

**Salton, Inc.**  
**Guidelines on Corporate Governance**

**(adopted by the Board of Directors on September 2, 2004)**

**I. Introduction**

The Board of Directors of Salton, Inc. (the "Corporation" or "Salton"), acting on the recommendation of its Nominating and Governance Committee, has developed and adopted this set of Guidelines on Corporate Governance (the "Guidelines") to promote the functioning of the Board and its committees and to set forth a common set of expectations as to how the Board should perform its functions.

**II. Membership Criteria**

A majority of the Board shall at all times be comprised of independent directors as defined by the applicable New York Stock Exchange ("NYSE") listing standards. Currently, it is the sense of the Board that the Board should include the Chief Executive Officer ("CEO"), if elected, and the President, if elected.

The Nominating and Corporate Governance Committee is responsible for recommending to the Board (1) nominees for Board membership to fill vacancies or newly created positions and (2) the persons to be nominated by the Board for election at the Corporation's Annual Meeting of Stockholders. In connection with the selection and nomination process, the Nominating and Corporate Governance Committee shall review the desired experience, mix of skills and other qualities to assure appropriate Board composition, taking into account the current Board members and the specific needs of the Corporation and the Board. The Board will generally look for individuals who have displayed high ethical standards, integrity, and sound business judgment. They also must be committed to enhancing stockholder value and have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. This process is designed to ensure that the Board includes members with diverse backgrounds, skills and experience, including appropriate financial and other expertise relevant to the business of the Corporation.

The number of boards on which a director may sit shall be reviewed on a case-by-case basis by the Nominating and Corporate Governance Committee. Generally, independent directors are expected not to serve on more than four boards of public companies in addition to the Salton board, and inside directors not to serve on more than two boards of public companies in addition to the Salton board.

**III. Duties and Responsibilities.**

**A. Attending Board meetings and Board Committee meetings** on which they serve and spending the time needed to review meeting materials and properly discharge their responsibilities.

**B. Evaluating the performance of the Corporation and its executive management** including: (i) overseeing the conduct of the Corporation's business to evaluate whether it is being effectively managed, including through regular meetings of the outside directors without the presence of management and (ii) selecting, regularly evaluating and planning for the succession of the CEO and such other members of executive management as the Board deems appropriate, including fixing the compensation of such individuals.

- C. Evaluating the CEO** at least annually. The Lead Director (as defined in IV. C. below) will chair a meeting of independent directors to discuss the evaluation and will communicate the results to the CEO. In the absence of the Lead Director, the Chair of the Compensation Committee will have this responsibility.

The evaluation should be based on objective criteria including performance of the business, accomplishment of long-term strategic objectives, management development, and the like. Criteria should be developed by the CEO in consultation with the Compensation Committee and approved by the Board.

The evaluation will be used by the Compensation Committee in the course of its deliberations when considering the compensation of the CEO.

- D. Reviewing the annual succession planning report from the CEO** including the position of CEO and all other senior management executive officers.
- E. Reviewing the Corporation's strategic plans and objectives**, including the principal risk exposures of the Corporation.
- F. Providing advice and counsel to the CEO** and other executive management of the Corporation.
- G. Assisting management in the oversight of compliance** by the Corporation with applicable laws and regulations, including the public reporting obligations of the Corporation.
- H. Overseeing management in the safeguarding of assets** through the maintenance of appropriate accounting, financial and other controls.
- I. Electing members of Board committees** and overseeing any required or appropriate Committees of the Board established for purposes of executing any delegated responsibilities from the Board.
- J. Determining the form and amount of compensation for directors** taking into account their responsibilities as such and as members of any Committee of the Board.
- K. Evaluating the overall effectiveness of the Board** as well as selecting and recommending to stockholders for election an appropriate slate of candidates for the Board.

In discharging their responsibilities, directors must exercise their business judgment to act in a manner that they believe in good faith is in the best interests of the Corporation and its stockholders.

Directors shall be entitled to require that the Corporation purchase reasonable liability insurance on their behalf and to accord them the benefits of indemnification and exculpation to the fullest extent permitted by applicable law and the Corporation's Certificate of Incorporation and Bylaws.

#### **IV. Structure and Operation of the Board**

##### **A. Size and Composition**

- 1. Size of the Board.** The Corporation's by-laws provide that the number of directors shall not be less than four nor more than 11. It is the current sense of the Board that a

size of eight to 10 directors is most favorable. However, the Board expects to review the size of the Board from time to time in view of existing needs and available candidates.

