Trinity Place Holdings Inc.
Form 424B5
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Registration Statement No. 333-214482

PROSPECTUS SUPPLEMENT
(To Prospectus dated December 1, 2016)

Up to 3,700,000 Shares of Common Stock Issuable Upon the Exercise of Subscription Rights

We are conducting a rights offering pursuant to which we are distributing to holders of our common stock, at no charge, non-transferable subscription rights to purchase shares of our common stock. You will receive 0.126093 subscription rights for each share of common stock held of record as of 5:00 p.m., New York time on March 1, 2017. We are distributing subscription rights exercisable for up to 3,700,000 shares of our common stock.

The total number of subscription rights issued to each stockholder will be rounded down to the nearest whole number. Each whole subscription right will entitle you to purchase one share of our common stock at a subscription price of $7.50 per share, which we refer to as the basic subscription privilege. Stockholders as of the record date will also have oversubscription rights, pursuant to which they may be able to purchase additional shares at the subscription price to the extent not all subscription rights are exercised.

The subscription rights may be exercised at any time during the subscription period, which will commence on March 3, 2017. The subscription rights will expire if they are not exercised by 5:00 p.m., New York time, on March 31, 2017, unless we extend the rights offering period. We reserve the right to extend the rights offering period at our sole discretion. You should carefully consider whether to exercise your subscription rights before the expiration of the rights offering period. All exercises of subscription rights are irrevocable. Our board of directors is making no recommendation regarding your exercise of the subscription rights. The subscription rights may not be sold, transferred or assigned to anyone else and will not be listed for trading on any stock exchange or market or on the OTC Markets.

We reserve the right to cancel the rights offering at any time for any reason. If we cancel this offering, all subscription payments received by the subscription agent will be returned, without interest or penalty, as soon as practicable.

The shares of common stock are being offered directly by us without the services of an underwriter or selling agent.

In order to preserve our ability to utilize certain of our tax benefits, our certificate of incorporation contains restrictions on transfers to prohibit any person, entity or group from becoming a holder of 4.75% or more of our common stock, or a 4.75% holder, the increase in ownership of any existing stockholder who is a 4.75% holder, or transfers or sales by a 4.75% holder, in each case without the prior written consent of our board of directors. As a result, there are limitations on the exercise of subscription rights by stockholders as described in this prospectus. The extent of any such limitations, and therefore the total number of shares sold pursuant to the rights offering and the resulting proceeds to the Company, will not be determinable until the rights offering has expired.

Shares of our common stock are listed on the NYSE MKT LLC under the symbol TPHS. On March 1, 2017, the last reported sale price for our common stock was $8.52 per share. The shares of common stock issued in the rights offering will also be listed on the NYSE MKT LLC under the same symbol.

The exercise of your subscription rights for shares of our common stock involves risks. You should carefully consider all of the information set forth in this prospectus, including the risk factors beginning on page S-12 of this prospectus supplement and page 2 of the accompanying base prospectus, as well as the risk factors and other information in any documents we incorporate by reference into this prospectus supplement before exercising your subscription rights. See Incorporation by Reference.

	Subscription Price	Net Proceeds to Us[1]
Per Share	$ 7.50	$ 7.43
Total	$ 27,750,000	$ 27,500,000

(1) Assumes total estimated offering expenses of $250,000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is March 2, 2017.

TABLE OF CONTENTS

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and accompanying base prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, relating to the issuance and sale of our common stock from time to time. This prospectus supplement describes the specific details regarding the sale of common stock issuable upon exercise of the rights granted in this rights offering, including the price, the aggregate number of shares of common stock that may be purchased by exercise of the rights and the risks of investing in our common stock.

This prospectus supplement and the accompanying base prospectus form part of a registration statement on Form S-3 that we filed with the SEC using a shelf registration process. This document contains two parts. The first part consists of this prospectus supplement, which provides you with specific information about this offering. The second part, the accompanying base prospectus, provides more general information, some of which may not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined. This prospectus supplement may add, update or change information contained in the accompanying base prospectus. To the extent that any statement we make in this prospectus supplement is inconsistent with statements made in the accompanying base prospectus or any documents incorporated by reference herein or therein, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying base prospectus and such documents incorporated by reference herein and therein; provided, however, that if any statement in one of these documents is inconsistent with a statement in another document having a later date for example, a document incorporated by reference in the accompanying base prospectus the statement in the document having the later date modifies or supersedes the earlier statement in accordance with Rule 412 promulgated under the Securities Act.

Unless otherwise indicated or unless the context otherwise requires, references in this prospectus supplement and the accompanying base prospectus to Trinity, the Company, we, us and our refer to Trinity Place Holdings Inc. Delaware corporation, and its subsidiaries and predecessor company.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying base prospectus and in any free writing prospectus that we have authorized for use in connection with this offering. We have not, and neither our subscription agent, American Stock Transfer & Trust Company LLC, nor our information agent, D.F. King & Co., Inc., has authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information in this prospectus supplement, the accompanying base prospectus, the documents incorporated by reference in the accompanying base prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents. Our business, financial condition, results of operations and prospects may have changed since those dates. You should read this prospectus supplement, the accompanying base prospectus, any free writing prospectus that we have authorized for use in connection with this offering, and the documents incorporated by reference herein and therein, in their entirety before making an investment decision. You should also read and consider the information in the documents to which we have referred you in the sections of this prospectus supplement entitled Where You Can Find More Information and Incorporation By Reference. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

The registration statement that contains the accompanying base prospectus (SEC Registration No. 333-214482) (including the exhibits filed with and the information incorporated by reference in the registration statement) contains additional important business and financial information about us and our common stock that is not presented or delivered with this prospectus supplement. That registration statement, including the exhibits filed with the registration statement and the information incorporated by reference in the registration statement, can be read at the

SEC s website, *www.sec.gov*, or at the SEC office mentioned under the section of this prospectus supplement entitled Where You Can Find More Information below.

TABLE OF CONTENTS

We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit to any document that is incorporated by reference in this prospectus supplement or the accompanying base prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreement, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

TABLE OF CONTENTS

QUESTIONS AND ANSWERS RELATING TO THE RIGHTS OFFERING

What is being offered in this rights offering?

We are distributing at no charge to holders of our common stock non-transferable subscription rights to purchase shares of our common stock. You will receive 0.126093 subscription rights for each share of common stock you owned as of 5:00 p.m., New York time on March 1, 2017, the record date. The subscription rights will be evidenced by subscription rights certificates.

The total number of subscription rights issued to each stockholder will be rounded down to the nearest whole number. Each whole subscription right will entitle you to purchase one share of our common stock at a subscription price equal to $7.50 per share. Because the total number of subscription rights issued to each stockholder will be rounded down to the nearest whole number, we may not issue the full number of shares authorized for issuance in connection with this rights offering. Any excess subscription payments received by the subscription agent will be returned, without interest or penalty, as soon as practicable.

What is the subscription privilege?

For each whole right that you own, you will have a subscription privilege to buy from us one share of our common stock at the subscription price. You may exercise your subscription privilege for some or all of your subscription rights, or you may choose not to exercise any subscription rights.

For example, if you owned 10,000 shares of our common stock as of 5:00 p.m., New York time, on the record date, you would receive subscription rights representing the right to purchase 1260.93 shares of common stock (rounded down to 1260 shares) for $7.50 per share.

What is the oversubscription privilege?

If all of our stockholders do not exercise all of the subscription rights issued to them in this rights offering, then each holder who has exercised subscription rights in full will have the opportunity to purchase additional shares of our common stock at the subscription price of $7.50 per share under the oversubscription right. By extending oversubscription rights to our stockholders, we are providing those holders who have exercised all of their subscription rights with an opportunity to purchase shares that are not purchased by other stockholders in this rights offering.

If sufficient shares of common stock are available, we will seek to honor your oversubscription request in full, subject to the right of the board of directors to reduce the number of shares that would be otherwise issuable under validly exercised rights pursuant to the oversubscription privilege, if the board of directors determines such reduction is advisable to protect the Company s ability to utilize its NOLs; as discussed in more detail in The Rights Offering Limitations on the Purchase of Shares of Common Stock and Description of Capital Stock Restrictions on Transfers Related to Preservation of Certain Tax Benefits Associated with NOLs.

If, however, there are not enough shares available to fully satisfy all oversubscription right requests, the available shares will be distributed proportionately among rights holders who exercised their oversubscription privilege based on the number of shares each rights holder subscribed for under the basic subscription privilege. The subscription agent will return any excess payments by mail without interest or penalty as soon as reasonably practical after the expiration date.

If I participate in the rights offering, can I limit my ownership to a certain percentage?

Yes. Shareholders who wish to exercise their basic subscription privilege or their over-subscription privilege but who wish to maintain their share ownership at less than a specific percentage of our outstanding shares may elect to do so, and such shareholders will not be allocated any shares that would cause them to exceed the specified percentage of our shares outstanding after this rights offering. In addition to the election, shareholders who wish to maintain less than a specified percentage of our outstanding shares must also contact Peter Tomaszewski at the information agent, D.F. King & Co., Inc., at (212) 493-3918, in order to make such arrangements.

Why are we conducting the rights offering?

We are conducting the rights offering in order to provide our shareholders the opportunity to purchase shares of common stock at the same price as the shares issued to certain institutional investors, including

S-1

TABLE OF CONTENTS

certain existing stockholders and their affiliates, in our private placement on February 14, 2017, in which 3,585,000 new shares were issued, or the Private Placement. We intend to use the net proceeds from the rights offering for general corporate purposes, including development of our downtown Manhattan property and other properties and new investments.

How was the subscription price for the rights offering determined?

The subscription price is the price per share at which we sold common stock in the Private Placement. This price was negotiated with the investors in the Private Placement and does not necessarily represent the fair value of our common stock. See Risk Factors The subscription price determined for the rights offering is not an indication of the fair value of our common stock.

Am I required to exercise the rights I receive in the rights offering?

No. You may exercise any number of your subscription rights, or you may choose not to exercise any subscription rights. However, if you choose not to fully exercise your subscription privilege and other stockholders fully exercise their subscription privilege, the percentage of our common stock owned by other stockholders will increase, the relative percentage of our common stock that you own will decrease, and your voting and other rights will be diluted.

Has our board of directors made a recommendation to our stockholders regarding the rights offering?

Our board of directors is making no recommendations regarding your exercise of the subscription rights. Stockholders who exercise subscription rights risk investment loss on new money invested. We cannot assure you that the trading price for our common stock will be above the subscription price at the time of exercise or at the expiration of the rights offering period or that anyone purchasing shares at the subscription price will be able to sell those shares in the future at the same price or a higher price. You are urged to make your own decision whether or not to exercise your subscription rights based on your own assessment of our business and the rights offering. See Risk Factors in this prospectus and in the documents incorporated by reference into this prospectus.

