal 1997. The Company had income tax expense of $12.2 million in Fiscal 1998 as compared to income tax expense of $2.0 million in Fiscal 1997. Net income after income taxes was $20.0 million in Fiscal 1998 compared to net income after income taxes of $4.4 million in Fiscal 1997. Basic earnings per common share were $1.53 per share on weighted average common shares outstanding of 13,062,465 in Fiscal 1998 compared to earnings of $0.34 per share on weighted average common shares outstanding of 12,840,279 in Fiscal 1997. Diluted earnings per common share were $1.48 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 13,506,263 in Fiscal 1998 compared to earnings of $0.34 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 13,082,254 in Fiscal 1997.

Year ended June 28, 1997 compared to Year ended June 29, 1996

Net sales for Fiscal 1997 were $182.8 million, an increase of approximately $83.6 million or 84.3% compared to net sales of $99.2 million for the fiscal year ended June 29, 1996 ("Fiscal 1996"). This increase is primarily attributable to increased sales of the Juiceman® juice extractors and George Foreman Grills®, private label programs and the addition of Block China and White Westinghouse® sales under the K-mart supply agreement. Net sales of White Westinghouse® products to K-mart approximated 16% of net sales in Fiscal 1997. Sales under the K-mart agreement are expected to increase in anticipation of K-mart instituting a broad range program under the White Westinghouse® trade name.

Gross profit in Fiscal 1997 was $53.4 million or 29.2% of net sales as compared to $26.4 million or 26.6% in Fiscal 1996. Cost of goods sold during Fiscal 1997 decreased to 66.5% of net sales compared to 67.5% in Fiscal 1996. Distribution expenses were $7.8 million or 4.3% of net sales in Fiscal 1997 compared to $5.9 million or 5.9% of net sales in Fiscal 1996. Gross profit and costs of goods sold in Fiscal 1997 as a percentage of net sales improved primarily due to a more favorable mix of sales of higher gross margin items when compared to Fiscal 1996.

Selling, general and administrative expenses increased to $42.9 million or 23.5% of net sales in Fiscal 1997 compared to $21.3 million or 21.5% of net sales in Fiscal 1996. Expenditures for television, certain media and cooperative advertising coverages and royalty expenses were $25.7 million or 14.1% of net sales in Fiscal 1997 when compared to $10.9 million or 11.0% of net sales in Fiscal 1996. The remaining selling, general and administrative costs were $17.2 million or 9.4% of net sales in Fiscal 1997 compared to $10.4 million or 10.5% of net sales in Fiscal 1996. The dollar increase was primarily attributable to higher costs for additional personnel, trade show expenses, sales commissions and various other costs related to the higher level of sales.

Net interest expense was approximately $4.1 million for Fiscal 1997 compared to $3.9 million for Fiscal 1996. The Company's rate of interest on amounts outstanding was a weighted average annual rate of 10.5% in Fiscal 1997 compared to 11.1% in Fiscal 1996. The average amount outstanding under the Company's revolving line of credit increased about $9.3 million when compared to the average amount outstanding in the same period a year ago. This increase was used primarily to finance higher net sales and a seasonal build in inventory. Interest expense during the period was offset by interest income earned on the promissory note from Windmere issued to the Company in July 1996.

The Company had income before income taxes of $6.4 million in Fiscal 1997 compared to income before income taxes of $1.1 million in Fiscal 1996. Net operating loss carry forwards and resultant deferred tax assets were used in both periods to significantly offset current income taxes payable. Net income after income taxes was $4.4 million in Fiscal 1997 compared to net income after income taxes of $4.6 million in Fiscal 1996. Also during 1996, the Company had re-assessed the measurement of deferred tax assets based on available evidence and concluded that these assets at June 29, 1996 were anticipated to be realized. Accordingly, the Company released previously recorded valuation allowances which resulted in an income tax benefit of $3.5 million in 1996. Excluding the effect of this income tax benefit, net income after income taxes would have been $1.1 million in 1996 compared to net income after income taxes of $4.4 million in 1997. Weighted average common shares increased as a result of the Windmere transaction. Basic earnings per common share were $0.34 per share on weighted average common shares outstanding of 12,840,279 in Fiscal 1997 compared to earnings of $0.71 per share on weighted average common shares outstanding of 6,508,572 in Fiscal 1996. Diluted earnings per common share were $0.34 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 13,082,254 in Fiscal 1997 compared to earnings of $0.69 per share on weighted average common shares outstanding, including dilutive common stock equivalents, of 6,628,236 in Fiscal 1996.

LIQUIDITY AND CAPITAL RESOURCES

During Fiscal 1998, the Company used net cash of $25.1 million in operating activities. This resulted primarily from the growth in sales in the period and higher levels of inventory and receivables. Investing activities provided cash of approximately $14.5 million from the sale of Windmere common stock offset by an increased investment in capital assets, primarily tooling of about $4.6 million. Financing activities provided cash of $8.6 million for these purposes primarily from increased line of credit proceeds of $12.5 million, reduced by repayments of notes due to Windmere of approximately $5.4 million. At June 27, 1998, the Company had approximately $50.5 million outstanding as drawings under the Old Credit Agreement and had the ability to borrow up to $68.7 million. Typically, given the seasonal nature of the Company's business, the Company's borrowings tend to be the highest in mid-Summer to Fall. The Company expects that capital expenditures in Fiscal 1999 will not exceed $5.3 million or, if the Toastmaster Acquisition is consummated, $9.2 million.

