SCOTTS LIQUID GOLD INC
Form 10-K
March 21, 2005

Use these links to rapidly review the document
TABLE OF CONTENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number 001-13458

SCOTT'S LIQUID GOLD-INC.

(Exact name of Registrant as specified in its charter)

Colorado	**84-0920811**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4880 Havana Street
Denver, CO 80239
(Address of principal executive offices and Zip Code)

(303) 373-4860
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **$0.10 Par Value Common Stock**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ý

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $3,783,200.

As of March 15, 2005, the Registrant had 10,471,000 shares of its $0.10 par value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement for the Annual Meeting of shareholders scheduled to be held in May 4, 2005, is incorporated by reference in Part III.

TABLE OF CONTENTS

PART I

Item 1. Business

General

Scott's Liquid Gold-Inc., a Colorado corporation, was incorporated on February 15, 1954. Through its wholly-owned subsidiaries, the Company manufactures and markets quality household and skin care products and acts as a distributor in the United States of beauty care products contained in individual sachets and manufactured by Montagne Jeunesse. In this Report, the term "Company" refers to Scott's Liquid Gold-Inc. and its subsidiaries. The Company's business is comprised of two segments, household products and skin care products.

The Company's household products consist of Scott's Liquid Gold® for wood, a wood preservative and cleaner, sold nationally for over 30 years, and Touch of Scent®, an aerosol room air freshener, distributed nationally since 1982. In early 1992, the Company entered into the skin care business through its subsidiary, Neoteric Cosmetics, Inc. The Company's skin care products consist primarily of Alpha Hydrox® products, other products manufactured by the Company, and sachets of Montagne Jeunesse. At the end of 2004, more than 15 skin care products were being marketed by the Company, as well as the Montagne Jeunesse sachets.

For information on the Company's operating segments, please see Note 8, Segment Information, to the Consolidated Financial Statements of the Company.

This report may contain "forward-looking statements" within the meaning of U.S. federal securities laws. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and the Company's performance inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products in the marketplace; the degree of success of any new product or product line introduction by the Company; competitive factors; any decrease in distribution of (i.e. retail stores carrying) the Company's significant products; continuation of the Company's distributorship agreement with Montagne Jeunesse; the limited amount and effectiveness of advertising of the Company's products; limited resources available for such advertising; new competitive products and/or technological changes; dependence upon third party vendors and upon sales to major customers; changes in the regulation of the Company's products, including applicable environmental regulations; adverse developments in pending litigation; the loss of any executive officer; and other matters discussed in the Company's periodic filings with the Securities and Exchange Commission. The Company undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

Strategy

The Company's strategy is to manufacture and market high quality consumer products which are distinct within each category in which the Company competes. Scott's Liquid Gold for wood distinguishes itself from competing products as a wood cleaner and preservative, not simply a polish. Touch of Scent is different from most competing aerosol air fresheners in that it need not be shaken before each use, and, because it may be activated by an attractive dispenser which may be mounted on any hard, smooth surface, it is more convenient to use than competing aerosol brands. With respect to the Company's line of skin care products, Alpha Hydrox was one of the first alpha hydroxy acid skin care products sold to retailers for resale to the public at affordable prices. In 1998, the Company added a retinol product to its skin care line. In the first half of 1999, the Company introduced *Neoteric Diabetic Skin Care*®. In 2000, the Company introduced Alpha Hydrox Fade Cream as well as certain other skin care products which were subsequently discontinued. In 2001, the Company introduced a topical analgesic called *RubOut* . Since 2001, the Company has sold Montagne Jeunesse sachets which are reasonably priced and designed for single use by the consumer. The Company will continue to examine other possible new products which the Company believes may fit well with the Company's know-how and financial capabilities.

In the last ten years, the Company operated profitably from 1995 through 1997, incurred losses in 1998 through 2001, 2003, and 2004, and was profitable in 2002. Although the Company experienced a net loss in 1996 because of the settlement of an environmental lawsuit with the United States Army, it nonetheless produced an operating profit for that year. In the years 1998 through 2004, the Company experienced significant declines in sales of Alpha Hydrox skin care products manufactured by the Company and, to a lesser extent, the Company's major lines of household products until 2004. Information regarding reasons for the decline in sales of these products are stated in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

The growth in sales of Alpha Hydrox from 1992 through 1996 caused the Company to make substantial investments in property, plant and equipment to handle that growth and the anticipated future growth of the Company's skin care products. The decline in sales of those products in 1998 through 2004, as well as declines in sales of household chemical products until 2004, has resulted in efforts by the Company to maintain or increase sales of the existing products, to introduce new products, and to decrease the Company's costs of doing business. The Company introduced new products and engaged in cost-cutting programs during 2000, 2001 and 2002.