Will our directors, executive officers or significant stockholders participate in the rights offering?

Our directors and executive officers who own shares of common stock, as well as other significant stockholders, are permitted, but not required, to participate in the rights offering on the same terms and conditions applicable to all stockholders. Each director, executive officer and other significant stockholder reserves the right, in his, her or its sole discretion, to participate or not to participate in the rights offering, and if they do participate, they may do so at any level.

How soon must I act to exercise my subscription rights?

The subscription rights may be exercised at any time during the subscription period, which commences on March 3, 2017, through the expiration date for the rights offering, which is 5:00 p.m., New York time, on March 31, 2017. If you elect to exercise any subscription rights, the subscription agent must actually receive all required documents and payments from you at or prior to the expiration date. Although we have the option of extending the expiration date of the subscription period at our sole discretion, we currently do not intend to do so.

May I transfer my subscription rights?

No. The rights are exercisable only by stockholders of record on the record date, and you may not sell, transfer or assign your subscription rights to anyone else.

Are there any limits on the number of shares of common stock I may own as a result of the exercise of subscription rights under the rights offering?

Yes. Subject to your ability to exercise the oversubscription privilege, you may only purchase the number of whole shares of common stock purchasable upon exercise of the basic subscription privilege included in the subscription rights distributed to you in the rights offering. Accordingly, the number of shares of common stock that you may purchase in the rights offering is limited by the number of our shares of common stock you held on the record date. Although stockholders that fully and properly exercise their basic subscription

TABLE OF CONTENTS

privilege have the right to exercise the oversubscription privilege, there can be no assurances of the number of shares that a holder will be able to acquire through the exercise of the oversubscription privilege. We reserve the right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of our counsel, be unlawful.

In addition, in order to help preserve our ability to utilize certain tax benefits primarily associated with our NOLs, our certificate of incorporation generally prohibits transfers or sales of stock that would result in a person or group of persons becoming a 4.75% holder, or that would result in the increase or decrease by a person or group of persons that is an existing 4.75% holder of its percentage ownership interest in the Company, unless the transferor or the transferee obtains the prior written approval of the board of directors. As a result, there are limitations on the exercise of basic subscription rights and oversubscription rights by stockholders to the extent such exercise would otherwise be prohibited by these provisions in our certificate of incorporation.

Any stockholder that (X) wishes to exercise its basic subscription privilege in this rights offering and (Y) currently holds 1,393,000 or more shares of the Company s common stock (i.e. approximately 4.75% of the Company s outstanding shares of common stock as of the date of this prospectus), or is subscribing for a number of shares through the exercise of its basic subscription privilege and, if applicable, oversubscription privilege, that would, if accepted by the Company, result in such stockholder holding 1,393,000 or more shares of the Company s common stock following closing of the rights offering, must submit additional information to the Company in connection with the exercise of such stockholder s basic subscription privilege, and, if applicable, such stockholder s oversubscription privilege, as provided in the subscription exercise materials, so that the board of directors may determine to what extent the exercise of the basic and, if applicable, oversubscription privilege by such stockholder would result in a change in such stockholder s percentage ownership interest in the Company.

The board of directors intends to waive the applicability of the foregoing provisions of the Company s certificate of incorporation in connection with the exercise by any holder of its basic and, if applicable, oversubscription rights, to the extent that the exercise of such rights is not expected to have a material impact on the Company s ability to utilize its NOLs. Such determination will be made by the board of directors, in its discretion, as promptly as practicable following the expiration of the rights offering and the Company s receipt of all requested information related to the exercise by each holder of its basic and, if applicable, oversubscription privilege, and the effect of such exercise on the Company s ability to utilize its NOLs, and may result in some or all of a holder s subscription being reduced or rejected. If some or all of a holder s subscription is reduced or rejected, then the applicable subscription payment will be returned to the holder without interest or penalty as promptly as practicable.

In addition, although the Company currently believes this is unlikely to occur, the board of directors reserves the right to reduce the size of the rights offering if the board of directors determines such reduction is necessary or advisable in order to preserve the Company s ability to utilize its NOLs.

See The Rights Offering Limitations on the Purchase of Shares of Common Stock and Description of Capital Stock Restrictions on Transfers Related to Preservation of Certain Tax Benefits Associated with NOLs for a further discussion regarding the provisions of the Company s certificate of incorporation relating to certain prohibitions on transfers or sales of stock by certain of our substantial stockholders.

Are we requiring a minimum subscription to complete the rights offering?

No.

Are there any limits on the number of shares of common stock Imay own as a result of the exercise of subscription

Are there any other conditions to the completion of the rights offering?

Yes. The completion of the rights offering is subject to the conditions described under The Rights Offering Amendment, Withdrawal and Termination.

Can the rights offering be cancelled?

Yes. We reserve the right to cancel the rights offering at any time for any reason. If the rights offering is cancelled, all subscription payments received by the subscription agent will be returned, without interest or penalty, as soon as practicable to those persons who subscribed for shares in the rights offering.

TABLE OF CONTENTS

How do I exercise my subscription rights if I am a record holder of shares of common stock?

If you wish to participate in the rights offering, you must properly complete the enclosed subscription rights certificate and deliver it, along with the full subscription price, to the subscription agent before 5:00 p.m., New York time, on March 31, 2017. If you use the mail, we recommend that you use insured, registered mail, return receipt requested.

If you send a payment that is insufficient to purchase the number of shares you requested, or if the number of shares you requested is not specified in the forms, the payment received will be applied to exercise your subscription rights to the fullest extent possible based on the amount of the payment received. If the payment exceeds the subscription price for the full exercise of your subscription rights, then the excess will be returned to you as soon as practicable. You will not receive interest on any payments refunded to you under the rights offering.

What should I do if I want to participate in the rights offering, but my shares are held in the name of my broker, dealer, custodian bank or other nominee?

If you hold your shares of common stock in street name through a broker, dealer, custodian bank or other nominee, you will not receive an actual subscription rights certificate. Instead, as described in this prospectus, you must instruct your broker, dealer, custodian bank or other nominee whether or not to exercise rights on your behalf. We will ask your broker, dealer, custodian bank or other nominee to notify you of the rights offering.

If you wish to participate in the rights offering, you should complete and return to your nominee the form entitled Beneficial Owner Election Form. You should receive this form from your nominee with the other rights offering materials. If your shares are held in the name of a broker, dealer or other nominee, then you should send your subscription payment to that nominee as well pursuant to their instructions. You must act timely to ensure that your broker, dealer, custodian bank or other nominee acts for you and that all required forms and payments are actually received by the subscription agent prior to the expiration of the rights offering period.

If the rights offering is not completed, will my subscription payment be refunded to me?

Yes. The subscription agent will hold all funds it receives in a segregated bank account until completion of the rights offering. If the rights offering is not completed, the subscription agent will return, without interest or penalty, as soon as practicable, all subscription payments. If you own shares in street name, it may take longer for you to receive payment because the payments will be returned through your nominee.

Must I pay the subscription price in cash?

Yes. You must timely pay the full subscription price for the full number of shares of common stock you wish to acquire under the subscription privilege by wire, bank draft drawn on a U.S. bank or personal check that clears before the expiration date of the rights offering.

Will the shares of common stock I acquire in the rights offering be subject to any stockholder agreement restricting my ability to sell or transfer my new shares of common stock?

No. You will not be subject to any stockholder agreement that restricts your ability to sell or transfer any new shares of common stock acquired by you in the rights offering. However, under federal securities laws, affiliates of the Company will be subject to restrictions on their ability to transfer shares of the Company by virtue of their status as affiliates of the Company. An affiliate is generally defined as a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company,

In addition, as discussed above, in order to help preserve our ability to utilize certain tax benefits primarily associated with our NOLs, our certificate of incorporation generally prohibits transfers or sales of stock that would result in a person or group of persons becoming a 4.75% holder, or that would result in the increase or decrease by a person or group of persons that is an existing 4.75% holder of its percentage ownership interest in the Company, unless the transferor or the transferee obtains the prior written approval of the board of directors. As a result, there are limitations on the exercise of basic subscription rights and

TABLE OF CONTENTS

oversubscription rights by stockholders to the extent such exercise would otherwise be prohibited by these provisions in our certificate of incorporation. See The Rights Offering Limitations on the Purchase of Shares of Common Stock and Description of Capital Stock Restrictions on Transfers Related to Preservation of Certain Tax Benefits Associated with NOLs for a further discussion regarding the limitations in the Company s certificate of incorporation.

After I exercise my subscription rights, can I change my mind?

No. All exercises of subscription rights are irrevocable by the stockholders, even if you later learn information about us that you consider unfavorable. You should not exercise your subscription rights unless you are certain that you wish to purchase the shares of common stock offered pursuant to this rights offering. However, we may cancel, extend or otherwise amend the rights offering at any time prior to the expiration date.

Does exercising my subscription rights involve risk?

Yes. The exercise of your subscription rights involves risks. Exercising your subscription rights involves the purchase of additional shares of our common stock and should be considered as carefully as you would consider other equity investments. Among other things, you should carefully consider the risks described under the heading Risk Factors in this prospectus and the documents incorporated by reference into this prospectus.

What fees or charges apply if I exercise my subscription rights?

We are not charging any fees or sales commissions to issue subscription rights to you or to issue shares to you if you exercise your subscription rights. If you exercise your subscription rights through a broker or other record holder of your shares, you are responsible for paying any fees that person may charge.

How do I exercise my subscription rights if I am a record holder of shares of common stock and I live outside of the United States or have an army post office or foreign post office address?

The subscription agent will hold subscription rights certificates for stockholders having addresses outside the United States or who have an army post office or foreign post office address. In order to exercise subscription rights, our foreign stockholders and stockholders with an army post office or foreign post office address must notify the subscription agent and timely follow other procedures described in the section of this prospectus entitled The Rights Offering Foreign and Other Stockholders.

When will I receive my new shares of common stock?

All shares that you purchase in the rights offering will be issued in book-entry, or uncertificated, form. When issued, the shares will be registered in the name of the subscription rights holder of record. As soon as practicable after the expiration of the rights offering, the subscription agent will arrange for the issuance of the shares of common stock purchased pursuant to the subscription privilege. Subject to state securities laws and regulations, we have the discretion to delay distribution of any shares you may have elected to purchase by exercise of your subscription rights in order to comply with state securities laws.

What are the U.S. federal income tax considerations of the receipt, lapse and exercise of my subscription rights?

The U.S. federal income tax considerations to a holder of our common stock of the receipt, lapse and exercise of subscription rights distributed pursuant to the rights offering should generally be as set forth in Certain U.S. Federal Income Tax Considerations. You should, however, seek specific tax advice from your own tax advisor in light of your own tax situation, including as to the applicability and effect of any other tax laws.