On July 28, 1998, Salton entered into the New Credit Agreement. The Company used borrowings of $90.0 million under the Tranche A Term Loan and the net proceeds from the Convertible Preferred Stock Issuance to (i) pay the cash portion of the purchase price for the Stock Repurchase in an amount equal to approximately $70.8 million (which amount is net of approximately $10.8 million due and owing by Windmere to Salton under the Windmere Note, which note was cancelled at the closing of the Stock Repurchase), (ii) refinance all outstanding indebtedness under the Old Credit Agreement in an amount equal to approximately $51.7 million and (iii) pay fees and expenses relating to the Recapitalization. At September 15, 1998, the Company had $20.0 million outstanding under the Revolving Credit Facility and had the ability to borrow up to $50.0 million. In addition, the Company had not drawn the $75.0 million Delayed Draw Term Loan at that date.

In connection with the Toastmaster Acquisition, Salton has agreed to pay Toastmaster shareholders $7.00 per share in cash, or a total purchase price of approximately $53.6 million. Salton will also assume Toastmaster's debt, which was approximately $48.5 million on September 15, 1998, in connection with the Toastmaster Acquisition. Salton expects to fund this commitment through a combination of borrowings under the New Credit Agreement and the issuance of additional debt and/or one or more classes or series of the Company's equity securities. The incurrence of additional indebtedness would have an adverse effect upon Salton's reported net income and cash flow, and the issuance of equity securities could have a dilutive effect on Salton's then outstanding common stock. There can be no assurance as to the terms under which the Company can raise additional funds from future debt or equity issuances.

The Senior Credit Facilities 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 leaseback 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 Senior Credit Facilities, the Company 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.

The Company's ability to make scheduled payments of principal of, or to pay the interest on, or to refinance, its indebtedness, or to fund planned capital expenditures, will depend upon its future performance, which, in turn, is subject to general economic, financial, competitive and other factors that are beyond its control. The Company's ability to fund its operating abilities 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 New Credit Agreement and funds anticipated to be available from the issuance of additional debt and/or equity securities, will be adequate to meet the Company'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 the Company'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, the Company 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.

ACCOUNTING PRONOUNCEMENTS

The Company adopted Statement of Financial Accounting Standard No. 128 (SFAS 128), "Earnings per Share" in fiscal 1998. In June 1997, the FASB issued Statement of Financial Accounting Standard No. 130 (SFAS 130), "Reporting Comprehensive Income," No. 131 (SFAS 131), "Disclosures About Segments of an Enterprise and Related Information," No. 132 (SFAS 132), "Employer's Disclosures about Pensions and other Post Retirement Benefits which Revises Current Disclosure Requirements for Employers' Pensions and other Retiree Benefits" and No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." These statements are effective for fiscal years commencing after December 15, 1997. The Company will be required to comply with the provisions of these statements in fiscal 1999. These Statements of Financial Accounting Standards are primarily disclosure related, and the Company has not assessed the effect that these new standards will have on its consolidated financial statements and/or disclosures.

EFFECTS OF INFLATION AND FOREIGN CURRENCY EXCHANGE

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

YEAR 2000 ISSUES

Many computer and other software and hardware systems currently are not, or will or may not be, able to read, calculate or output correctly using dates after 1999, and such systems will require significant modifications in order to be "year 2000 compliant." This issue may have a material adverse affect on the Company's business, financial condition and results of operations because its computer and other systems are integral parts of the Company's distribution activities as well as its accounting and other information systems and because the Company will have to divert financial resources and personnel to address this issue.

The Company has reviewed its computer and other hardware and software systems and has recently begun upgrading those systems that it has identified as not being year 2000 compliant. The existing systems will be upgraded either through modification or replacement. The Company , currently anticipates that it will complete testing of these upgrades by the end of fiscal 1999.

Although the Company is not aware of any material operational impediments associated with upgrading its computer and other hardware and software systems to be year 2000 compliant, the Company cannot make any assurances that the upgrade of the Company's computer systems will be completed on schedule or, that the upgraded systems will be free of defects. If any such risks materialize, the Company could experience material adverse consequences to its business, financial condition and results of operations.

Year 2000 compliance may also adversely affect the Company's business, financial condition and results of operations indirectly by causing complications of, or otherwise affecting, the operations of any one or more of its suppliers and customers. The Company is contacting its significant suppliers and customers in an attempt to identify any potential year 2000 compliance issues with them. The Company is currently unable to anticipate the magnitude of the operational or financial impact it of year 2000 compliance issues with its suppliers and customers.

The Company incurred approximately $765,000 through fiscal 1998 and expects to incur approximately $135,000 through fiscal 1999 to resolve and test the Company's year 2000 compliance issues. All expenses incurred in connection with year 2000 compliance will be expensed as incurred, other than acquisitions of new software or hardware, which will be capitalized.

INDEPENDENT AUDITORS REPORT

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

We have audited the accompanying consolidated balance sheets of Salton/Maxim Housewares, Inc. (the "Company") as of June 27, 1998 and June 28, 1997 and the related consolidated statements of earnings, of stockholders' equity and of cash flows for each of the three years in the period ended June 27, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Salton/Maxim Housewares, Inc. as of June 27, 1998 and June 28, 1997 and the results of its operations and its cash flows for each of the three years in the period ended June 27, 1998 in conformity with generally accepted accounting principles.

As described in Note 16 to the consolidated financial statements, subsequent to June 27, 1998, the Company entered into a new debt agreement, issued preferred shares, repurchased approximately 50% of its outstanding common shares, and entered into a definitive merger agreement for the acquisition of Toastmaster Inc.