2. **Mix of Non-Independent and Independent Directors.** A majority of the Board shall at all times be comprised of independent directors as defined by the applicable NYSE listing standards. Currently, it is the sense of the Board that the Board should include the CEO, if elected, and the President, if elected.
3. **Selection of New Director Candidates.** The Board shall be responsible for selecting nominees for service on the Board and Board committees. The Board delegates the screening process involved to the Nominating and Governance Committee with input from the CEO.
4. **Extending the Invitation to a New Potential Director to Join the Board.** The invitation to join the Board should be extended by the Board itself through the Chair of the Nominating and Governance Committee and, if desired, the Chair of the Board, together with other independent director(s) when deemed appropriate.
5. **Significant Change in Personal Circumstances.** A director shall offer, in writing, to resign if there is any significant change in his or her personal circumstances, including a fundamental change in his or her job responsibilities. The Nominating and Governance Committee, in consultation with the CEO, will evaluate the offer to resign and make a recommendation to the Board.
6. **Directors Who Desire to Accept a Board Position with Another Public Company.** Individual directors who desire to accept a directorship (or, in the case of a business entity other than a corporation, a comparable position) (“Directorship”) of a corporation or other business entity with a class of securities registered under the Securities Exchange Act of 1934 (i.e., a public company) should inform the CEO in advance of such acceptance. The CEO, after consultation with the Chair of the Nominating and Governance Committee and after considering any conflict of interest, antitrust or other matters deemed appropriate, will advise the director in writing of the Corporation’s position. The CEO will also apprise the Corporate Secretary, the Chair of the Nominating and Governance Committee, and the Board of his/her determination. If the Corporation’s position is that the director should not be permitted to accept the Directorship while continuing as a director of the Corporation, the director shall inform the CEO whether he/she nevertheless intends to accept the Directorship and shall resign from the Board prior to doing so.
7. **Term Limits.** The Board does not believe it should establish term limits. While term limits could help insure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Corporation and its operations and, therefore, provide an increasing contribution to the Board as a whole.
8. **Retirement Age.** Directors must retire at the age of 70, except as otherwise recommended by the Nominating and Corporate Governance Committee and approved by the Board.

## **B. Offices of Chairman and CEO**

Currently, two different individuals serve as Chairman and as CEO. The Bylaws of Salton do not preclude both offices from being held by one individual. The Board has no standing policy regarding the need to separate the offices of Chairman of the Board and CEO. The Board believes that this issue is part of the succession planning process and that it is in the best interests of the Corporation to make a determination whenever it elects a new Chairman or CEO.

## **C. Lead Director**

At the Board meeting associated with the Annual Meeting of Stockholders each year (the “Annual Board Meeting”), the Board will decide whether to designate a lead director of the Board (the “Lead Director”) to serve until the next Annual Board Meeting. The Board can also terminate or initiate such designation at any time between Annual Board Meetings if it so desires. If the Board decides to designate a Lead Director, the director so designated shall be chosen from among the independent directors and shall perform the following functions: (1) be available to the CEO for consultation on issues of corporate importance which may involve Board action and in general be a resource to the Chairman/CEO on an as needed basis; (2) chair meetings of the independent directors (which normally will be held in conjunction with the regular meetings of the Board of directors); (3) refer and defer to appropriate Board committee chairs all matters within the scope of such committees as may be set forth from time to time in the respective committee charters; (4) be a key communicator, along with committee chairs, between the directors and the CEO on matters deemed appropriate by the Board; (However, it should be clear that the CEO is responsible directly to the Board in its entirety and individual Board members have the prerogative of communicating directly with the CEO and the reverse.); (5) be available to independent directors for discussion of Board issues or other matters; and (6) in the event of the incapacitation of the CEO, contact the corporate secretary to call a meeting of directors pursuant to the Corporation’s Bylaws to consider what action is appropriate, including the possible election of an acting CEO or a new CEO.

## **D. Board Meetings**

- 1. Frequency** – The Board shall meet at least five times a year. Additional meetings may be scheduled as necessary or appropriate in light of circumstances.
- 2. Selection of Agenda Items for Board Meetings** - The CEO, in consultation with the Lead Director, will establish the agenda for each Board meeting. At the beginning of the fiscal year the CEO will establish a schedule of agenda subjects to be discussed during the year (to the extent these can be foreseen) and will review it with the Board. Each director is free to suggest the inclusion of items on the agenda. Each director is free to raise at any Board meeting subjects that are not on the agenda for that meeting. At least one Board meeting each year will, among other things, be for the purpose of reviewing: (i) long-term strategic plans and the principal issues that Salton will face in the future, (ii) strategic objectives, (iii) business and financial performance for the prior year, including a review of the achievement of strategic objectives, and (iv) the Corporation’s compliance with applicable law and listing standards.