What happens if I choose not to exercise my subscription rights?

You are not required to exercise your subscription rights or otherwise take any action in response to this rights offering. If you do not exercise your subscription privilege and the rights offering is completed, the number of shares of our common stock you own will not change but, to the extent that shares are purchased by other stockholders in the rights offering, your percentage ownership of our total outstanding common stock will decrease.

TABLE OF CONTENTS

How many shares of common stock will be outstanding after the rights offering?

As of March 1, 2017, there were 29,343,441 shares of our common stock issued and outstanding (excluding 5,100,852 shares held in treasury). We will issue up to a maximum of 3,700,000 shares of common stock in the rights offering, depending on the number of subscription rights that are exercised. Based on the number of shares issued and outstanding as of March 1, 2017, if we issue all 3,700,000 shares of common stock available in this rights offering, we would have 33,043,441 shares of common stock issued and outstanding following the completion of the rights offering, excluding shares held in treasury. The actual number of shares of common stock that will be outstanding following the rights offering will depend on the extent to which the rights offering is subscribed by existing stockholders and the extent to which the board of directors waives the protective provisions of the Company s certificate of incorporation described above with respect to certain significant stockholders that exercise their subscription rights.

How much money will the Company receive from the rights offering?

If we issue all 3,700,000 shares of common stock available in this rights offering, the net proceeds to us, after deducting estimated offering expenses, will be approximately $27,500,000. However, depending on the extent to which the rights offering is actually subscribed and the extent to which the board of directors waives the protective provisions of the Company s certificate of incorporation with respect to certain significant stockholders, net proceeds may be less than this amount. We estimate that the expenses of the rights offering will be approximately $250,000. We intend to use the net proceeds from the rights offering for general corporate purposes, including development of our downtown Manhattan property and other properties and new investments. See Use of Proceeds.

Who should I contact if I have more questions?

If you have more questions about the rights offering or need additional copies of the rights offering documents, please contact the information agent, D.F. King & Co., Inc., at (866) 751-6308.

TABLE OF CONTENTS

SUMMARY OF THE RIGHTS OFFERING

The following summary describes the principal terms of the rights offering, but is not intended to be complete. See The Rights Offering for a more detailed description of the terms and conditions of the rights offering.

Securities Offered

We are distributing at no charge 0.126093 non-transferable subscription rights for each share of common stock that you owned as of 5:00 p.m., New York time, on the record date, March 1, 2017, either as a holder of record or, in the case of shares held through brokers, dealers, custodian banks or other nominees on your behalf, as beneficial owner of the shares. The total number of subscription rights issued to each holder will be rounded down to the nearest whole number. As a result, we may not issue the full number of shares authorized for issuance in connection with this rights offering.

Subscription Privilege

We will distribute 0.126093 subscription rights to each holder of record of common stock for each share of common stock held by such holder. The total number of subscription rights issued to you will be rounded down to the nearest whole number. Each whole subscription right will entitle you to purchase one share of common stock at the subscription price. You may exercise your subscription privilege for some or all of your subscription rights, or you may choose not to exercise your subscription rights.

Oversubscription Privilege

If you exercise your basic subscription privilege in full, you may also subscribe to purchase a portion of our shares of common stock that are not purchased by our other stockholders through the exercise of their respective basic subscription privileges. If sufficient shares of common stock are available, we will seek to honor your oversubscription request in full, subject to the right of the board of directors to reduce the number of shares that would be otherwise issuable under validly exercised rights pursuant to the oversubscription privilege, if the board of directors determines such reduction is advisable to protect the Company s ability to utilize its NOLs; as discussed in more detail in The Rights Offering Limitations on the Purchase of Shares of Common Stock and Description of Capital Stock Restrictions on Transfers Related to Preservation of Certain Tax Benefits Associated with NOLs. If, however, there are not enough shares available to fully satisfy all oversubscription right requests, the available shares will be distributed proportionately among rights holders who exercised their oversubscription privilege based on the number of shares each rights holder subscribed for under the basic subscription privilege. The subscription agent will return any excess payments by mail without interest or penalty as soon as reasonably practical after the expiration date.

Subscription Price

The subscription price per share of common stock is $7.50. To be effective, any payment related to the exercise of a subscription right must clear prior to the expiration of the rights offering period.

Record Date

March 1, 2017

TABLE OF CONTENTS

Expiration Date

The subscription rights will expire at 5:00 p.m., New York time, March 31, 2017, unless the expiration date is extended. We reserve the right to extend the subscription rights period at our sole discretion. We will notify you of any extension of the expiration date by issuing a press release.

Procedure for Exercising Subscription Rights

The subscription rights may be exercised at any time during the subscription period, which commences on March 3, 2017. To exercise your subscription rights, you must properly complete the enclosed subscription rights certificate and deliver it, along with the full subscription price (including any amounts in respect of your oversubscription privilege), to the subscription agent, American Stock Transfer & Trust Company LLC. before 5:00 p.m., New York time, on March 31, 2017, unless the expiration date is extended.

If you use the mail, we recommend that you use insured, registered mail, return receipt requested.

If you hold your shares of common stock in street name through a broker, dealer, custodian bank or other nominee, you will not receive an actual subscription rights certificate. Instead, as described in this prospectus, you must instruct your broker, dealer, custodian bank or other nominee whether or not to exercise rights on your behalf. We will ask your broker, dealer, custodian bank or other nominee to notify you of the rights offering.

If you wish to participate in the rights offering, you should complete and return to your nominee the form entitled Beneficial Owner Election Form. You should receive this form from your nominee with the other rights offering materials. If your shares are held in the name of a broker, dealer or other nominee, then you should send your subscription payment to that nominee as well pursuant to their instructions. You must act timely to ensure that your broker, dealer, custodian bank or other nominee acts for you and that all required forms and payments are actually received by the subscription agent prior to the expiration of the rights offering period.

Payment Adjustments

Other revenue	0.2%	0.2%	0.2%
	44.1%	43.2%	47.6%
Operating expenses	44.2%	46.4%	47.5%
Interest expense	0.8%	0.8%	0.9%
	45.0%	47.2%	48.4%
Loss before income taxes	(0.9%)	(4.0%)	(0.8%)

Our gross margins may not be comparable to those of other entities, since some entities include all of the costs related to their distribution network in cost of sales and others, like us, exclude a portion of them (freight out to customers and nominal outside warehouse costs) from gross margin, including them instead in the selling expense line item. See Note 1(o), Shipping and Handling Costs, to the Consolidated Financial Statements in this Report.

17

Table of Contents

Year Ended December 31, 2005
Compared to Year Ended December 31, 2004

Comparative Net Sales

	2005	2004	Percentage Increase (Decrease)
Scott s Liquid Gold	$ 6,609,200	$ 6,872,300	(3.8%)
Touch of Scent	1,785,900	2,470,500	(27.7%)
Total household chemical products	8,395,100	9,342,800	(10.1%)
Alpha Hydrox and other skin care	5,890,000	3,293,900	78.8%
Montagne Jeunesse skin care	9,854,100	10,010,500	(1.6%)
Total skin care products	15,744,100	13,304,400	18.3%
Total net sales	$24,139,200	$22,647,200	6.6%

Consolidated net sales for 2005 were $24,139,200 versus $22,647,200 for 2004, an increase of $1,492,000 or 6.6%. Average selling prices for 2005 were up by $179,000 from those of 2004. Average selling prices of household products were up by $71,500, and average selling prices of skin care products were up by $107,500. This increase in average selling prices was primarily due to an increase in pricing on our Scott s Liquid Gold for wood products, and improved pricing of our new Alpha Hydrox skin care products. Co-op advertising, marketing funds, slotting fees, and coupons paid to retailers are deducted from gross sales, and totaled $1,916,600 in 2005 versus $2,074,700 in 2004, a decrease of $158,100 or 7.6%, the majority of which was due to a decrease in co-op advertising fees.

During 2005, net sales of skin care products accounted for 65.2% of consolidated net sales compared to 58.7% in 2004. Net sales of those products were $15,744,100 in 2005 compared to $13,304,400 in 2004, an increase of $2,439,700 or 18.3%. During the first quarter of 2005 we began introduction of four new items in our Alpha Hydrox line of cosmetic products. Because of this, our sales of Alpha Hydrox products (with and without alpha hydroxy acid) increased during 2005. Although we are optimistic that this trend will continue, it is still too early to tell the consumer acceptance of these products which is necessary for reorders of these products and expanding the distribution of these products. We have continued to experience a drop in unit sales of our earlier-established alpha hydroxy acid-based products due primarily to maturing in the market for alpha hydroxy acid-based skin care products, intense competition from producers of similar or alternative products, many of which are considerably larger than Neoteric Cosmetics, Inc. and reduced distribution of these products at retail stores in prior periods. For 2005, the sales of our Alpha Hydrox products accounted for 28.9% of net sales of skin care products and 18.8% of total net sales, compared to 15.3% of net sales of skin care products and 9.0% of total net sales in 2004.

For 2005, sales of Montagne Jeunesse products comprised a majority of net sales of our skin care products. Net sales of Montagne Jeunesse were approximately $9,854,100 in 2005 compared to $10,010,500 in 2004. We believe that this decrease in sales of Montagne Jeunesse is attributable primarily to a decrease in the number of display promotions at retailers in the fourth quarter of 2005 versus 2004. The decrease may also reflect a softening in demand for these products which we experienced in the third and fourth quarter of 2005.

Sales of household products in 2005 accounted for 34.8% of consolidated net sales compared to 41.3% in 2004. These products are comprised of Scott s Liquid Gold for wood, a wood cleaner which preserves as it cleans, and Touch of Scent, a room air freshener. Sales of household products were $8,395,100 in 2005 compared to $9,342,800 in 2004,

Table of Contents

a decrease of $947,700, or 10.1%. Sales of Scott s Liquid Gold for wood decreased from $6,872,300 in 2004 to $6,609,200 in 2005 (down by $263,100 or 3.8%). This decrease was due to decreased distribution at retail stores and by introduction of new competing products and limited advertising of our products. Sales of Touch of Scent were down by $684,600 or 27.7%, primarily due to a decrease in distribution. In the second quarter of 2005 we began introducing a wood wash under the Scott s Liquid Gold product line. It is too early to determine if this introduction will be successful.

As sales of a consumer product decline, there is the risk that retail stores will stop carrying the product. The loss of any significant customer for any skin care products, Scott s Liquid Gold for wood or Touch of Scent , could have a significant adverse impact on our revenues and operating results. We believe that our future success is highly dependent on favorable acceptance in the marketplace of Montagne Jeunesse products, the sales of our new Alpha Hydrox products and our Scott s Liquid Gold for wood products.