Deloitte & Touche LLP

Deloitte & Touche LLP
September 3, 1998
Chicago, Illinois

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

STATEMENT OF OPERATIONS DATA

(In thousands, except per share data.)

	June 27, 1998	June 28, 1997	June 29, 1996	July 1, 1995	July 2, 1994
Net sales	$305,599	$182,806	$99,202	$76,991	$48,807
Cost of sales	179,376	121,590	66,923	55,552	37,333
Distribution expenses	12,327	7,809	5,856	4,569	3,412
Gross profit	113,896	53,407	26,423	16,870	8,062
Selling, general, and administrative expenses	84,216	42,944	21,343	13,142	8,470
Operating income (loss)	29,680	10,463	5,080	3,728	(408)
Interest expense, net	(5,333)	(4,063)	(3,934)	(3,057)	(2,047)
Costs associated with refinancing	(1,133)				
Realized gain on sale of marketable securities	8,972				
Class action lawsuit expense					(489)
Income (loss) before taxes	32,186	6,400	1,146	671	(2,944)
Income tax expense (benefit)	12,205	2,001	(3,450)	20	
Net income (loss)	$ 19,981	$ 4,399	$ 4,596	$ 651	$(2,944)
Weighted average common shares outstanding	13,062	12,840	6,509	5,630	5,050
Net income (loss) per share: Basic	$1.53	$0.34	$0.71	$0.12	$(0.58)
Weighted average common shares and Common equivalent shares outstanding	13,506	13,082	6,628	5,901	5,050
Net income (loss) per share: Diluted	$1.48	$0.34	$0.69	$0.11	$(0.58)
Balance Sheet Data:					
Working capital	$44,768	$17,996	$12,244	$ 9,072	$ 9,290
Total assets	141,397	102,343	59,481	41,121	38,635
Long term debt		4,933	3,754	900	4,374
Stockholders' equity	57,711	38,622	19,925	15,329	10,736

Consolidated Balance Sheets

YEARS ENDED JUNE 27, 1998 AND JUNE 28, 1997

ASSETS	June 27, 1998	June 28, 1997
CURRENT ASSETS:		
Cash	$ 661,214	$ 2,612,871
Accounts receivable, less allowance:		
1998—$3,000,000; 1997—$2,400,000	43,224,852	25,646,677
Inventories	76,505,088	41,967,801
Prepaid expenses and other current assets	2,940,624	3,717,062
Federal income taxes refundable		1,105,336
Deferred income taxes	4,605,222	1,734,414
Total current assets	127,937,000	76,784,161
PROPERTY, PLANT AND EQUIPMENT:		
Molds and tooling	16,787,126	14,827,525
Warehouse equipment	452,715	380,487
Office furniture and equipment	5,341,755	3,792,035
	22,581,596	19,000,047
Less accumulated depreciation	(14,266,296)	(10,684,016)
	8,315,300	8,316,031
INTANGIBLES, NET OF ACCUMULATED AMORTIZATION	5,145,000	4,880,006
NONCURRENT DEFERRED INCOME TAXES		205,580
INVESTMENT IN WINDMERE COMMON STOCK		12,156,820
TOTAL ASSETS	$141,397,300	$102,342,598
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit	$ 50,475,078	$ 37,977,230
Accounts payable	18,960,008	17,361,238
Accrued expenses	7,234,506	2,856,512
Income taxes payable	6,499,342	93,085
Current portion—Subordinated Debt		500,000
Total current liabilities	83,168,934	58,788,065
NON-CURRENT DEFERRED INCOME TAXES	517,000	
DUE TO WINDMERE		4,932,730
Total Liabilities	83,685,934	63,720,795
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; authorized,		
2,000,000 shares, no shares issued		
Common Stock, $.01 par value; authorized,		
20,000,000 shares; shares issued and outstanding:		
1998-13,099,644; 199713,029,144	130,996	130,291
Unrealized gains on securities available for sale		1,337,250
Additional paid in capital	53,480,678	53,035,981
Less note receivable from stock issuance	(10,847,620)	(10,847,620)
Retained earnings (Deficit)	14,947,312	(5,034,099)
Total stockholders' equity	57,711,366	38,621,803
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$141,397,300	$102,342,598

See Notes to Consolidated Financial Statements

Consolidated Statements of Earnings

YEARS ENDED JUNE 27, 1998 AND JUNE 28, 1997, & June 29, 1996

	1998	1997	1996
NET SALES	$305,598,750	$182,806,323	$99,202,415
Cost of goods sold	179,375,466	121,590,232	66,923,141
Distribution expenses	12,327,187	7,808,631	5,856,477
Gross profit	113,896,097	53,407,460	26,422,797
Selling, general and administrative expenses	84,216,473	42,944,341	21,342,872
Operating income	29,679,624	10,463,119	5,079,925
Interest expense, net	(5,333,109)	(4,063,197)	(3,934,325)
Costs associated with refinancing	(1,132,814)		
Realized gain on marketable securities	8,972,488		
Income before income taxes	32,186,189	6,399,922	1,145,600
Income tax expense (benefit)	12,204,778	2,000,764	(3,449,884)
Net income	$19,981,411	$ 4,399,158	$ 4,595,484
Weighted average common shares outstanding	13,062,465	12,840,279	6,508,572
Weighted average common and common equivalent shares outstanding	13,506,263	13,082,254	6,628,236
Net income per common share: Basic	$ 1.53	$ 0.34	$ 0.71
Net income per common share: Diluted	$ 1.48	$ 0.34	$ 0.69