The goal of the Company for 2005 is to resume sales growth and attain profitability. To achieve these goals, the Company will continue to work on expansion of the distribution of Montagne Jeunesse® products and to focus its efforts on increasing sales of core Alpha Hydrox products and Scott's Liquid Gold for wood. The Company will also consider the development of new niche products, offer to manufacture private label products for others, and explore the possibility of joint ventures and other projects which would utilize the manufacturing or marketing capabilities of the Company.

Products

Scott's Liquid Gold for wood, a wood cleaner and preservative, has been the Company's core product since the Company's inception. It has been popular throughout the U.S. for over thirty years. Scott's Liquid Gold for wood, when applied to wood surfaces such as furniture, paneling, kitchen cabinets, outside stained doors and decking, penetrates microscopic pores in the surface and lubricates beneath, restoring moisture and, at the same time, minimizes the appearance of scratches, darkening the wood slightly. Scott's Liquid Gold preserves wood's natural complexion and beauty without wax. In May, 2004 the Company commenced the introduction of an additional wood care product in a wipe form; however, sales have been minimal so far.

In 1982 the Company added the room air freshener Touch of Scent, to its line of household products. Touch of Scent, available in many fragrances, is intended to be used in conjunction with a decorative dispenser which can be mounted on any hard surface and into which the consumer inserts an aerosol refill unit. At a touch, the dispenser propels the fragrance from a refill unit into the air, masking unpleasant odors and refreshing the air with a pleasant scent. The Company manufactures both the dispenser and the refill unit. Unlike some competitive aerosol air fresheners, Touch of Scent is extremely dry and, therefore, leaves practically no residue after use. Touch of Scent sales have not been strong in recent years. In this regard, see Item 7 below, Management's Discussion and Analysis.

Household products accounted for 41.3% of the Company's consolidated net sales in 2004, and 36.8% in 2003.

In early 1992, the Company began to market two skin care products under the trade name of Alpha Hydrox. At the end of 2004, the Company's skin care line consisted of over 15 products. The

Company's Alpha Hydrox skin care products are sold through a wholly-owned subsidiary, Neoteric® Cosmetics, Inc. Except for the Montagne Jeunesse sachets distributed by the Company, the Company's skin care products are manufactured by Neoteric Cosmetics. Several of the Alpha Hydrox products contain alpha hydroxyethanoic acids in low but effective concentrations. Properly blended with a carrier, alpha hydroxyethanoic acids gently slough off dead skin cells to promote a healthier, more youthful appearance and diminish fine lines and wrinkles. The Company's products with alpha hydroxy acids ("AHAs") include facial care products, a body lotion and a foot crème. In 2002, the Company reduced the number of Alpha Hydrox products containing AHAs to five in order to concentrate marketing and distribution resources of the Company and in response to decreasing sales of other items in the Alpha Hydrox line of skin care products. Other skin care products of the Company do not contain AHAs. These products include Neoteric Diabetic Skin Care, which is a healing crème and a therapeutic moisturizer developed by the Company to address the skin conditions of diabetics, caused by poor blood circulation, and which contains a patented oxygenated oil technology; an Alpha Hydrox Oxygenated Moisturizer, which is our second skin care product based on the oxygenated oil technology; a Retinol product containing a patented Microsponge technology that softens fine lines and wrinkles; an Alpha Hydrox Fade Cream designed to lighten age spots and skin discoloration caused by sun exposure and other factors; *RubOut* , which is a topical analgesic which helps fade the discoloration of bruises and eases the pain from muscle sprains and bruises; and a body wash. The Montagne Jeunesse sachets, described more below, do not contain AHAs. Neoteric skin care products (including Montagne Jeunesse products) accounted for 58.7% of the Company's consolidated net sales in 2004, and 63.2% in 2003.