We also believe that the introduction of successful new products, including line extensions of existing products, such as the wood wash using the name Scott s Liquid Gold, are important to maintaining or growing our revenue. We currently plan to make one to three product introductions during 2006. To the extent that we manufacture a new product rather than purchase it from external parties, we are also benefited by the use of existing capacity in our facilities. The actual introduction of these products, the timing of any introduction and any revenues realized from these products is uncertain.

On a consolidated basis, cost of goods sold was $13,514,500 in 2005 compared to $12,907,200 for 2004, an increase of $607,300, or 4.7% (on a sales increase of about 6.6%). As a percentage of consolidated net sales, cost of goods sold was 56.0% in 2005 compared to 57.0% in 2004, which was essentially due to our increase in plant utilization, resulting from increased sales of our Alpha Hydrox cosmetic products during 2005, offset by sales of Montagne Jeunesse products at a higher cost per unit, along with the increased cost of steel cans and petroleum based raw materials used in many of our products. To date there have not been additional increases in these two raw materials in 2006.

We are working on ways to more fully utilize our production capacity at our manufacturing facilities in Denver. We discuss from time to time manufacturing private label products, but those discussions have not resulted in any agreements to date. We are currently considering with a party the possibility of manufacturing certain products as part of a project to manufacture and sell products in the United States. We do not know whether we will be successful in these efforts to manufacture products for third parties.

Operating Expenses, Interest Expense and Other Income

	2005	**2004**	**Percentage Increase (Decrease)**
Operating Expenses			
Advertising	$ 1,275,200	$ 1,143,400	11.5%
Selling	5,933,600	5,804,800	2.2%
General & Administrative	3,462,000	3,557,900	(2.7%)
Total operating expenses	$10,670,800	$10,506,100	1.6%
Interest Income	$ 42,300	$ 42,500	(0.5%)
Interest Expense	$ 194,300	$ 177,800	9.3%

Operating expenses, comprised primarily of advertising, selling, and general and administrative expenses, increased by $164,700 or 1.6% in 2005, when compared to 2004. The various components of operating expenses are discussed below.

Table of Contents

Advertising expenses for 2005 were $1,275,200 compared to $1,143,400 for 2004, an increase of $131,800 or 11.5% (primarily from an increase in television advertising). In 2005, we spent $776,900 to advertise our cosmetics products, compared to $255,000 in 2004, an increase of 204.7%, and $498,300 in 2005 compared to $888,400 in 2004 to advertise household products, a decrease of 43.9%. We plan to advertise our household products and skin care products in 2006 at about 2005 levels. We periodically review our advertising plans and may revise planned advertising expenditures based upon actual sales results and competitive conditions.

As part of our sales efforts in the last quarter of 2005, we used television advertisements and a few print advertisements. We will continue to advertise in these types of media during the first quarter 2006. We have not used television advertisements for the Montagne Jeunesse products.

Selling expenses for 2005 were $5,933,600 compared to $5,804,800 for 2004, an increase of $128,800 or 2.2%. That increase was comprised of an increase in freight and brokerage expenses of $85,200, an increase in salaries and fringe benefits and related travel expense of $51,300, primarily because of staffing changes and sales incentives in 2005 versus 2004, an increase in depreciation and royalty expense of $63,100, offset by a decrease in internet sales expense of $25,700, a decrease in promotional goods cost of $32,200, and a net decrease in other selling expenses, none of which by itself is significant, of $12,900.

General and administrative expenses for 2005 were $3,462,000 compared to $3,557,900 for 2004, a decrease of $95,900 or 2.7%. That decrease is primarily due to a decrease in salary and fringe benefits resulting from fewer administrative staff in 2005 versus 2004.

Interest expense for 2005 was $194,300 versus $177,800 for 2004. Interest expense increased because of higher interest rates and borrowing levels under our line of credit. Interest income for 2005 was $42,300 compared to $42,500 for 2004, which consists of interest earned on our cash reserves in 2005 and 2004.

During 2005 and 2004, expenditures for research and development were not material (under 2% of revenues.)

Year Ended December 31, 2004
Compared to Year Ended December 31, 2003

Comparative Net Sales

	2004	**2003**	**Percentage Increase (Decrease)**
Scott s Liquid Gold	$ 6,872,300	$ 6,577,800	4.5%
Touch of Scent	2,470,500	2,438,100	1.3%
Total household chemical products	9,342,800	9,015,900	3.6%
Alpha Hydrox and other skin care	3,293,900	3,969,400	(17.0%)
Montagne Jeunesse skin care	10,010,500	11,485,400	(12.8%)
Total skin care products	13,304,400	15,454,800	(13.9%)
Total net sales	$22,647,200	$24,470,700	(7.5%)

Consolidated net sales for 2004 were $22,647,200 versus $24,470,700 for 2003, a decrease of $1,823,500 or 7.5%. Average selling prices for 2004 were down by $354,500, or 1.5% from those of 2003. Average selling prices of household products were down by $150,300, or 1.7%, and average selling prices of skin care products were down by $204,200, or 1.3%. This decrease in average selling prices was primarily due to an increase in coupon usage in 2004 versus 2003 offset somewhat by an increase in pricing on our Scott s Liquid Gold for wood products, while the decrease in average prices of our skin care products was primarily due to holiday promotional pricing on our Montagne Jeunesse sachet products offset somewhat by a decrease in couponing in 2004 versus 2003. Co-op advertising, marketing funds, slotting fees, and coupons paid to retailers are deducted from gross sales, and totaled $2,074,700 in 2004 versus $1,916,600 in 2003, an increase of $158,100 or 8.2%, the majority of which was due to an increase in coupon and slotting fee expenses due to expanding to new customers and reintroduction to former customers.

During 2004, net sales of skin care products accounted for 58.7% of consolidated net sales compared to 63.2% in 2003. Net sales of those products were $13,304,400 in 2004 compared to $15,454,800 in 2003, a decrease of $2,150,400 or 13.9%. We have continued to experience a drop in unit sales of our earlier-established alpha hydroxy acid (AHA) products due at least in part to maturing in the market for AHA-based skin care products and intense competition from producers of similar or alternative products, many of which are considerably larger than Neoteric Cosmetics, Inc. Sales of our Alpha Hydrox products (with and without alpha hydroxy acid) decreased during 2003 and 2004, due to slower sales at retail and reduced distribution of those products at retail stores, including our largest and other customers having reduced in prior quarters the number of types of those products carried on their shelves and discontinuation in 2003 of these products at certain retail chains. In addition, increased television advertising for Alpha Hydrox products in the first half of 2003 was not cost effective in terms of the impact on sales. In the second quarter of 2003, our largest customer (which accounted for 23.6% of sales of Alpha Hydrox skin care products in 2002) decreased significantly the number of stores carrying our Alpha Hydrox products. This change has resulted in lower sales of those products. For 2004, the sales of our Alpha Hydrox products accounted for 15.3% of net sales of skin care products and 9.0% of total net sales, compared to 16.1% of net sales of skin care products and 10.2% of total net sales in 2003.

For 2004, sales of Montagne Jeunesse products comprised a majority of net sales of our skin care products. Net sales of Montagne Jeunesse were approximately $10,010,500 in 2004 compared to $11,485,400 in 2003. We believe that this decrease in sales of Montagne Jeunesse is attributable primarily to a decrease in the number of display promotions at retailers in the first half of 2004 versus 2003 and to 2003 products that had not sold through the retail stores until 2004 thus resulting in fewer sales by us.

As part of our sales efforts in 2003, we used direct response television (infomercial) commercials for the sale of our Alpha Hydrox products. These efforts were not repeated in 2004. We have not used television advertisements for the Montagne Jeunesse products. We did not introduce new skin care products during 2004, except different items in Montagne Jeunesse sachets.

Sales of household products in 2004 accounted for 41.3% of consolidated net sales compared to 36.8% in 2003. These products are comprised of Scott s Liquid Gold for wood, a wood cleaner which preserves as it cleans, and Touch of Scent, a room air freshener. Sales of household products were $9,342,800 in 2004 compared to $9,015,900 in 2003, an increase of $326,900, or 3.6%. Sales of Scott s Liquid Gold for wood increased from $6,577,800 in 2003 to $6,872,300 in 2004 (up by $294,500 or 4.5%). This increase was due to increased distribution at retail stores offset by introduction of new competing products and limited advertising of our products. Sales of Touch of Scent were up by $32,400 or 1.3%, primarily due to an increase in distribution which commenced in late 2004.

On a consolidated basis, cost of goods sold was $12,907,200 in 2004 compared to $12,868,500 for 2003, an increase of $38,700 (on a sales decrease of about 7.5%). As a percentage of consolidated net sales, cost of goods sold was 57.0% in 2004 compared to 52.6% in 2003, which was caused by a combination of a greater percentage of promotional

Table of Contents

allowances, a slight increase in raw material and Montagne Jeunesse sachet costs, reduced prices on some holiday promotions in 2004 versus 2003, and spreading the ongoing manufacturing costs over the lower aggregate number of units sold.

Operating Expenses, Interest Expense and Other Income

	2004	2003	Percentage Increase (Decrease)
Operating Expenses			
Advertising	$ 1,143,400	$ 1,843,800	(38.0%)
Selling	5,804,800	6,151,500	(5.6%)
General & Administrative	3,557,900	3,641,500	(2.3%)
Total operating expenses	$10,506,100	$11,636,800	(9.7%)
Interest Income	$ 42,500	$ 58,300	(27.1%)
Interest Expense	$ 177,800	$ 213,300	(16.6%)

Operating expenses, comprised primarily of advertising, selling, and general and administrative expenses, decreased by $1,130,700 or 9.7% in 2004, when compared to 2003. The various components of operating expenses are discussed below.

Advertising expenses for 2004 were $1,143,400 compared to $1,843,800 for 2003, a decrease of $700,400 or 38.0% (primarily from a decrease in television advertising). In 2004, we spent $255,000 to advertise our cosmetics products, compared to $976,100 in 2003, a decrease of 73.9%, and $888,400 in 2004 compared to $867,700 in 2003 to advertise household products, an increase of 2.4%.

Selling expenses for 2004 were $5,804,800 compared to $6,151,500 for 2003, a decrease of $346,700 or 5.6%. That decrease was comprised of a decrease in promotional costs of $350,000 primarily because there were fewer sales promotions in 2004 versus 2003, a decrease in internet and direct television sales expense of $84,800, primarily because of a decrease in direct television sales advertising in 2004 versus 2003, a decrease in depreciation and royalty expense of $94,600, offset by an increase in salaries and fringe benefits and related travel expense of $105,900 primarily because of an increase in personnel in 2004 versus 2003, and a net increase in other selling expenses, none of which by itself is significant, of $76,800.