See Notes To Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED JUNE 27, 1998 AND JUNE 28, 1997, & June 29, 1996

	Shares	Common Stock	Unrealized Gains on Securities Held for Sale	Additional Paid In Capital	Less Note Receivable from sales of stock	Retained Earnings (Deficit)	Total Stockholders' Equity
BALANCE July 1, 1995	6,508,572	$65,086		$29,292,946		$(14,028,741)	$15,329,291
Net income for fiscal 1996						4,595,484	4,595,484
BALANCE June 29, 1996	6,508,572	65,086		29,292,946		(9,433,257)	19,924,775
Issuance of common stock	6,508,572	65,085		23,650,352	$(10,847,620)		12,867,817
Issuance of warrants				82,303			82,303
Unrealized gains on securities available for sale			$1,337,250				1,337,250
Employee stock option shares exercised	12,000	120		10,380			10,500
Net income fiscal 1997						4,399,158	4,399,158
BALANCE June 28, 1997	13,029,144	130,291	1,337,250	53,035,981	(10,847,620)	(5,034,099)	38,621,803
Issuance of common stock, net of issuance costs	25,000	250		300,531			300,781
Sale of securities			(1,337,250)				(1,337,250)
Stock option shares exercised	45,500	455		144,166			144,621
Net income fiscal 1998						19,981,411	19,981,411
BALANCE, June 27, 1998	13,099,644	$130,996		$53,480,678	$(10,847,620)	$14,947,312	$57,711,366

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 27, 1998 AND JUNE 28, 1997, AND JUNE 29, 1996

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$19,981,411	$4,399,158	$4,595,484
Adjustments to reconcile net income to net cash			
(used in) operating activities:			
Gain on sale of marketable securities	(8,972,488)		
Deferred income taxes	(1,428,170)	822,332	(3,482,384)
Depreciation and amortization	4,300,647	3,136,060	2,195,510
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	(17,578,175)	(9,776,051)	(2,395,175)
Inventories	(34,537,287)	(13,679,836)	(8,847,133)
Prepaid expenses and other current assets	776,438	(1,783,056)	(892,342)
Federal income tax refund	1,105,336	(1,105,336)	
Accounts payable	1,598,770	7,304,043	4,650,026
Taxes payable	6,406,257	81,085	22,500
Accrued expenses	3,245,180	1,635,729	582,921
Net cash used in operating activities	(25,102,081)	(8,965,872)	(3,570,593)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(4,564,910)	(4,608,389)	(4,279,838)
Proceeds from the sale of marketable securities	19,072,000		
Block acquisition and related payments		(1,739,280)	
Net cash provided by (used in) investing activities	14,507,090	(6,347,669)	(4,279,838)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from revolving line of credit	12,497,848	13,881,848	6,234,938
(Repayment) proceeds from subordinated debt			
and due to Windmere	(5,432,730)	4,515,731	2,670,955
Offering costs associated with stock issue		(485,650)	
Common stock issued	445,402	10,500	
Payment for product line acquisitions			(814,939)
Financing costs	1,132,814		(242,389)
Net cash provided by financing activities	8,643,334	17,922,429	7,848,565
NET (DECREASE) INCREASE IN CASH	(1,951,657)	2,608,888	(1,866)
CASH – Beginning of Year	2,612,871	3,983	5,849
CASH – End of Year	$ 661,214	$2,612,871	$ 3,983
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$5,893,266	$3,939,322	$3,510,123
Income taxes	$5,798,521	$1,697,500	$10,000

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During fiscal 1997, a long-term debt obligation of $3,254,286 was canceled by the consummation of a transaction with Windmere-Durable Holdings, Inc.(“Windmere”). In addition, the Company received a $10,847,620 note receivable and 748,112 shares of Windmere common stock in exchange for 6,508,572 newly issued shares of common stock of the Company.

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 27, 1998, JUNE 28, 1997, AND JUNE 29, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Salton/Maxim Housewares, Inc.("SMHI") and its subsidiaries ("Salton" or the "Company") is a leading marketer of a broad range of kitchen and home appliances, personal and beauty care appliances and decorative quartz wall and alarm clocks under the brand names of Salton®, Maxim®, Breadman®, Juiceman®, Salton Creations®, Salton Time®, White Westinghouse® and Farberware®. The Company also designs and markets a broad range of tabletop products, including china, crystal and glassware, under the brand names Block®China, Atlantis®Crystal and Gear.®

PRINCIPLES OF CONSOLIDATION—The consolidated financial statements include the accounts of SMHI and its subsidiaries, Home Creations Direct, Ltd. and Salton Hong Kong, Ltd. Salton Hong Kong, Ltd. is a foreign corporation which was organized under the laws of Hong Kong in fiscal year 1997. Intercompany balances and transactions are eliminated in consolidation.

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

ACCOUNTING PERIOD—The Company's fiscal year ends on the Saturday closest to June 30. The fiscal years ended June 27, 1998, June 28, 1997 and June 29, 1996 each consisted of 52 weeks.

INVENTORIES—Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out basis.

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, not to exceed 5 years. For tax purposes, assets are depreciated using accelerated methods.

INTANGIBLE ASSETS—Intangible assets, which are amortized over their estimated useful lives, consist of:

	Useful Life (in years)	June 27, 1998	June 28, 1997
Goodwill	10-40	$2,116,773	$1,926,454
Financing and organization costs	2-5	109,231	171,778
Patents and trademarks	5-20	2,918,996	2,781,774
Intangible assets, net		$5,145,000	$4,880,006

Accumulated amortization of intangible assets was $4,722,608 at June 27, 1998, and $3,770,866 at June 28, 1997.