3. **Regular Attendance of Non-Directors at Board Meetings** - The CEO may invite officers to attend Board meetings. The Board encourages the CEO to, from time to time, bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas and (b) represent managers with future potential that the senior officers believe should be given exposure to the Board. An objective of the Board, however, is to limit the number of outsiders in meetings. Therefore, attendance by non-directors should generally be restricted to topics where their expertise is desired.
4. **Board Materials Distributed in Advance** - It is the sense of the Board that information and data that are important to the Board's understanding of the business be distributed in writing to the Board before the Board meets. The officers should endeavor to see that this material is concise and informative.
5. **Presentations** - As a general rule, presentations on specific subjects should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. The Board recognizes that, depending upon the circumstances, some topics may be appropriately presented and discussed at the meeting without written materials.
6. **Minutes** - The Secretary of the Corporation normally shall record minutes of all meetings of the Board and Stockholders. In the absence or incapacity of the Secretary, the Chairman may designate an Assistant Secretary, a director, the General Counsel or outside counsel to record the minutes of meetings of the Board, Board Committees or Stockholders. With respect to any matter, a director voting against a proposal may ask to have his or her dissent recorded in the minutes of the meeting, and the Secretary shall do so.
7. **Executive Sessions of Independent Directors** - The independent directors will meet in executive session in connection with each regularly scheduled Board meeting and at such other times as they may desire. Each regularly scheduled Board meeting agenda will specify an executive session. Executive sessions are meetings of independent directors not attended by inside directors or management. Executive sessions are not Board meetings. Any matter may be discussed during an Executive Session, but Board action cannot be taken during such sessions. Board action may only be taken at Board meetings (including telephonic meetings) or by the unanimous written consent of all Board members to action without a meeting. Executive sessions will be chaired by the Lead Director who will provide feedback to the CEO. In the Lead Director's absence, the chair of the Nominating and Governance Committee will chair these sessions. Board committees that are composed of both inside and independent directors may have executive sessions at which inside director(s) are not present on a basis similar to executive sessions of the Board.

Minutes need not be taken at executive sessions of the Board or Board committees, if any, composed of both inside and independent directors. If minutes are taken, they should not be kept with or included in the minutes of the Board or Board committee. If a committee is composed solely of independent directors and management personnel are asked to leave, whether minutes need to be taken depends on whether the committee meeting is adjourned. If management is asked to leave, but the meeting is not adjourned, then minutes need to be taken and are part of the official minutes of the committee. If the meeting is adjourned, and independent directors meet without management, minutes need not be taken, and, if taken, should not be

kept with our included in the minutes of the meeting. If minutes are taken during an executive session, the chair of the session should designate an acting secretary for the session.

**E. Access to Management**

Board members shall have complete access to Salton's officers and counsel. Directors shall be granted access to the name, location, and phone number of all employees of the Corporation. It is assumed that Board members will use judgment to be sure that this contact is not distracting to the business operation of the Corporation and that such contact, if in writing, be copied to the CEO.

**F. Access to Outside Counsel and Other Advisors**

The Board and Board Committees may retain outside counsel, financial or other advisors, as they deem appropriate, without consulting with or obtaining the approval of any officer of the Corporation with respect to any issue relating to matters subject to their respective authority.

**G. Board Interaction with Institutional Investors, the Press, Customers, etc.**

The Board believes that the appropriate officers speak for the Corporation. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Corporation. It is expected that Board members would do this with the knowledge of the CEO and, absent unusual circumstances, only at the request of the CEO.

In no event shall any director disclose any material non-public information concerning the Corporation. Among other considerations, such disclosures may violate applicable law. Questions about such information should be directed to the General Counsel. In the event that a director inadvertently discloses information that may be material and non-public, he or she should immediately so advise the General Counsel.

**H. Committees of the Board**

**1. Committee Structure** - The Board has the following standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee. The Board has the flexibility to form new committees. The Board shall have authority to disband any *ad hoc* or standing Committee when it deems it appropriate to do so, provided that the Corporation shall at all times have Audit, Compensation, and Nominating and Governance committees and such other committees as may be required by applicable law or listing standards.