General and administrative expenses for 2004 were $3,557,900 compared to $3,641,500 for 2003, a decrease of $83,600 or 2.3%. That decrease is made up of a decrease in professional fees of $107,300 primarily because of a decrease in audit fees in 2004 versus 2003, offset by a net increase in other administrative expenses, none of which by itself was material, of $23,700.

Interest expense for 2004 was $177,800 versus $213,300 for 2003. Interest expense decreased because of the reduced principal of our bank loan. Interest income for 2004 was $42,500 compared to $58,300 for 2003, which consists of interest earned on our cash reserves in 2004 and 2003.

During 2004 and 2003, expenditures for research and development were not material (under 2% of revenues.)

Liquidity and Capital Resources

On August 8, 2005 we obtained a new $1,800,000 line of credit with Citywide Banks of Aurora, Colorado. This line replaced the $1,500,000 line of credit dated August 8, 2004, from the same bank. The line of credit bears interest at a rate of .5% over the bank s base rate of 7.25% at December 31, 2005 and matures on August 8, 2006. The line of credit is secured by inventory and accounts receivable. Under its terms, events of default include a material adverse change in our financial condition. The covenants remain the same as the bank loan described below. At December 31, 2005, the outstanding amount under this line of credit was $570,000, leaving $1,230,000 available, if needed. We anticipate requesting a renewal of this line of credit prior to its maturity.

We have a bank loan for approximately $1.89 million at the bank s base rate, adjustable annually each November (the interest rate on this loan was 7.00% at December 31, 2005), secured by our land and buildings, with principal and interest payable monthly through November 2007. The loan agreement contains a number of covenants, including the requirement for maintaining a current ratio of at least 1:1 and a ratio of consolidated long-term debt to consolidated net worth of not more than 1:1. We may not declare any dividends that would result in a violation of either of these covenants. The foregoing requirements were met at the end of each quarter during 2005.

During 2005, our working capital decreased by $501,600 to $2,846,800, while our current ratio (current assets divided by current liabilities) decreased from 1.7:1 at December 31, 2004 to 1.6:1 at December 31, 2005. This decrease in working capital is attributable to a net loss of $198,100, a reduction of long-term debt of $954,600, a decrease in accumulated comprehensive income of $2,300, offset by depreciation in excess of capital additions of $624,400, a decrease in other assets of $10,800 and an increase in common stock and capital in excess of par of $18,200.

At December 31, 2005, net trade accounts receivable were $1,633,100 compared to $1,419,700 at the end of 2004, an increase of $213,400, primarily due to an increase in December 2005 sales versus those of the same period last year. Inventories were up by $244,300 at the end of 2005 compared to 2004, largely due to additional inventory needed for new products introduced in 2005. Prepaid expenses decreased by $162,700 primarily because of a decrease in prepaid advertising and a decrease in prepaid insurance expense. Trade accounts payable increased by $13,600. Accrued payroll and benefits decreased $111,100 from December 31, 2004 to December 31, 2005 primarily because of the timing related to accrued payroll. Other accrued liabilities decreased by $22,700 primarily because of a decrease in accrued coupon expense related to skin care products.

We have no significant capital expenditures planned for 2006 and have no current plans for any external financing, other than our existing bank loans. We expect that our available cash and cash flows from operating activities together with borrowings under our line of credit assuming it is renewed in August, 2006, will fund the next twelve months cash requirements.

Our dependence on operating cash flow means that risks involved in our business can significantly affect our liquidity. Any loss of a significant customer, any further decreases in distribution of our skin care or household chemical products, any new competitive products affecting sales levels of our products, or any significant expense not included in our internal budget could result in the need to raise cash, such as through a bank financing. Except for the short-term line of credit described above, we have no arrangements for an external financing of debt or equity, and we are not certain whether any such financing would be available on acceptable terms. Please also see other risks summarized in Forward Looking Statements above in Item 1. We expect our operating cash flows to improve if we achieve profitability in 2006.

The following table sets forth our contractual obligations in the aggregate. We have no capital lease obligations, unconditional purchase obligations or other long-term contractual obligations. Our long-term debt interest rate is a variable rate. The table below assumes a 7.00% annual interest rate for our long-term debt, and an 8.00% annual interest rate for our line of credit.

Table of Contents

CONTRACTUAL OBLIGATIONS

	Payments due by Period				
	Total	Less than 1-Year	1 3 Years	4 5 Years	5 Years
Long-term debt, including interest	$2,031,700	$1,060,000	$ 971,700	$	$
Line of credit, including interest	604,200	604,200			
Employee separation agreement	10,000	5,000	5,000		
Operating lease obligations	202,000	82,000	120,000		
Total Contractual Cash Obligations	$2,847,900	$1,751,200	$1,096,700	$	$

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss due to adverse changes in financial and commodity market prices and rates. We are not materially exposed to market risks regarding interest rates because the interest on our outstanding debt is at the lender s base rate, which approximates the prime rate, adjustable yearly. Our investments in debt and equity securities are short-term and not subject to significant fluctuations in fair value. If interest rates were to rise 10% from year-end levels, the fair value of our debt and equity securities would have decreased by approximately $600. Further, we do not use foreign currencies in our business. Currently, we receive payment for sales to parties in foreign countries in U.S. dollars. Additionally, we do not use derivative instruments or engage in hedging activities. As a result, we do not believe that near-term changes in market risks will have a material effect on results of operations, financial position or our cash flows.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Scott s Liquid Gold-Inc.

We have audited the accompanying consolidated balance sheets of Scott s Liquid Gold-Inc. and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Scott s Liquid Gold-Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ EHRHARDT, KEEFE, STEINER & HOTTMAN P.C.

Denver, Colorado
February 17, 2006

Table of Contents

Consolidated Statements of Operations

	Year ended December 31,		
	2005	**2004**	**2003**
Net sales	$24,139,200	$22,647,200	$24,470,700
Operating costs and expenses:			
Cost of sales	13,514,500	12,907,200	12,868,500
Advertising	1,275,200	1,143,400	1,843,800
Selling	5,933,600	5,804,800	6,151,500
General and administrative	3,462,000	3,557,900	3,641,500
	24,185,300	23,413,300	24,505,300
Loss from operations	(46,100)	(766,100)	(34,600)
Interest income	42,300	42,500	58,300
Interest expense	(194,300)	(177,800)	(213,300)
Loss before income taxes	(198,100)	(901,400)	(189,600)
Income tax expense (Note 5)		(1,700)	
Net loss	$ (198,100)	$ (903,100)	$ (189,600)
Net loss per common share (Note 7):			
Basic	$ (0.02)	$ (0.09)	$ (0.02)
Diluted	$ (0.02)	$ (0.09)	$ (0.02)
Weighted average shares outstanding	:		
Basic	10,484,600	10,404,500	10,209,200
Diluted	10,484,600	10,404,500	10,209,200

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Balance Sheets

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,260,700	$ 3,354,600
Investment securities	51,900	54,200
Trade receivables, net of allowance of $62,000 and $83,000, respectively, for doubtful accounts	1,633,100	1,419,700
Other receivables	55,300	56,900
Inventories, net (Note 2)	3,184,600	2,940,300
Prepaid expenses	326,900	489,600
Total current assets	7,512,500	8,315,300
Property, plant and equipment, net (Note 3)	13,725,200	14,349,600
Other assets	11,800	22,600
	$21,249,500	$22,687,500
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Line of Credit (Note 4)	$ 570,000	$ 790,000
Accounts payable	1,809,300	1,795,700
Accrued payroll and benefits	939,400	1,050,500
Other accrued expenses	391,000	413,700
Current maturities of long-term debt (Note 4)	956,000	917,000
Total current liabilities	4,665,700	4,966,900
Long-term debt, net of current maturities (Note 4)	938,400	1,893,000
	5,604,100	6,859,900
Commitments and contingencies (Notes 4, 6, 9 and 10)		
Shareholders equity (Note 6):		
Common stock; $.10 par value, authorized 50,000,000 shares; issued and outstanding 10,503,000 shares (2005), and 10,471,000 shares (2004)	1,050,300	1,047,100
Capital in excess of par	4,994,200	4,979,200
Accumulated comprehensive income	1,900	4,200
Retained earnings	9,599,000	9,797,100
Shareholders equity	15,645,400	15,827,600
	$21,249,500	$22,687,500

See accompanying notes to consolidated financial statements.

27

Table of Contents

Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss)

Years ended December 31, 2005, 2004, and 2003	Common Stock Shares	Common Stock Amount	Capital in Excess of Par	Accumulated Comprehensive Income (loss)	Retained Earnings	Comprehensive Income (loss)
Balance, December 31, 2002	10,153,100	$1,015,300	$4,847,000	$ 8,400	$10,889,800	
Total comprehensive income						$1,572,200
Stock issued to ESOP Plan	202,900	20,300	80,200			
Unrealized loss on investment securities				(2,800)		$ (2,800)
Net loss					(189,600)	(189,600)
Balance, December 31, 2003	10,356,000	1,035,600	4,927,200	5,600	10,700,200	
Total comprehensive loss						$ (192,400)
Stock issued to ESOP Plan	110,000	11,000	49,900			
Stock issued for services	5,000	500	2,100			
Unrealized loss on investment securities				(1,400)		$ (1,400)
Net loss					(903,100)	(903,100)
Balance, December 31, 2004	10,471,000	1,047,100	4,979,200	4,200	9,797,100	
Total comprehensive loss						$ (904,500)
Stock purchase for contribution to ESOP(Note 6)	(70,000)	(7,000)	(33,600)			
Stock issued to ESOP Plan (Note 6)	100,000	10,000	47,400			
Stock issued for cash	2,000	200	1,200			
Unrealized loss on investment securities				(2,300)		$ (2,300)
Net loss					(198,100)	(198,100)
Balance, December 31, 2005	10,503,000	$1,050,300	$4,994,200	$ 1,900	$ 9,599,000	
Total comprehensive loss						$ (200,400)