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 estimated recoverable value.

REVENUE RECOGNITION—The Company recognizes revenues when goods are shipped to its customers.

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

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

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS—The carrying values of financial instruments included in current assets and liabilities approximate fair values due to the short-term maturities of these instruments. During fiscal 1997, the investment in Windmere common stock was accounted for as "available for sale" and was carried at fair value. The stock was sold during fiscal 1998. See note 2 "Windmere Transaction."

Accounting Pronouncements – The Company adopted Statement of Financial Accounting Standards No. 128-Earnings per Share in Fiscal 1998.

In June 1997, the FASB issued Statement of Financial Accounting Standard No. 130 (SFAS 130), “Reporting Comprehensive Income,” No. 131 (SFAS 131), “Disclosures About Segments of an Enterprise and Related Information,” No. 132 (SFAS 132), “Employer’s Disclosures about Pensions and other Post Retirement Benefits which Revises Current Disclosure Requirements for Employers’ Pensions and other Retiree Benefits” and No. 133 (SFAS 133), “Accounting for Derivative Instruments and Hedging Activities.” These statements are effective for fiscal years commencing after December 15, 1997. The Company will be required to comply with the provisions of these statements in fiscal 1999. The Company has not assessed the effect that these new standards will have on its consolidated financial statements.

2. WINDMERE TRANSACTION

On July 11, 1996, the Company consummated a transaction (the “Windmere Transaction”) with Windmere Durable Holdings, Inc. (“Windmere”), pursuant to a Stock Purchase Agreement dated February 27, 1996, as amended (the “Stock Purchase Agreement”). Windmere is a corporation engaged principally in manufacturing and distributing a wide variety of personal care products and household appliances. Pursuant to the Stock Purchase Agreement, Windmere purchased from the Company 6,508,572 newly issued shares of Common Stock (the “Purchase”), which represented 50% of the outstanding shares of Common Stock of the Company on February 27, 1996 after giving effect to the Purchase. As consideration for the purchase, Windmere paid the Company: (i) $3,254,286 in cancellation of a loan, as described below; (ii) a subordinated promissory note in the aggregate principal amount of $10,847,620 (the “Note”), which Note is payable July 11, 2001, bears interest at 8%, payable quarterly, and is secured by certain assets of Windmere and its domestic subsidiaries and guaranteed by such domestic subsidiaries; and (iii) 748,112 shares of Windmere’s common stock. Windmere’s common stock is traded on the New York Stock Exchange. A portion of the consideration for the Purchase was paid by the cancellation of the Company’s obligation to repay a loan in the principal amount of $3,254,286 which Windmere had made to the Company in April 1996. Windmere was also granted an option to purchase up to 485,000 shares of Common Stock at $4.83 per share, which option was exercisable only if and to the extent that options to purchase shares of Common Stock which were outstanding on February 27, 1996 were exercised. Accordingly, Windmere exercised options to purchase 26,500 shares of Common Stock during 1998.

During fiscal 1998 the Company sold 748,112 shares of Windmere’s common stock, realizing a gain of $8,972,488.

Subsequent to year-end the Company repurchased its common shares held by Windmere. See note 16 “Subsequent Events.”

3. BLOCK CHINA ACQUISITION

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

4. REVOLVING LINE OF CREDIT AND LETTERS OF CREDIT

During the 1998 fiscal year, the Company increased its revolving line of credit (the “Facility”) with a commercial lender (the “Lender”) from $50,000,000 to $75,000,000. Borrowings under this Facility bore interest at 1% over the Lender’s established prime rate, payable monthly, and included a provision which provided the Company with the ability to reduce its borrowing rate, based on the London InterBank Offered Rate (LIBOR), on up to 75% of outstanding borrowings. The Facility had an expiration date of September 30, 2000. Under the terms of the Facility, the Company must pay fees and related expenses to the Lender upon early termination. Subsequent to year end, the Company entered into a new credit agreement (the “New Credit Agreement”) with an investment banking firm described in note 16 “Subsequent Events.” Accordingly, the Company accrued $1,132,814 in termination fees and related expenses. The Facility was secured by a first lien on substantially all the Company’s assets. Credit availability was based on a formula related to trade accounts receivable, inventories and outstanding letters of credit and it contained restrictive financial covenants, the more significant of which required the Company to maintain specified ratios of total liabilities to net worth, minimum tangible net worth, and minimum earnings before interest, taxes, depreciation and amortization. Other covenants also limited the Company’s activities in mergers or acquisitions and sales of substantial assets. Compliance with these covenants effectively restricted the ability of the Company to pay dividends, and also required the Company to apply cash receipts to pay down borrowings under the Facility.

Information regarding short-term borrowings under the Facility is:	June 27, 1998	June 28, 1997
Balance at end of fiscal period	$50,475,078	$37,977,230
Interest rate at end of fiscal period	9.43%	10.5%
Maximum amount outstanding at any month end	$68,521,548	$43,632,702
Average amount outstanding	$56,374,193	$35,191,494
Weighted average interest rate during fiscal period	9.48%	10.5%
Outstanding letters of credit at end of fiscal period	$5,566,840	$2,915,815

5. SUBORDINATED DEBT AND DUE TO WINDMERE

Subordinated Debt

The Company had 10% subordinated notes payable aggregating $500,000. The notes were repaid in fiscal 1998.