All independent directors should be a member of at least one committee. The members of the Audit, Compensation and Nominating and Governance committees shall at all times meet the independence and other requirements of applicable law and listing requirements.

**2. Written Charters** – Each standing Committee shall have a written charter, which shall be approved by the Board and state the purpose of such Committee. Committee charters shall be reviewed not less frequently than annually to reflect the activities of each of the respective Committees, changes in applicable law or regulation and other

relevant considerations, and proposed revisions to such charters shall be approved by the Board.

- 3. Assignment and Rotation of Members** - The Nominating and Governance Committee recommends to the Board the members and chairs of the committees taking into account the desires of individual Board members and the suggestions of the CEO. The Board elects committee members and designates committee chairs.

It is the sense of the Board that consideration should be given to periodically rotating committee chairs and members. The Board does not feel that committee members' rotation should be mandated as a policy since there may be reasons at a given point in time to maintain an individual director's committee membership for a longer period or to shorten the period. The learning time to become an active contributor on a particular committee is also a factor.

- 4. Agendas** - The chair of each committee, in consultation with its members and the appropriate corporate officers, will develop the committee's agenda and frequency and length of meetings consistent with its charter.

#### **I. Compensation of Directors**

Non-employee directors and committee chairs shall receive reasonable compensation for their services, as may be determined from time to time by the Board upon recommendation of the Nominating and Corporate Governance Committee. Directors who are current employees of the Corporation receive no additional compensation for service as a director.

Compensation for non-employee directors and committee chairs shall be consistent with the market practices of other similarly situated companies but shall not be at a level or in a form that would call into question the Board's objectivity. The Nominating and Corporate Governance Committee of the Board shall annually review and report to the Board with respect to director compensation and benefits.

Directors who are members of the Audit Committee may receive no compensation from the Corporation other than the fees they receive for serving on the Board or any Board committee.

#### **J. Director Orientation and Education**

The Board shall implement and maintain an orientation program for newly elected directors. The agenda for the orientation program shall be determined by the Chairman, in consultation with the Chief Executive Officer (if different from the Chairman), the Chief Financial Officer, the General Counsel, and the Lead Director, who may consult, as appropriate, with Chairpersons of the standing committees. The orientation program shall address the Corporation's strategic plans, significant risk exposures, compliance programs (including its code of business conduct and ethics) and may include presentations by the Corporation's executive management, internal auditors and independent auditors, as well as one or more visits to the Corporation's headquarters or other operating sites. All directors shall be invited to attend each orientation program.

Directors are required to continue educating themselves with respect to international markets, accounting and finance, leadership, crisis response, industry practices, general management, and strategic planning.

**K. Annual Assessment of the Board's Performance**

The Board shall conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively. To assist the Board in this self-evaluation, the Nominating and Governance Committee is responsible for preparing an annual assessment of the Board's performance. This assessment will be discussed with the full Board following the end of each fiscal year.

In addition, the Nominating and Governance Committee is responsible for individual director assessments and shall obtain input for such assessments from all Board members other than the director being assessed. These assessments, including confidential feedback to the director, will be completed at least one year prior to a director's anticipated nomination for a new term. The lead director shall be responsible for confidentially communicating the results of an individual director assessment to the director. The purposes of such assessments are to improve the effectiveness of each director and to provide input to the Nominating and Governance Committee regarding whether a director should be nominated for a new term.

**L. Public Availability of Governance Documents**

These Guidelines on Corporate Governance; the charters for the Audit, Nominating and Governance, and Compensation Committees; and the Corporation's Code of Business Conduct and Ethics shall be posted on the Corporation's website. The Corporation's annual report on Form 10-K filed with the SEC shall state that the foregoing information is available on its website, and that the information is available in print to any stockholder who requests it.

**V. Guidelines For Determining the Independence of Directors**

Following are the criteria to be used to determine the independence of each director of the Corporation, in accordance with the requirements set forth in the New York Stock Exchange Corporate Governance Rules, which apply to all companies listed with the NYSE, and as required by The Sarbanes-Oxley Act of 2002.

A director will be considered by the Board to be independent if the director has no material relationship with the Corporation (directly or as a partner, stockholder or officer of an organization that has a relationship with the Corporation) other than as a director. Material relationships may include, but are not limited to, commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships. In making independence determinations, the Board shall broadly consider all relevant facts and circumstances. The following is a list of the criteria that the Board of Directors shall apply in making such determinations.