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Cash Flows

	Year ended December 31, 2005	2004	2003
Cash Flows from Operating Activities:			
Net loss	$ (198,100)	$ (903,100)	$ (189,600)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Depreciation and amortization	670,600	683,500	704,200
Stock issued for services		2,600	
Stock issued to ESOP	57,400	60,900	100,500
Change in assets and liabilities:			
Trade and other receivables, net	(211,800)	(332,600)	688,500
Inventories	(244,300)	182,300	(516,000)
Prepaid expenses and other assets	149,300	(233,200)	173,100
Accounts payable and accrued expenses	(120,200)	344,200	(662,000)
Total adjustments to net loss	301,000	707,700	488,300
Net Cash Provided (Used) by Operating Activities	102,900	(195,400)	298,700
Cash Flows from Investing Activities:			
Purchase of investment securities	(248,400)		(495,600)
Proceeds from sale or maturity of investment securities	250,000	250,000	1,760,500
Proceeds from sale of equipment	2,100		
Purchases of property, plant and equipment	(25,700)	(113,300)	(21,300)
Net Cash Provided (Used) by Investing Activities	(22,000)	136,700	1,243,600
Cash Flows from Financing Activities:			
Proceeds (payments) on short-term borrowings, net	(220,000)	790,000	
Proceeds from issuance of stock	1,400		
Purchase of stock for contribution to ESOP	(40,600)		
Principal payments on long-term borrowings	(915,600)	(875,300)	(830,100)
Net Cash Used by Financing Activities	(1,174,800)	(85,300)	(830,100)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,093,900)	(144,000)	712,200
Cash and Cash Equivalents, beginning of year	3,354,600	3,498,600	2,786,400
Cash and Cash Equivalents, end of year	$ 2,260,700	$3,354,600	$3,498,600
Supplemental disclosures:			
Cash paid during the year for:			
Interest	$ 191,200	$ 178,700	$ 214,900
Income taxes	$ 1,100	$ 1,700	$ 400

See accompanying notes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary Of Significant Accounting Policies

(a) Company Background

Scott s Liquid Gold-Inc. (a Colorado corporation) was incorporated on February 15, 1954. Scott s Liquid Gold-Inc. and its wholly owned subsidiaries (collectively, the terms we or our), manufactures and markets quality household and skin care products. In the first quarter of 2001, we began acting as a distributor in the United States of beauty care products contained in individual sachets and manufactured by Montagne Jeunesse. Our business is comprised of two segments, household products and skin care products.

(b) Principles of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, realizability of deferred tax assets, reserves for slow moving and obsolete inventory, customer returns and allowances, and bad debts.

(d) Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less at the date of acquisition to be cash equivalents.

(e) Investments in Marketable Securities

We account for investments in marketable securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115 Accounting for Certain Investments in Debt and Equity Securities , which requires that we classify investments in marketable securities according to management s intended use of such investments. We invest our excess cash and have established guidelines relative to diversification and maturities in an effort to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. We consider all investments as available for use in current operations, and therefore classify them as short-term, available-for-sale investments. Available-for-sale investments are stated at fair value, with unrealized gains and losses, if any, net of tax, reported as a separate component of shareholders equity and comprehensive income (loss). The cost of the securities sold is based on the specific identification method. Investments in corporate and government securities as of December 31, 2005 are scheduled to mature within one year.

(f) Inventories

Inventories consist of raw materials and finished goods and are stated at the lower of cost (first-in, first out method) or market. We record a reserve for slow moving and obsolete products and raw materials. We estimate reserves for slow moving and obsolete products and raw materials based upon historical and anticipated sales.

Amounts are discussed in Note 2.

Table of Contents

(g) Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost. Depreciation is provided using the straight-line method over estimated useful lives of the assets ranging from three to forty-five years. Maintenance and repairs are expensed as incurred. Improvements that extend the useful lives of the assets or provide improved efficiency are capitalized.

(h) Financial Instruments

Financial instruments which potentially subject us to concentrations of credit risk are primarily cash and cash equivalents, investments in marketable securities, and trade receivables. We maintain our cash balances in the form of bank demand deposits with financial institutions that management believes are creditworthy. We establish an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. We have no significant financial instruments with off-balance sheet risk of accounting loss, such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

The recorded amounts for cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximate fair value due to the short-term nature of these financial instruments. The fair value of investments in marketable securities is based upon quoted market value. Our long-term debt bears interest at a variable rate, the lender s base rate, which approximates the prime rate. The carrying value of long-term debt approximates fair value as of December 31, 2005 and 2004.

(i) Long-Lived Assets

We account for long-lived assets in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(j) Income Taxes

We account for income taxes in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which related temporary differences become deductible. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(k) Revenue Recognition

Revenue is recognized upon delivery of products to customers, which is when title passes. Reserves for estimated market development support, pricing allowances and returns are provided in the period of sale as a reduction of revenue. Reserves for returns and allowances are recorded as a reduction of revenue, and are maintained at a level that management believes is appropriate to account for amounts applicable to existing sales. Reserves for coupons and certain other promotional activities are recorded as a reduction of revenue at the later of the date at which the related revenue is recognized or the date at which the sales incentive is offered. At December 31, 2005 and December 31, 2004, approximately $794,000 and $862,600, respectively, had been reserved as a reduction of accounts receivable, and approximately $35,000 and $90,000, respectively, had been reserved as current liabilities. Co-op advertising, marketing funds, slotting fees and coupons are deducted from gross sales, and totaled $1,916,600, $2,074,700 and $1,916,600 in 2005, 2004, and 2003, respectively.

(l) Advertising Costs

We expense advertising costs as incurred.

(m) Stock-based Compensation

At December 31, 2005, we had four stock-based employee compensation plans, which are described more full in Note 6. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Year Ended December 31		
	2005	**2004**	**2003**
Net loss, as reported	$(198,100)	$(903,100)	$(189,600)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (Note 6)	(215,400)	(17,400)	(203,700)
Pro forma net loss	$(413,500)	$(920,500)	$(393,300)
Loss per share:			
Basic and diluted as reported	$ (0.02)	$ (0.09)	$ (0.02)
Basic and diluted pro forma	$ (0.04)	$ (0.09)	$ (0.04)

(n) Comprehensive Income

We follow SFAS No. 130, Reporting Comprehensive Income which establishes standards for reporting and displaying comprehensive income and its components. Comprehensive income includes all changes in equity during a period from non-owner sources.

(o) Shipping and Handling Costs

We classify amounts billed to a customer in a sale transaction related to shipping and handling as revenue and classify shipping and handling costs as a component of selling expense in the accompanying Consolidated Statement of Operations. Shipping and handling costs totaled $1,612,000, $1,544,100, and $1,503,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

(p) Recently Issued Accounting Pronouncements

On March 29, 2005, the SEC staff issued Staff Accounting Bulletin No. 107 (SAB 107), which expresses the SEC staff s view on SFAS No. 123(R). SAB 107 provides guidance regarding certain matters important to selecting and applying valuation models. We will consider SAB 107 in our implementation of SFAS No. 123(R). However, the adoption of SAB 107 is not expected to have a material impact on our implementation of SFAS 123(R).

In May 2005, FASB issued Statement No. 154, Accounting Changes and Error Corrections. This statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in

Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting

Table of Contents

principle. SFAS No. 154 applies to all voluntary changes in accounting principle. Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income for the period of the change the cumulative effect of changing to the new accounting principle. Statement No. 154 requires retrospective application to prior periods financial statement of a change in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, Statement No. 154 requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. Statement No. 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be account for as a change in accounting estimate effected by a change in accounting principle. Statement No. 154 is effective in fiscal years beginning after December 15, 2005. Adoption of this statement is not expected to materially impact our results of operations or financial position.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4 (SFAS No. 151). The provisions of SFAS 151 are intended to eliminate narrow differences between the existing accounting standards of the FASB and the International Accounting Standards Board (IASB) related to inventory costs, in particular, the treatment of abnormal idle facility expense, freight, handling costs, and spoilage. SFAS No. 151 requires that theses costs be recognized as current period charges regardless of the extent to which they are considered abnormal. The provisions of SFAS 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the adoption of SFAS 151 to have a material impact on our operations, financial position or liquidity.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123, (revised 2004) Share-Based Payment (SFAS 123(R)). This statement is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation as amended (SFAS 123), and requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide services in exchange for the award (usually the vesting period). SFAS 123(R) covers various share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123(R) eliminates the ability to use the intrinsic value method of accounting for share options, as provided in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). SFAS 123(R) is effective beginning January 1, 2006, with early adoption encouraged. We are currently evaluating the statement s transition methods and do not expect this statement to have an effect materially different than that of the pro forma SFAS 123 disclosures provided in Note 1 (m) to our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data in our 2005 Annual Report on Form 10-K and in Note 1 above.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 (SFAS 153). This Statement amends APB Opinion No. 29 to permit the exchange of nonmonetary assets to be recorded on a carryover basis when the nonmonetary assets do not have commercial substance. This is an exception to the basic measurement principal of measuring a nonmonetary asset exchange at fair value. A nonmonetary asset exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We have not entered into exchanges of nonmonetary assets in the past and do not expect to enter into any nonmonetary assets exchanges in the foreseeable future; however, if we enter into significant nonmonetary

Table of Contents

asset exchanges in the future, SFAS 153 could have a material effect on our consolidated financial position, results of operations or cash flows.

(q) Reclassifications

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

Note 2: Inventories

Inventories, consisting of materials, labor and overhead at December 31 were comprised of the following:

	2005	**2004**
Finished goods	$2,149,100	$2,256,100
Raw Materials	1,344,500	993,200
Inventory valuation reserve	(309,000)	(309,000)
	$3,184,600	$2,940,300

Note 3: Property, Plant and Equipment

Property, plant and equipment at December 31 were comprised of the following:

	2005	**2004**
Land	$ 1,091,500	$ 1,091,500
Buildings	16,290,000	16,283,000
Production equipment	7,535,400	7,530,000
Office furniture and equipment	1,875,900	1,920,000
Other	182,000	182,000
	26,974,800	27,006,500
Less accumulated depreciation	(13,249,600)	(12,656,900)
	$ 13,725,200	$ 14,349,600

Depreciation expense for the years ended December 31, 2005, 2004, and 2003 was $648,000, $673,000, and $693,400, respectively.

Note 4: Debt

We have a term loan agreement in the original amount of $6.0 million with a commercial bank. The loan agreement with our bank contains affirmative and negative covenants, including the requirement for maintaining a current ratio of at least 1:1 and a ratio of consolidated long-term debt to consolidated net worth of not more than 1:1 and limits the payment of dividends on common stock.

Table of Contents

Long-term debt at December 31 is presented below:

	2005	2004
First mortgage loan, secured by land and buildings, due November 20, 2007, principal and interest of $88,300 payable monthly, the interest rate is based on the bank base rate and is adjusted annually in November. The interest rate on this loan at December 31, 2005 was 7.00%.	$1,894,400	$2,810,000
Less current maturities	956,000	917,000
Long-term debt	$ 938,400	$1,893,000

Maturities of long-term debt for the years 2006 through 2007 are $956,000 and $938,400, respectively.

On August 10, 2005 we obtained a $1,800,000 line of credit from a bank to finance additional inventory and accounts receivable. The line of credit bears interest at a rate of .5% over the bank s base rate of 7.25% at December 31, 2005 and matures on August 10, 2006. The line of credit is secured by inventory and accounts receivable. The covenants are the same as the bank loan described above. At December 31, 2005, the outstanding amount under this line of credit was $570,000.