Windmere Transactions and Due to Windmere

The Company owed Windmere, including Durable Electrical Metal Factory, Ltd., a wholly owned subsidiary of Windmere ("Durable"), approximately $4,838,000 at June 27, 1998, primarily for trade accounts payable and interest.

The Company had amounts due to Windmere, including Durable, of approximately $9,141,000, including notes payable of $4,932,730 at June 27, 1997. These amounts primarily represented working capital advances by Windmere to the Company to fund the development of the White Westinghouse® and Farberware® product lines, as well as interest and trade accounts payable.

The Company and Windmere entered into a Marketing Cooperation Agreement on July 11, 1996 (the "Marketing Cooperation Agreement"). Pursuant to this agreement, until Windmere's interest in the Company is less than 30% for at least ten consecutive days, each of the Company and Windmere has agreed to participate in a variety of mutually satisfactory marketing cooperation efforts designed to expand the market penetration of each party. Consequently, the Company entered into a letter agreement dated April 30, 1997 (the "Letter Agreement") with Windmere. The Letter Agreement provides that the Company will pay to Windmere a fee in consideration of Windmere's marketing cooperation efforts in connection with the Company's supply contract with Kmart and Windmere's guarantee of the Company's obligations under such contract. See note 16 "Subsequent Events."

6. CAPITAL STOCK

The Company has authorized 20,000,000 shares of $.01 par value common stock, at June 27, 1998 there were 13,099,644 shares issued and outstanding. As more fully described in Note 2 "Windmere Transaction" on July 11, 1996, Windmere purchased from the Company 6,508,572 newly issued shares of common stock which represented 50% of the outstanding shares of common stock of the Company. During fiscal 1998, Windmere exercised its option to buy 26,500 shares of Salton common stock.

The company has authorized 2,000,000 shares of $.01 par value preferred stock. At June 27, 1998, no shares of preferred stock were issued.

Subsequent to year end, the Company repurchased the 6,535,072 shares of common stock issued to Windmere and issued 40,000 shares of preferred stock as described in note 16 "Subsequent Events."

7. EARNINGS PER SHARE

(in thousands, except earnings per share)	Year Ended June 27, 1998	Year Ended June 28, 1997	Year Ended June 29, 1996
Net Income*	$19,981	$4,399	$4,595
Average common shares outstanding	13,062	12,840	6,509
Earnings per share-basic	$1.53	$0.34	$0.71
Dilutive stock options	444	242	119
Average common and common equivalent shares outstanding	13,506	13,082	6,628
Earnings per share-diluted	$1.48	$0.34	$0.69

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

Options to purchase 141,440, 130,000 and 130,000 shares of common stock at prices of $12.25, $12.00 and $12.00 per share were outstanding at June 27, 1998, June 28, 1997 and June 29, 1996, respectively, but were not included in the computation of diluted EPS because the options exercise prices were greater than the average market price of the common shares.

8. PROFIT SHARING PLAN

The Company has a 401 (k) defined contribution plan that covers eligible employees. The employees are eligible for benefits upon completion of a specified number of years of service. Under the terms of the plan the company currently matches a portion of the employee contributions. The Company's discretionary matching contribution is based on a portion of a maximum of 6% of participants' eligible wages, as defined. The Company's matching contributions were approximately $97,000, $69,000, and $66,136 in 1998, 1997, and 1996, respectively.

9. STOCK OPTION PLANS

In October 1995, SFAS No. 123, "Accounting For Stock-Based Compensation," was issued and is effective for financial statements for fiscal years beginning after December 15, 1995. As permitted by the statement, the Company will continue 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:

Net Income	1998	1997
As reported	$19,981,411	$4,399,158
Pro forma	$18,940,500	$4,192,582
Net income per common share: Basic		
As reported	$1.53	$0.34
Pro forma	$1.45	$0.33
Net income per common share: Diluted		
As reported	$1.48	$0.34
Pro forma	$1.40	$0.32

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

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

In addition, on July 11, 1996 Windmere was granted an option to purchase up to 485,000 shares of common stock at $4.83 per share. This option is exercisable only if and to the extent that options to purchase shares of common stock which were outstanding on February 27, 1996 are exercised. During fiscal 1998, Windmere exercised their option to purchase 26,500 shares of Salton common stock. Subsequent to year-end, the Company repurchased the remaining options. See note 16 "Subsequent Events." A summary of the Company's fixed stock options for the fiscal years ended June 27, 1998 and June 28, 1997 is as follows:

	1998		1997	
	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
Outstanding at beginning of year	966	$4.90	485	$4.83
Granted	206	10.82	493	4.88
Exercised	(46)	3.11	(12)	.88
Expired				
Forfeited				
Outstanding at end of year	1,126	$6.06	966	$4.90
Options exercisable at end of year	1,118	$6.05	958	$4.88
Weighted-average fair value of options granted during the year		$8.14		$4.54

The following information summarizes the stock options outstanding at June 27, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares (000)	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
$0.875 - $2.500	300	6.84	$2.12	300	$2.12
$3.438 - $5.375	490	7.91	4.83	482	4.83
$8.000 - $12.250	336	7.20	11.38	336	11.38
$0.875 - $12.250	1,126	N/A	N/A	1,118	$6.05

10. RELATED PARTY TRANSACTIONS

The Company purchased inventory from Durable of approximately $27,068,000, $23,511,000, and $3,200,000 in fiscal years ended June 27, 1998, June 28, 1997, and June 29, 1996, respectively.