In April of 2001, the Company made its first sale of skin care sachets under a distributorship agreement with Montagne Jeunesse. The agreement of the Company covers sales in the United States. Montagne Jeunesse is a trading division of Medical Express (UK) Ltd., a company located in England. Montagne Jeunesse sachet products are currently sold by others in the United Kingdom, Holland, Italy, Ireland, Canada, Australia, Germany and Austria. Examples of the Montagne Jeunesse products are a facial scrub, a mud pack, face masks, a cream for foot rubs, and "one night" hair color. A significant portion of the Company's sales are now generated through the distribution of the Montagne Jeunesse products and, therefore, are dependent on the agreement under which they are purchased by the Company. See "Manufacturing and Suppliers" below.

The Company's business is seasonal to some extent. Sales of Montagne Jeunesse products have been higher in the fourth quarter than other quarters because of holiday promotions.

The Company, through its research and development group, continually considers and evaluates possible new products to be manufactured or sold by the Company. Generally these products involve household products or skin care products. At this time, the Company has not selected any specific product for introduction in 2005 but may introduce one or more products currently under consideration.

The Company also manufactures injection molded components, currently consisting of plastic caps for Touch of Scent and Scott's Liquid Gold, and dispensers for Touch of Scent.

Marketing and Distribution

All of the Company's products are sold nationally, directly and through independent brokers, to mass marketers, drugstores, supermarkets, and other retail outlets and to wholesale distributors. In 2004, Wal-Mart Stores, Inc. ("Wal-Mart") of Bentonville, Arkansas, accounted for approximately 34% of the Company's sales of household products. With regard to the Company's skin care products, Wal-Mart accounted for approximately 38% of 2004 sales, and K-Mart Corporation accounted for approximately 12% of 2004 sales. Wal-Mart and K-Mart accounted for approximately 36% and 13%, respectively, of the combined sales of household products and skin care products in 2004. The loss of these customers for either household or skin care products could have a material adverse effect on the Company because it is uncertain whether the consumer base served by these customers would purchase the Company's products at other retail outlets. No long-term contracts exist between the Company and Wal-Mart, K-Mart Corporation or any other customer. The Company permits returns of its products by its customers, a common industry practice. A recent practice of retailers has been to return products that have either been discontinued or not sold after a period of time. The Company subtracts any returns from gross sales in determining the net sales shown on its financial statements.

During the years 2001 through 2004, the Company experienced a decrease in the distribution of the Alpha Hydrox products as a result of slowing sales. If sales of a Company product continue to decline, other retail stores, including potentially Wal-Mart and K-Mart, may discontinue the product. One of the Company's strategies is to maintain or increase sales of products through limited television advertising as described above. The level of advertising for the Company's products is constrained by the Company's size and financial resources. Any significant decrease in the distribution of Alpha Hydrox or Scott's Liquid Gold products at retail stores could have a material adverse effect on the Company's sales and operating results.

The Company's household products and Alpha Hydrox have been advertised nationally on network television, on cable television, and, at times, in print media. In the past, the Company has also used radio advertising in selected areas and may do so in the future. During 2005, but subject to change, the Company plans a slight decrease in advertising expenditures from 2004. To date, the Company has not used television advertising for the Montagne Jeunesse products. The Company periodically reviews its advertising plans and may revise planned advertising expenditures based upon actual sales results and competitive conditions.

To enable consumers to make informed decisions, the Company's containers and promotional materials note the concentration of alpha hydroxy acid contained in each of its Alpha Hydrox products which contain such acids. The Company recommends the use of sunscreen in its written directions contained in every box of Alpha Hydrox products with such acids. The Company does not exaggerate benefits to be expected from the use of its products. The Company also maintains a 24-hour, toll free telephone number and website for use by consumers of its products.

The Company sells its household and skin care products in Canada and other foreign countries. Please see Note 8, Segment Information, to the Consolidated Financial Statements for information regarding sales in foreign countries. Currently, foreign sales are made to distributors who are responsible for the marketing of the products, and the Company is paid for these products in United States currency.

Manufacturing and Suppliers

The Company owns and operates its manufacturing facilities and equipment. With the exception of the Montagne Jeunesse sachets, the Company manufactures all of its products, maintaining a high quality standard. For all of its products, the Company must maintain sufficient inventories to ship most orders as they are received. Quality control is enforced at all stages of production, as well as upon the receipt of raw materials from suppliers. Raw materials are purchased from a number of suppliers and, at the present time, are readily available. Currently, the Company's sole supplier of glycolic acid, which is the most common type of alpha hydroxy acid used by the Company in its Alpha Hydrox products, is E.I. DuPont de Nemours. To the Company's knowledge, this supplier is one of only two U.S. manufacturers of the grade of glycolic acid approved for use by the Company. No contract exists between the Company and its supplier of glycolic acid. The Company's sole supply for the oxygenated oil used in Neoteric Diabetic Skin Care products is a French company with which the Company has a non-exclusive supply agreement. Relations with these suppliers and other suppliers are satisfactory.