The average interest rate on the above debt as of December 31, 2005 was 7.17%.

Table of Contents

Note 5: Income Taxes

The provision for income tax for the years ended December 31 is as follows:

	2005	2004	2003
Current provision (benefit):			
Federal	$	$	$
State		1,700	
Total current provision (benefit)		1,700	
Deferred provision (benefit):			
Federal	(181,700)	(258,900)	(24,100)
State	(14,000)	(23,600)	(2,200)
Valuation allowance	195,700	282,500	26,300
Total deferred provision (benefit)			
Provision (benefit):			
Federal			
State		1,700	
Total provision (benefit)	$	$ 1,700	$

Income tax expense (benefit) at the statutory tax rate is reconciled to the overall income tax expense (benefit) as follows:

	2005	2004	2003
Federal income tax at statutory rates	$ (67,300)	$ (307,000)	$ (64,500)
State income taxes, net of federal tax effect	(6,000)	(27,600)	(5,800)
Other	(122,400)	53,800	44,000
Total	(195,700)	(280,800)	(26,300)
Change in valuation allowance	195,700	282,500	26,300
Provision for income taxes	$	$ 1,700	$

Deferred income taxes are based on estimated future tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes given the provision of enacted tax laws. The net deferred tax assets and liabilities as of December 31, 2005 and 2004 are comprised of the following:

	2005	2004
Deferred tax assets:		
Net operating loss carryforwards	$ 1,211,900	$ 1,187,900
Tax credit and other carryforwards	163,400	
Trade receivables	23,000	30,800

Inventories	103,300	103,400
Accrued insurance		21,700
Accrued vacation	268,700	262,400
Accrued payroll	3,700	27,100
Other	1,500	10,600
Total deferred tax assets	1,775,500	1,643,900
Deferred tax liability:		
Accelerated depreciation for tax purposes	(1,075,900)	(1,140,000)
Total deferred tax liabilities	(1,075,900)	(1,140,000)
Net deferred tax asset, before allowance	699,600	503,900
Valuation allowance	(699,600)	(503,900)
Net deferred tax asset	$	$

36

Table of Contents

At December 31, 2005, we had federal net operating loss carryforwards of approximately $2,750,000 and federal tax credit carryforwards related to research and development efforts of approximately $163,000, both of which expire over a period ending in 2025. State tax loss carryforwards at December 31, 2005 are approximately $9,600,000 expiring over a period ending in 2025.

A valuation allowance was established due mainly to the uncertainty relating to the future utilization of net operating loss carryforwards. The valuation allowance was further increased by $195,700 and $282,100 for 2005 and 2004, respectively, primarily related to uncertainty as to realization of our operating losses and tax credits for these years. The amount of the deferred tax assets considered realizable could be adjusted in the future based upon changes in circumstances that result in a change in our assessment of our ability to realize those deferred tax assets through the generation of taxable income or other tax events.

Table of Contents

Note 6: Shareholders Equity

In 1993, a non-qualified stock option plan was adopted for the outside directors and in 1997, an incentive stock option plan was adopted for our employees. The 1993 plan expired in January of 2003, and accordingly no shares are available for option under that plan. In 1998 and 2005, stock option plans for our employees, officers and directors were adopted. All of the plans permitted us to grant options up to an aggregate of 2,400,000 shares of common stock. Options are granted at not less than fair market value of the stock on the date of grant and are exercisable for up to ten years from the grant date. All options granted are fully vested on the date of grant.

	1993 Plan		1997 Plan		1998 Plan		2005 Plan	
	Number of Shares	Average Option Price Per Share	Number of Shares	Average Option Price Per Share	Number of Shares	Average Option Price Per Share	Number of Shares	Average Option Price Per Share
Maximum number of shares under the plans	400,000		300,000		1,100,000		600,000	
Outstanding, December 31, 2002	175,000	$0.92	267,200	$1.43	514,800	$0.87		$
Granted in 2003					569,000	0.58		
Exercised								
Cancelled/ Expired	(45,000)	1.69	(215,200)	1.63	(126,500)	1.10		
Outstanding, December 31, 2003	130,000	0.65	52,000	0.61	957,300	0.67		
Granted in 2004			10,000	0.65	30,000	0.76		
Exercised								
Cancelled/ Expired			(2,000)	0.97	(61,800)	1.30		
Outstanding, December 31, 2004	130,000	0.65	60,000	0.60	925,500	0.63		
Granted in 2005			215,000	0.57	423,600	0.79	320,000	0.58
Exercised					(2,000)	0.69		
Cancelled/ Expired	(30,000)	0.94	(10,000)	0.97	(350,500)	0.70	(1,000)	0.54
Outstanding, December 31, 2005	100,000	$0.57	265,000	$0.56	996,600	$0.67	319,000	$0.58
Available for issuance,			35,000		101,400		281,000	

December 31,
2005

A summary of additional information related to the options outstanding as of December 31, 2005 is as follows:

	Options Outstanding and Exercisable		
		Weighted Average	
Range of Exercise Prices	Number Outstanding	Remaining Contractual Life	Exercise Price
$0.46 $0.97	1,662,200	3.6 years	$0.63
$1.06	18,400	4.9 years	$1.06
Total	1,680,600	3.6 years	$0.63

38

Table of Contents

The weighted average fair value of each option grant has been estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions at December 31:

	2005	2004	2003
Dividend rate	$	$	$
Expected volatility	64%	169%	169%
Risk-free interest rate	4.33%	3.04%	3.04%
Expected life	4.5 years	4.5 years	4.5 years

Using these assumptions, the fair value of the stock options granted in 2005, 2004, and 2003 were estimated to be approximately $215,400, $17,400, and $203,700, respectively, net of income taxes.

We have an Employee Stock Ownership Plan (Plan) to provide retirement benefits for our employees. The Plan is designed to invest primarily in our common stock and is non-contributory on the part of our employees. Contributions to the Plan are discretionary as determined by our Board of Directors. We expense the cost of contributions to the Plan which amounted to $57,400 (100,000 shares), $60,900 (110,000 shares),and $100,500 (202,900 shares), in 2005, 2004 and 2003, respectively. In 2005, from authorized and unissued shares, we issued and contributed 30,000 shares of our common stock to the Plan. Additionally in 2005, we purchased 70,000 shares from a former officer at the then market price for contribution to the Plan. In 2004 and 2003 the shares contributed were issued from authorized but unissued shares.

Note 7: Earnings per Share

We present basic and diluted earnings or loss per share in accordance with SFAS No. 128 Earnings per Share which establishes standards for computing and presenting basic and diluted earnings per share. Per share data is determined by using the weighted average number of common shares outstanding. Common equivalent shares are considered only for diluted earnings per share, unless considered anti-dilutive (as in the years 2005, 2004 and 2003). Common equivalent shares, determined using the treasury stock method, result from stock options with exercise prices that are below the average market price of the common stock. A reconciliation of the weighted average number of common shares outstanding is as follows:

	2005	2004	2003
Common shares outstanding, beginning of the year	10,471,000	10,356,000	10,153,100
Common stock issued		5,000	202,900
Stock issued to ESOP	30,000	110,000	
Stock options exercised	2,000		
Common shares outstanding, end of year	10,503,000	10,471,000	10,356,000
Weighted average number of common shares outstanding	10,484,600	10,404,500	10,209,200
Common share equivalents			
Diluted weighted average number of common shares outstanding	10,484,600	10,404,500	10,209,200

We have authorized 20,000,000 shares of preferred stock issuable in one or more series, none of which is issued or outstanding as of December 31, 2005.

At December 31, 2005, we had 1,680,600 stock options outstanding which have been excluded from diluted common shares outstanding due to their antidilutive effect.

Table of Contents

Note 8: Segment Information

We operate in two different segments: household products and skin care products. Our products are sold nationally and internationally (primarily Canada), directly and through independent brokers, to mass merchandisers, drug stores, supermarkets, wholesale distributors and other retail outlets. Management has chosen to organize our business around these segments based on differences in the products sold. The household products segment includes Scott s Liquid Gold for wood, a wood cleaner which preserves as it cleans, and Touch of Scent, a room air freshener. The skin care segment includes Alpha Hydrox, alpha hydroxy acid cleansers and lotions, a retinol product, and Diabetic Skin Care , a healing cream and moisturizer developed to address skin conditions of diabetics, and beauty care sachets of Montagne Jeunesse distributed by us.

Accounting policies for our segments are the same as those described in Note 1, Summary of Significant Accounting Policies. Our Management evaluates segment performance based on segment income or loss before profit sharing, bonuses, income taxes and nonrecurring gains and losses. The following provides information on our segments as of and for the years ended December 31:

	2005		2004		2003	
	Household Products	**Skin Care Products**	**Household Products**	**Skin Care Products**	**Household Products**	**Skin Care Products**
Net sales to external customers	$8,395,100	$15,744,100	$9,342,800	$13,304,400	$9,015,900	$15,454,800
Loss before profit sharing, bonuses and income taxes	$ (871,400)	$ 673,300	$ (673,000)	$ (228,400)	$ (106,900)	$ (82,700)
Identifiable assets	$3,253,500	$ 6,940,400	$3,733,200	$ 6,402,200	$3,640,100	$ 6,416,100

The following is a reconciliation of segment information to consolidated information:

	2005	**2004**	**2003**
Net sales to external customers	$24,139,200	$22,647,200	$24,470,700
Loss before profit sharing, bonuses and income taxes	$ (198,100)	$ (901,400)	$ (189,600)
Consolidated loss before income taxes	$ (198,100)	$ (901,400)	$ (189,600)
Identifiable assets	$10,193,900	$10,135,400	$10,056,200
Corporate assets	$11,055,600	12,552,100	14,396,400
Consolidated total assets	$21,249,500	$22,687,500	$24,452,600

We attribute our net sales to different geographic areas based on the location of the customer. All of our long-lived assets are located in the United States. For the year ended December 31, revenues for each geographical area are as follows:

	2005	**2004**	**2003**
United States	$23,946,300	$22,475,900	$24,214,100
Foreign countries	192,900	171,300	256,600

Total net sales	$24,139,200	$22,647,200	$24,470,700

In 2005, 2004 and 2003, one customer accounted for approximately $7,000,000, $8,200,000, and $9,100,000, respectively, of consolidated net sales. Both segments sell to this customer. This customer is not related to us. The outstanding trade receivable from this same customer accounted for 19.8% and 40.1% of total trade receivables at December 31, 2005 and 2004, respectively. Another customer accounted for approximately $3,200,000 and $3,000,000 of consolidated net sales in 2005 and 2004 respectively; and, the outstanding trade receivables from this customer accounted for 14.0% and 10.0% of total trade receivables at December 31, 2005 and 2004, respectively. A loss of these customers could have a material adverse effect on us because it is uncertain whether our

Table of Contents

consumer base served by these customers would purchase our products at other retail outlets. No long-term contracts exist between us and these customers or any other customer.