The Company purchased inventory and paid commissions to Markpeak, Ltd., a Hong Kong company, of approximately $15,699,000 and $272,000 respectively in 1998, $7,815,000 and $432,000, respectively in 1997, and $10,233,000 and $739,000, respectively in 1996. A director of the Company is the Managing Director of Markpeak, Ltd.

The Company paid Shapiro, Devine and Craparo, Inc. ("SDC"), a manufacturers representation firm, commissions of approximately $290,000, $241,000 and $160,000 in 1998, 1997 and 1996, respectively. A director of the Company was a cofounder of SDC. At June 27, 1998, the Company owed SDC approximately $38,000 for current commissions.

11. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities and equipment under long term operating leases. Rental expense under all leases was approximately $1,564,000, $1,183,000, and $665,000, for the fiscal years ended June 27, 1998, June 28, 1997, and June 29, 1996, respectively.

The future minimum rental commitments as of June 27, 1998 were as follows:

Fiscal Year Ending	
1999	$2,666,095
2000	2,075,056
2001	1,938,911
2002	915,798
2003	36,400
Thereafter	157,733
Total	$7,789,993

The Company has employment agreements with its three executive officers that are in effect until June 30, 2001. Such agreements provide for minimum salary levels as well as for incentive bonuses that are payable if the Company achieves specified target performance goals. The agreements also provide for lump sum severance payments upon termination of employment under certain circumstances. The Company's aggregate commitment for future salaries at June 30, 1998, excluding bonuses, was approximately $1,350,000.

The Company has license agreements with White Consolidated Industries, Inc. ("White Consolidated"), which require minimum royalty payments through the year 2011. The current level of royalty payments are in excess of the minimum requirements. The Company also has various license agreements with other parties for periods usually not exceeding three years. The agreements are then typically renewable upon mutual consent. These license agreements require royalty payments based on the sales of licensed product in the period. Total royalties paid under these agreements, including the White Consolidated Industries, Inc. agreement, were $20,266,000 in fiscal year 1998, $6,300,000 in fiscal year 1997 and $1,600,000 in fiscal year 1996.

12. LEGAL PROCEEDINGS

The Company, White Consolidated, and certain other parties have been named as defendants in litigation filed by Westinghouse Electric Corporation (now known as CBS Corporation ("CBS")) in the United States District Court for the Western District of Pennsylvania on December 18, 1996. The action arises from a dispute between CBS and White Consolidated over rights to use the "Westinghouse" trademark for consumer products, based on transactions between CBS and White Consolidated in the 1970's and the parties' subsequent conduct. The action seeks, among other things, an injunction enjoining the defendants from using the trademark, unspecified damages and attorneys' fees. Pursuant to the Company's license agreements with White Consolidated, White Consolidated is defending the Company and is obligated to indemnify the Company from and against any and all claims, losses and damages arising out of the action, including the costs of litigation. An adverse decision in the litigation could result in Salton being limited in further use of the White Westinghouse® name and therefore the possible termination or significant modification of the supply contract between Salton and Kmart Corporation described in note 13.

The Company is a party to various other legal actions and proceedings incident to its normal business operations. Management believes that the outcome of such litigation will not have a material adverse effect on its financial condition or annual results of operations.

13. SUPPLY CONTRACT AND MAJOR CUSTOMERS

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 19% and 16% of total net sales of the Company in fiscal years 1998 and 1997, respectively.

The Company's net sales in the aggregate to its five largest customers during the fiscal years ended June 27, 1998, June 28, 1997 and June 29, 1996 were 47%, 47% and 55% of total net sales in these periods, respectively. In addition to Kmart, one customer accounted for 7%, 9%, and 15% of total net sales during the fiscal years ended June 27, 1998, June 28, 1997, and June 29, 1996, respectively. Another customer accounted for 8%, 9%, and 13%, respectively, over the same fiscal years.

Although the Company has long established relationships with many of its customers, with the exception of Kmart Corporation, 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.

14. INCOME TAXES

Federal, state and foreign taxes were approximately as follows:

	Fiscal Years Ended		
	June 27,1998	June 28,1997	June 29,1996
Federal			
Current	$10,080,000	$371,000	$32,000
Deferred	(1,134,000)	822,000	(2,711,000)
State			
Current	2,699,000	303,000	
Deferred	(294,000)		(771,000)
Foreign			
Current	854,000	505,000	
Deferred			
Total	$12,205,000	$2,001,000	$(3,450,000)

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

	Fiscal Year Ended	
	June 27, 1998	June 28, 1997
Allowance for doubtful accounts	$1,309,065	$ 960,000
Depreciation and amortization	(1,099,679)	(1,060,680)
Other deferred items, net	175,940	(302,415)
Net operating loss carry forwards	1,764,253	2,349,579
Inventory reserves and capitalization	1,938,643	713,568
Unrealized gains on securities available for sale		(720,058)
Net deferred tax asset	$4,088,222	$1,939,994

During 1996, the Company reassessed the measurement of deferred tax assets based on available evidence and concluded that a valuation allowance was unnecessary. Accordingly, a valuation allowance of $3,463,066 was eliminated in the fourth quarter of fiscal 1996.

The Company has net loss carry forwards at June 27, 1998 expiring as follows:

Year Carry Forward Expires	Amount
2008	$1,273,000
2009	2,665,000
2110	60,000
2111	45,000
Total	$4,043,000

As a result of certain transactions, the Company's ability to utilize its net operating loss carry forwards to offset otherwise taxable income is limited annually under Internal Revenue Code Section 382. The amount of such annual limitation is approximately $2,000,000.