Most of the Company's manufacturing operations, including most packaging, are highly automated, and, as a result, the Company's manufacturing operations are not labor intensive, nor, for the most part, do they involve extensive training. An addition to the Company's plant facilities, completed in early 1996, greatly increased the Company's capacity to produce skin care products. The Company currently operates on a one-shift basis. The Company's manufacturing facilities are capable of producing substantially more quantities of the Company's products without any expansion, and, for that reason, the Company believes that its physical plant facilities are adequate for the foreseeable future.

In 2001, the Company 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. The term of this distributorship agreement is five years with automatic rolling one-year renewals, subject to the rights of either party to terminate upon three months' notice or if certain minimum sales are not met or certain other events occur. For the year 2004, this minimum sales requirement was waived.

Competition

The Company's business is highly competitive in both household and skin care products. Household products are comprised of Touch of Scent air fresheners and Scott's Liquid Gold, a wood cleaner and preservative. Both the air freshener and wood care categories are dominated by three to five companies significantly larger than the Company, each of which produce several products. Irrespective of the foregoing, the Company maintains a visible position in the wood care category, but does not have sufficient information to make an accurate representation as to the market share of its products. Over the last several years, sales of the Company's air freshener products have fallen off significantly and may continue to do so in the future. From time to time, to stem the attrition of this product line, the Company offers price incentives to its customers.

The skin care category is also highly competitive. Several competitors are significantly larger than Scott's Liquid Gold-Inc., and each of these competitors produces several products. Some of these companies also produce retinol and alpha hydroxy acid products with which Alpha Hydrox must compete. Because of the number of varied products produced by competitors, the Company cannot make an accurate representation as to the market share of its skin care products. Irrespective of the foregoing, the Company currently has a national base of distribution for Alpha Hydrox.

Conforming to its corporate philosophy, the Company competes on the basis of quality and distinguishing characteristics of its products.

Regulation

The Company is subject to various federal, state and local laws and regulations which pertain to the type of products it manufactures and sells. The Company's skin care products containing alpha hydroxy acids are cosmetics within the meaning of the Federal Food Drug and Cosmetic Act ("FFDCA"). The FFDCA defines "cosmetics" as products intended for cleansing, beautifying, promoting attractiveness or altering the appearance. The Company's cosmetic products are subject to regulation under the FFDCA and the Fair Packaging and Labeling Act ("FPLA"), and the regulations promulgated under these acts. The relevant laws and regulations are enforced by the U.S. Food & Drug Administration ("FDA"). Such laws and regulations govern the ingredients and labeling of cosmetic products and set forth general manufacturing practices for companies to follow. Although FDA regulations require that the safety of a cosmetic ingredient be substantiated prior to marketing, there is no requirement that a company contemplating inclusion of a cosmetic ingredient in its products submit to the FDA the results of its testing or any other data or information with respect to the ingredient. Prior to marketing its products, the Company conducts studies to demonstrate that its

Alpha Hydrox products do not irritate the skin or eyes. Consistent with regulations, the Company does not submit the results of its studies to the FDA.

In April of 1994, an FDA official raised some questions about the safety of alpha hydroxy acids in skin care products, and later stated that the effects of long-term usage of such products are unknown. Because of the FDA's questions, the Cosmetic Ingredient Review Expert Panel ("CIR") sponsored by the cosmetics industry, was requested to conduct a review of a compilation of alpha hydroxy acid safety data assembled by cosmetic manufacturers. The CIR is a cooperative proceeding in which an FDA representative can and does participate as a nonvoting, liaison member. In June of 1997, the CIR issued its final report which, among other things, concluded that glycolic acid (the most common type of alpha hydroxy acid used by the Company) is safe for use in retail domestic products at concentrations of up to 10%, with a pH level of no less than 3.5, and when the directions for use include the daily use of sun protection. The Company's products and directions for use meet the CIR's criteria.