- A director who is an employee, or whose immediate family member is an executive officer, of the Corporation will not satisfy the criteria for independence until three years after the end of such employment relationship (except that service as an interim Chairman or CEO shall not disqualify a director from being considered independent following that employment).
- A director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Corporation, other than director and committee fees

and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), will not satisfy the criteria for independence until three years after he or she ceases to receive more than \$100,000 per year in such compensation. In determining independence under this criteria, compensation received (i) by a director for former service as an interim Chairman or CEO and (ii) by an immediate family member for service as a non-executive employee of the Corporation, need not be considered.

- A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Corporation will not satisfy the criteria for independence until three years after the end of the affiliation or the employment or auditing relationship.
- A director who is employed, or has an immediate family member who is employed, as an executive officer of another company where any of the Corporation's present executives serve on that company's compensation committee will not satisfy the criteria for independence until three years after the end of such service or the employment relationship.
- A director who currently is an executive officer or an employee, or whose immediate family member currently is an executive officer, of a company (which shall not be deemed to include charitable organizations) that makes payments to, or receives payments from, the Corporation for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues reported in the last completed fiscal year, will not satisfy the criteria for independence until three years after falling below such threshold.
- For purposes of this Section V, (i) the term "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than employees) who shares such person's home (but does not include individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated); and (ii) the term "Corporation" includes any subsidiary in a consolidated group with Salton.
- Each of the above criteria contains a three-year "look-back" provision. In order to facilitate a smooth transition to these independence standards, the Board will apply a one-year look-back in each of the above criteria for independence determinations made prior to November 4, 2004.
- The ownership of a significant amount of the Corporation's stock in and of itself is not an indication of a lack of independence.
- An affiliation of a director with a customer of the Corporation or any of its subsidiaries or affiliates where such customer's business represents less than 10% of the Corporation's annual income from operations, on a consolidated basis, as set forth in the Corporation's most recent annual report, in and of itself is not an indication of a lack of independence.
- An affiliation of a director with a supplier to the Corporation or any of its subsidiaries or affiliates where such supplier's business represents less than 10% of the Corporation's annual income from operations, on a consolidated basis, as set forth in the Corporation's most recent annual report, in and of itself is not an indication of a lack of independence.
- An affiliation of a director with a charitable or nonprofit organization in which the Corporation or any of its subsidiaries or affiliates contributes or donates less than 10% of the Corporation's annual aggregate charitable giving to such charity or nonprofit organization in and of itself is not an indication of a lack of independence; provided however that the Corporation shall to the extent required by applicable law or NYSE rules disclose in its annual proxy statement any charitable contributions made by the Corporation to any charitable organization in which a director serves as an executive officer if, within the

preceding three years, contributions in any single fiscal year exceeded the greater of \$1 million, or 2% of such charitable organization's consolidated gross revenues.

The Board of Directors shall report its determinations on an annual basis in the Corporation's Proxy Statement.

**VI. Code of Business Conduct and Ethics**

The Board expects all directors, as well as officers and employees, to display the highest standard of ethics, consistent with the longstanding values and standards of the Corporation. The Corporation has adopted a Code of Business Conduct and Ethics applicable to directors, officers and employees that is designed to support the values and standards of the Corporation and to comply with the laws, rules and regulations that govern the Corporation's business. Directors are expected to report any possible conflict of interest between the director and the Corporation to the Board, and the Board shall take appropriate action. The Board or a Board committee must approve all waivers of the Code of Business Conduct and Ethics for executive officers and directors and all such waivers shall be promptly disclosed to stockholders.

**VII. Securityholder Communications Process**

The Corporation shall provide a process for security holders to send communications to the Board. The Board has approved a process for such security holder communications based on the recommendation of the Nominating and Governance Committee. Such communications process, along with the identity of the directors to whom security holders can send communications and other relevant information, shall be described in the proxy statement relating to the Corporation's annual meeting of stockholders. The Board shall review such security holder communications process from time to time and implement such changes, if any, as it deems appropriate.

**VIII. Certification with respect to NYSE Corporate Governance Listing Standards**

The Corporation's CEO shall certify annually as required by NYSE rules that, as of the date of certification, he is not aware of any violations by the Corporation of applicable NYSE corporate governance listing standards. The Corporation's CEO shall promptly notify the NYSE in writing after any executive officer of the Corporation becomes aware of any material non-compliance with any applicable NYSE corporate governance listing standard.

**IX. Revisions of These Guidelines**

Each year, the Nominating and Governance Committee shall re-evaluate these Guidelines and recommend to the Board such revisions as it deems necessary or appropriate for the Board to discharge its responsibilities more effectively.