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

	Fiscal Years Ended		
	June 27, 1998	June 28, 1997	June 29, 1996
Statutory federal income tax rate	35.0%	35.0%	35.0%
Effective state tax rate	4.9	4.8	4.8
Permanent differences	0.3	2.3	
Effect of foreign tax rate	(2.1)	(8.8)	
Utilization of operating loss carry forwards			(34.6)
Change in valuation allowance			(296.9)
Other	(0.2)	(2.0)	(9.4)
Effective income tax rate	37.9%	31.3%	(301.1)%

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 $854,000 at June 27, 1998.

15. 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
1998				
Net sales	$65,773	$102,153	$68,099	$69,574
Gross profit	24,797	35,029	26,159	27,911
Net income	4,124	5,448	2,778	7,631
Earnings per share: Basic	0.32	0.42	0.21	0.58
Earnings per share: Diluted	0.31	0.40	0.21	0.56
1997				
Net sales	$34,862	$58,837	$41,690	$47,417
Gross profit	9,689	18,027	12,582	13,109
Net income (loss)	1,129	3,977	(677)	(30)
Earnings (loss) per share: Basic	0.09	0.31	(0.05)	(0.00)
Earnings (loss) per share: Diluted	0.09	0.30	(0.05)	(0.00)

16. SUBSEQUENT EVENTS

The New Credit Agreement

The Company entered into the New Credit Agreement dated as of July 27, 1998 with an investment banking firm. This agreement provides for $215.0 million in senior secured credit facilities consisting of a Tranche A $90.0 million term loan, a $75.0 million Delayed Draw Term Loan, and a five year $50.0 million senior secured revolving credit facility maturing on July 27, 2003. In addition, the New Credit Agreement allows the Company to undertake a subordinated notes offering of up to $125 million. Proceeds of the offering, if undertaken, would be required to be used to repay the Tranche A $90 million term loan, amounts outstanding, if any, under the Delayed Draw Term Loan and amounts outstanding under the senior secured Revolving Credit Facility, respectively, up to a total of $115 million. Any excess amount would be available as cash to the Company. On July 28, 1998, the Company borrowed the Tranche A term loan in order to complete the repurchase subsequently described in this note. The Company's borrowings under the New Credit Agreement are 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. At July 28, 1998, the base rate plus applicable margin was 9.6% and the eurodollar rate plus applicable margin was 7.8%.

The New Credit Agreement contains certain limitations restricting company activity and financial covenants, the most significant of which are, as defined, minimum interest coverages, fixed charge coverages and maximum total leverage.

The Tranche A term loan matures in twenty consecutive installments commencing on September 30, 1998.

The future maturities are:

1999	$ 3,750,000
2000	5,000,000
2001	20,000,000
2002	25,000,000
2003	28,750,000
Thereafter	7,500,000
	$90,000,000

The commitment for the Delayed Draw Term Loan expires on July 27, 1999. This loan, if drawn, matures in sixteen consecutive quarterly installments, commencing on September 30, 1999. Future installment payments would be made quarterly in accordance with the following table:

Installments	Principal Amount
1 through 4	$ 2,500,000
5 through 12	5,000,000
13 through 16	6,250,000

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.

The Preferred Stock

On July 28, 1998, Salton also issued $40 million of convertible preferred stock to a private investment firm in connection with a Stock Purchase Agreement dated July 15, 1998. The convertible preferred stock is generally non-dividend bearing and is convertible into 2,352,941 shares of Salton common stock (reflecting a $17 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 private investment firm were appointed to serve on the Company's Board of Directors.

The Repurchase

On July 28, 1998, the Company repurchased (the "Repurchase") 6,535,072 shares of Salton common stock owned by Windmere pursuant to a Stock Agreement dated as of May 6, 1998 (the "Windmere Stock Agreement") by and among Salton, Windmere and the executive officers of Salton. Prior to the Repurchase, Windmere owned approximately 50% of Salton's outstanding common stock. The price for the Repurchase was $12 per share in cash plus a $15 million subordinated promissory note. The note, which has a term of six and one-half years and bears interest at 4% per annum payable annually, is subject to offsets of 5% of the total purchase price paid by Salton for product purchases from Windmere and its affiliates during the term of the note. The principal amount of the note is also subject to reduction in the event Salton's supply agreement with Kmart is terminated for any reason.

The Company (i) paid the cash portion of the purchase price for the Repurchase, (ii) refinanced the Facility described in note 4 and (iii) paid certain related fees and expenses in connection with the Repurchase with the net proceeds from the Convertible Preferred Stock Issuance and borrowings of $90 million under the Tranche A term loan.

In connection with the Repurchase: (i) Windmere repaid in full its promissory note in the principal amount of $10,847,620, that was issued to Salton in July, 1996; (ii) Salton repurchased for approximately $3.3 million Windmere's option to purchase up to 458,500 shares of Salton, that was granted to Windmere in July, 1996; and (iii) Windmere and Salton agreed to continue various commercial and other arrangements, including an agreement relating to Salton's supply agreement with Kmart, subject to certain modifications.

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

The Toastmaster Transaction

On August 26, 1998, the Company entered into a definitive merger agreement ("Agreement") for the acquisition of Toastmaster Inc. The Agreement provides for Toastmaster Inc. shareholders to receive $7.00 per share in cash, for a total purchase price, including related costs, of approximately $60.0 million. The Company intends to finance the transaction through available credit facilities.

The transaction is expected to close in the last calendar quarter of 1998, and is subject to, among other things, the approval of the holders of 66 2/3% of the outstanding shares of Toastmaster Inc. common stock.