Following the issuance in June, 1997 of the CIR report, the FDA, in December, 1998, created a joint working group using staff from both the Center for Food Safety and Applied Nutrition and the Center for Drug Evaluation and Research to consider, among other things, whether products containing alpha hydroxy acid should be classified for regulatory purposes as drugs. This group is expected to analyze additional research initiated at the FDA's request. It is not expected that final recommendations by the working group will be forthcoming in the near-term future. Further, any recommendation of the group that dramatically restricts the availability of products containing alpha hydroxy acids would probably face strong opposition by manufacturers of these products. In addition, since 2003 the FDA's National Center for Toxicological Research has been investigating the effects of long-term exposure to alpha hydroxy acid. These studies have not been completed. The FDA in December, 2002 issued a draft guidance suggesting that cosmetic products containing alpha hydroxy acid alert users about the potential for increased skin sensitivity to sun and particularly the possibility of sunburn and what steps may be taken to avoid such consequences. A draft label was proposed by the FDA. That guidance was finalized with the same proposed label on January 10, 2005. The Company's labeling, as in effect for many years, is similar to the guidance; the Company has included, and continues to include, the suggested caution on its product labels. On December 31, 2003, the FDA published a call for data on certain ingredients in various products, including AHAs which are part of wrinkle remover products. Manufacturers were asked to submit any data supporting the reclassification of these cosmetic products as over-the-counter drugs. The study results were due in December 2004; however, they have not yet been published. If the FDA should change the regulatory classification of the Company's AHA products, there would be additional regulatory requirements applicable to the Company. The financial impact, if any, of any additional regulatory requirements cannot be determined at this time.

The Company's advertising is subject to regulation under the Federal Trade Commission Act and related regulations, which prohibit false and misleading claims in advertising. The Company's labeling and promotional materials are believed to be in full compliance with applicable statutes and regulations.

Some chemicals used in consumer products, including some used by the Company, have come under scrutiny by various state governments and the Congress of the United States in connection with clean air laws and regulations. These chemicals are volatile organic compounds ("VOCs") that are contained in various categories of consumer products. As a result of VOC regulation, it has been necessary, from time to time, for the Company to reformulate some of its products including a reformulation of Touch of Scent to conform to certain regulations of the California Air Resources Board ("CARB") which became effective on January 1, 1996. The Company's household chemical products currently meet the most stringent VOC regulations. Effective December 31, 2004 in California and January 1, 2005 in certain other states, there was a change in regulations which reduced the VOC limit for aerosol furniture care products from 25% to 17%. The Company had no significant manufacturing or cost issues in meeting the new standard. The regulations concerning VOC content are relevant to the household products of the Company but have not to date affected the Company's skin care products. CARB is conducting a new consumer products survey based on sales for the year 2003 to update their information on consumer products VOC emissions and to evaluate the feasibility of further reducing consumer product VOC emissions. Company products that are being surveyed include Scott's Liquid Gold for wood pourable product, Touch of Scent air freshener, and certain Neoteric products Body Wash, Fade Cream, and Toner. There is another CARB survey scheduled for 2006, which will be based on 2005 sales and will include most of the Company's products.

The Company believes it has done all that is now necessary to satisfy the current requirements of the Clean Air Act and laws of various state governments. Currently, all of the Company's products may be sold in all areas of the United States.

Limitations regarding the VOC content of consumer products by both state and federal agencies will continue to be a part of regulatory efforts to achieve compliance for ozone at or near ground level. Under the Clean Air Act Amendments of 1990, the Environmental Protection Agency ("EPA") is required to study the contribution of consumer products to ozone problems and to promulgate regulations designed to reduce the VOC content of consumer products. During 1995, the EPA published a prioritized list of categories of consumer products for regulation, including categories which affect Scott's Liquid Gold for wood and Touch of Scent. Final regulations to control VOC's from these consumer products, which are no more stringent than those issued previously by CARB with which the Company complies, were published in September, 1998. Various states, in addition to California, have enacted or are considering promulgating VOC regulations for consumer products. The Company is unable to predict how many or which other states might enact legislation regulating the VOC content of consumer products or what effect such legislation might have upon its household products. The Company is aware that a group of approximately twelve northeastern states and the District of Columbia have collectively drafted the Ozone Transport Commission (OTC) Model Consumer Products Rule with standards substantially the same as those contained in the CARB regulations. To the Company's knowledge, at least some of these states including Delaware, New York, Maryland, and Pennsylvania have adopted VOC regulations based on this model. New Jersey and the District of Columbia recently promulgated their final rules based on this model. These new regulations became effective January 1, 2005. Other states are considering adoption of regulations based on this model.