Note 9: Retirement Plans

We have a 401(k) Profit Sharing Plan (401(k) Plan) covering our full-time employees who have completed four months of service as defined in the 401(k) Plan, and are age 18 or older. Participants may defer up to 100% of their compensation up to the maximum limit determined by law. We may make discretionary matching contributions up to a maximum of 6% of each participant s compensation, but only for those employees earning no more than $35,000 annually. Additionally, we can make discretionary profit sharing contributions to eligible employees. Participants are always fully vested in their contributions, matching contributions and allocated earnings thereon. Vesting in our profit sharing contribution is based on years of service, with a participant fully vested after five years. Our Company matching contributions totaled $11,000, $12,000, and $6,600, in 2005, 2004, and 2003, respectively. We have made no discretionary profit sharing contributions in 2005, 2004 or 2003.

Note 10: Commitments and Contingencies

We have entered into various operating lease agreements, primarily for office equipment. Annual rental expense under these leases totaled $89,800, $85,400, and $110,600 in 2005, 2004 and 2003, respectively. Minimum annual rental payments under noncancellable operating leases are approximately $82,000, $71,000, and $49,000 for the years ending December 31, 2006, 2007, and 2008, respectively.

We are subject to incidental litigation in the ordinary course of our business. We expect that no pending legal proceeding will have a material adverse effect on us.

Note 11. Transactions with Related Parties

In 2001, we commenced purchases of the skin care sachets from Montagne Jeunesse under a distributorship agreement covering the United States. Montagne Jeunesse is the sole supplier of that product. Sales of these products represent a significant source of our revenues. On May 4, 2005, our wholly-owned subsidiary, Neoteric Cosmetics, Inc. (Neoteric), entered into a new distribution agreement with Montagne Jeunesse International Ltd (Montagne Jeunesse) covering our distribution of Montagne Jeunesse products. It replaces a distribution agreement in effect since 2000. In the new agreement, Montagne Jeunesse appoints Neoteric as its exclusive distributor to market and distribute Montagne Jeunesse products in the United States of America. The appointment is for a period of 18 months, commencing May 3, 2005, and continues in force until terminated by either party by giving to the other party no less than three months notice in writing of a termination at the end of the initial term of 18 months or any time after the initial term. The principal and controlling owner of Montagne Jeunesse is the managing director and sole owner of Atchinson Investments, Ltd., which owned, to our knowledge, at December 31, 2005, approximately seven percent of our outstanding common stock.

We adopted a bonus plan for our executive officers for 2005. The plan provided that an amount would be distributed to our executive officers equal to 10% of the annual before tax profit exceeding $1,000,000, excluding items that are infrequent, unusual, or extraordinary. In 2005, 2004 and 2003, no bonuses were accrued or paid due to net losses. We have adopted substantially the same plan for our executive officers in 2006.

Table of Contents

Note 12. Valuation and Qualifying Accounts (in thousands)

	Balance at beginning of year	Additions charged to expense	Deductions	Balance at end of year
Year ended December 31, 2003:				
Returns and allowances, market development support and doubtful accounts reserve	$1,424,300	3,621,300	4,090,200	$955,400
Inventory valuation reserve	$ 400,000	17,000	53,000	$364,000
Year ended December 31, 2004:				
Returns and allowances, market development support and doubtful accounts reserve	$ 955,400	3,251,300	3,261,100	$945,600
Inventory valuation reserve	$ 364,000	22,700	77,700	$309,000
Year ended December 31, 2005				
Returns and allowances, market development support and doubtful accounts reserve	$ 945,600	3,387,100	3,476,700	$856,000
Inventory valuation reserve	$ 309,000	16,700	16,700	$309,000

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

As of December 31, 2005, we conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms as of December 31, 2005. There was no change in our internal control over financial reporting during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Item 11. Executive Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 13. Certain Relationships and Related Transactions.

Item 14. Principal Accountant Fees and Services.

For Part III, the information set forth in our definitive Proxy Statement for our Annual Meeting of Shareholders to be held in May, 2006, hereby is incorporated by reference into this Report.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Financial Statements:

Financial Statement Schedules:

None.

Table of Contents

(c) Exhibits:

Exhibit Number	Document
3.1	Restated Articles of Incorporation, as amended and restated through May 1, 1996, incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the year ended December 31, 2001.
3.2	Bylaws, as amended through February 27, 1996, incorporated by reference to Exhibit 3.2 of our Annual Report on Form 10-K for the year ended December 31, 2004.
4.1	Promissory Note, dated November 21, 2000, payable to Citywide Banks; Assignment of Rents, dated November 21, 2000, between us and Citywide Banks; Deed of Trust, dated November 21, 2000, by us for Citywide Banks; and Business Loan Agreement, dated November 21, 2000, between us and Citywide Banks, incorporated by reference to Exhibit 4.1 of our Annual Report on Form 10-K for the year ended December 31, 2000.
4.2	Business Loan Agreement, dated August 8, 2005, with Citywide Banks, a Promissory Note dated August 8, 2005 to Citywide Banks and a Commercial Security Agreement dated August 8, 2004 with Citywide Banks, incorporated by reference to Exhibit 10.0 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
10.1*	Scott s Liquid Gold-Inc. Health and Accident Plan, Plan Document and Summary Plan Description Amended and Restated Effective October 1, 2003 incorporated by reference to Exhibit 10.1 of our Annual Report on Form 10-K for the year ended December 31, 2004.
10.2	Scott s Liquid Gold & Affiliated Companies Employee Benefit Health And Welfare Plan Amendment #1-2004 incorporated by reference to Exhibit 10.2 of our Annual Report on Form 10-K for the year ended December 31, 2004.
10.3*	Amended Key Executive Disability Plan Scott s Liquid Gold-Inc. incorporated by reference to Exhibit 10.2 of our Annual Report on Form 10-K for the year ended December 31, 2002.
10.4*	2006 Key Executive Bonus Plan.
10.5*	Indemnification Agreement dated May 6, 1987, between the Registrant and Mark E. Goldstein, incorporated by reference to Exhibit 10.4 of our Annual Report on Form 10-K for the year ended December 31, 2002; Indemnification Agreement dated December 23, 1991, between the Registrant and Dennis H. Field, incorporated by reference to Exhibit 10.4 of our Annual Report on Form 10-K for the year ended December 31, 2002; Amendment to Indemnification Agreement dated January 17, 1992, between the Registrant and Dennis H. Field, incorporated by reference to Exhibit 10.4 of our Annual Report on Form 10-K for the year ended December 31, 2002; Indemnification Agreement, dated July 12, 2000, between us and Jeffrey R. Hinkle, incorporated by reference to Exhibit 10.4 of our Annual Report on Form 10-K for the year ended December 31, 2002; Indemnification Agreement, dated August 16, 2000, between us and Carl A. Bellini, incorporated by reference to Exhibit 10.4 of our Annual Report on Form 10-K for the year ended December 31, 2002; Indemnification Agreement, dated November 2, 2000, between us and Jeffry B. Johnson, incorporated by reference to Exhibit 10.4 of our Annual Report on Form 10-K for the year ended December 31, 2002; Indemnification Agreement, dated November 20, 2002 between us and Dennis P. Passantino, incorporated by reference to Exhibit 10.4 of our Annual Report on Form 10-K for the year ended December 31, 2002; and, an Indemnification Agreement, dated

January 26, 2004 between us and Gerald J. Laber, incorporated by reference to Exhibit 10.4 of our Annual Report on Form 10-K for the year ended December 31, 2003.

Exhibit Number	Document
10.6	Agreement dated as of May 3, 2005 between Montagne Jeunesse International Ltd. and Neoteric Cosmetics, Inc., incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
10.7*	Scott s Liquid Gold-Inc. Employee Stock Ownership Plan and Trust Agreement, Amended and Restated Effective January 1, 2001, incorporated by reference to Exhibit 10.6 of our Annual Report on Form 10-K for the year ended December 31, 2001; and Second Amendment to Scott s Liquid Gold-Inc. Employee Stock Ownership Plan, effective as of January 1, 2003, incorporated by reference to Exhibit 10.6 of our annual Report on Form 10-K for the year ended December 31, 2003.
10.8	Third Amendment to Scott s Liquid Gold-Inc. Employee Stock Ownership Plan, effective March 28, 2005, incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
10.9*	Scott s Liquid Gold-Inc. 1993 Stock Option Plan for Outside Directors, incorporated by reference to Exhibit 4.7 of our Registration Statement No. 33-63254 on Form S-8, filed with the Commission on May 25, 1993.
10.10*	Scott s Liquid Gold-Inc. 1998 Stock Option Plan, incorporated by reference to Exhibit 4.3 of our Registration Statement No. 333-51710, filed with the Commission on December 12, 2000.
10.11*	Scott s Liquid Gold-Inc. 2005 Stock Incentive Plan, incorporated by reference to Exhibit 4.3 of Registration Statement No. 333-126028 filed with the Commission on June 22, 2005.
21	List of Subsidiaries.
23	Consent of Ehrhardt, Keefe, Steiner & Hottman PC.
24	Powers of Attorney.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1	Section 1350 Certification.

* Management contract or compensatory plan or arrangement

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCOTT S LIQUID GOLD-INC.,
a Colorado corporation

By: /s/ Mark E. Goldstein

Mark E. Goldstein, President and
Chief Executive Officer
Principal Executive Officer

By: /s/Jeffry B. Johnson

Jeffry B. Johnson, Treasurer and
Chief Financial Officer
Principal Financial Officer

By: /s/ Brian L. Boberick, Controller

Brian L. Boberick, Controller

Date: March 15, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons of the Registrant and in the capacities and on the dates indicated:

Date	Name and Title		Signature
March 15, 2006	Mark E. Goldstein,	)	
	Director	)	
		)	
March 15, 2006	Jeffrey R. Hinkle,	)	
	Director	)	/s/ Jeffry B. Johnson
		)	
March 15, 2006	Jeffry B. Johnson,	)	Jeffry B. Johnson, for himself and as Attorney-in-Fact
	Director	)	for the named directors who together constitute of
		)	all of the members
March 15, 2006	Dennis P. Passantino,	)	
	Director	)	
March 15, 2006	Carl A. Bellini,	)	
	Director	)	
		)	
March 15, 2006	Dennis H. Field,	)	
	Director	)	
		)	
March 15, 2006	Gerald J. Laber,	)	

Director	)
	)

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EXHIBIT INDEX

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