Employees

The Company employs 93 persons (compared to 98 persons at the end of 2003), 43 in plant and production related functions and 50 in administrative, sales and advertising functions. The number of employees decreased in 2001 and 2002, as part of the Company's cost cutting steps started in 2000. No contracts exist between the Company and any union. The Company monitors wage and salary rates in the Rocky Mountain area and pursues a policy of providing competitive compensation to its employees. The compensation of the Company's executive officers is under the review of the Compensation Committee of the Company's Board of Directors. Fringe benefits for Company employees include a medical and dental plan, life insurance, a 401(k) plan with matching contributions for lower paid employees (those earning $35,000 or less per annum), an employee stock ownership (ESOP) plan, and a profit sharing plan. The Company considers its employee relations to be satisfactory.

Patents and Trademarks

At present, the Company owns one patent covering an ingredient used in some of the Company's skin care products. Additionally, the Company actively uses its registered trademarks for Scott's Liquid Gold, Liquid Gold, Touch of Scent, Alpha Hydrox, TriOxygen^{C}®, and Neoteric in the United States and has registered trademarks in a number of additional countries. The Company's registered trademarks and pending trademark applications concern names and logos relating to its products as well as the design of boxes for certain of its products.

In December 2000 (amended October 1, 2003), the Company entered into a license agreement with TriStrata Technology, Inc. which owns patents dealing with the use of alpha hydroxy acids for the purpose of reducing the appearance of wrinkles or fine lines. Under the license agreement, Neoteric Cosmetics and its affiliates have been granted a non-exclusive license for the life of the patents to make and sell skin care products using alpha hydroxy acids for, among other things, the reduction of the appearance of skin wrinkles and the reduction in the appearance of skin changes associated with aging. The license agreement covers a territory which includes the United States and certain foreign countries. In accordance with the license agreement, Neoteric Cosmetics pays a royalty on net sales of products covered by the agreement. This license agreement was part of the settlement of a lawsuit brought by TriStrata Technology against the Company and others alleging infringement of patents in selling and promoting skin care products which contain alpha hydroxy acid.

Available Information and Code of Ethics

We will make available free of charge through the website http://www.businesswire.com/cnn/slgd.htm, this annual report, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and amendments to such reports, as soon as reasonably practicable after we electronically file or furnish such material with the Securities and Exchange Commission. These reports are not available on our website because of the expense of maintaining the reports on our website and because the reports are available at Business Wire's website. We will provide upon request and at no charge electronic or paper copies of these filings with the Securities and Exchange Commission (excluding exhibits).

The Company will provide to any person without charge, upon request, a copy of the code of business conduct and ethics which has been adopted by the Company and which applies to the Company's principal executive officer, principal financial officer and principal accounting officer, among others.

A request for reports filed with the SEC or the code of business conduct and ethics may be made to: Corporate Secretary, Scott's Liquid Gold-Inc., 4880 Havana Street, Denver, Colorado 80239.

Item 2. Properties

The Company's facilities, located in Denver, Colorado, are currently comprised of three connected buildings and a parking garage (approximately 261,100 square feet in total) and about 16.2 acres of land, of which approximately 6 acres are available for future expansion. These buildings range in age from 7 to 32 years (126,600 square feet having been added in 1995 and 1996). The Denver facility houses the Company's corporate headquarters and all of its operations, and serves as one of several distribution points. The Company believes that its current space will provide capacity for growth for the foreseeable future. All of the Company's land and buildings serve as collateral under a deed of trust for a $6.0 million bank loan consummated by the Company on November 21, 2000.

Item 3. Legal Proceedings

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Market Information

The Company's $0.10 par value common stock is listed on the NASD OTCBB under the ticker symbol "SLGD". The high and low prices of Scott's Liquid Gold-Inc. common stock as traded on the NASD OTC Bulletin Board were as follows. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

2004 Three Months Ended	High	Low	2003 Three Months Ended	High	Low
March 31	$ 1.00	$ 0.70	March 31	$ 0.55	$ 0.46
June 30	$ 0.92	$ 0.57	June 30	$ 0.58	$ 0.47
September 30	$ 0.67	$ 0.53	September 30	$ 0.58	$ 0.48
December 31	$ 0.61	$ 0.52	December 31	$ 0.75	$ 0.63

Shareholders

As of March 15, 2005 the Company had approximately 1,012 shareholders of record.

Dividends

The Company did not pay any cash dividends during the two most recent fiscal years. No decision has been made as to future dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for information concerning restrictions on dividends.

Other

Current stock quotes, SEC filings of the Company, quarterly earnings and press releases can be found at: http://www.businesswire.com/cnn/slgd.htm.

Equity Plans

The following table provides, as of December 31, 2004, information regarding the Company's equity compensation plans, which consists of the 1993, 1997 and 1998 Stock Option Plans. The 1993 plan expired in January of 2003, and accordingly no shares are available for option under that plan.

The Company also has an Employee Stock Ownership Plan which invests only in common stock of the Company, but which is not included in the table below.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,115,500	$ .63	414,500
Equity compensation plans not approved by security holders			
Total	1,115,500	$ .63	414,500

Stock Purchases

The Company did not make any repurchases of its outstanding shares during the fourth quarter of 2004.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October, 2004				
November, 2004				
December, 2004				

Pursuant to board resolutions, on December 31, 2004, the Company contributed 20,000 shares of its common stock to its Employee Stock Ownership Plan (the "Plan"). On November 10, 2004 the Company contributed 40,000 shares of its common stock to the Plan. On September 2, 2004, the Company contributed 30,000 shares of its common stock to the Plan. On June 4, 2004, the Company contributed 20,000 shares of its common stock to the Plan. No consideration was paid by the Plan for these contributions. The Company believes that these contributions were not subject to the securities registration requirements of the Securities Act of 1933 because they did not involve a sale. The contributions of the shares to the Plan may also be exempt from such securities registration as a non-public offering under Section 4(2) of the Securities Act of 1933.

Item 6. Selected Financial Data

	2004	2003	2002	2001	2000
	(In Thousands of Dollars Except for Per Share Data)				
Net sales:					
Scott's Liquid Gold household products	$ 9,343	$ 9,016	$ 10,155	$ 11,619	$ 11,823
Skin care products	13,304	15,455	14,804	13,050	15,096
	$ 22,647	24,471	$ 24,959	$ 24,669	$ 26,919
Net income (loss) before income taxes	$ (901)	(190)	$ 1,092	$ (1,290)	$ (2,280)
Income tax expense (benefit)	2		(480)		(435)
Net income (loss)	$ (903)	$ (190)	$ 1,572	$ (1,290)	$ (1,845)
Basic earnings (loss) per common share	$ (0.09)	$ (0.02)	$ .15	$ (0.13)	$ (0.18)
Diluted earnings (loss) per share	$ (0.09)	$ (0.02)	$ .15	$ (0.13)	$ (0.18)
Dividends declared per common share	$	$	$	$	$
Assets	$ 23,828	$ 24,453	$ 26,079	$ 26,299	$ 27,681
Working capital	$ 3,804	$ 5,058	$ 6,046	$ 4,619	$ 6,047
Capital additions	$ 113	$ 21	$ 14	$ 107	$ 95
Depreciation	$ 673	$ 693	$ 722	$ 742	$ 801
Long-term debt, net of current maturities	$ 1,893	$ 2,807	$ 3,685	$ 4,515	$ 5,309

Selected Quarterly Financial Data

	2004				
	First	Second	Third	Fourth	Year
Net Sales	$ 5,209	$ 5,308	$ 5,117	$ 7,013	$ 22,647
Gross Profit	$ 2,458	$ 2,338	$ 1,988	$ 2,956	$ 9,740
Income (loss) before income taxes	$ (351)	$ (276)	$ (360)	$ 86	$ (901)
Net income (loss)	$ (351)	$ (276)	$ (360)	$ 84	$ (903)
Income (loss) per share	$ (0.03)	$ (0.03)	$ (0.03)	$ 0.00	$ (0.09)
Diluted income (loss per share)	$ (0.03)	$ (0.03)	$ (0.03)	$ 0.00	$ (0.09)

	2003				
	First	Second	Third	Fourth	Year

	2003				
Net Sales	$ 5,736	$ 5,608	$ 6,023	$ 7,104	$ 24,471
Gross Profit	$ 2,878	$ 2,545	$ 2,721	$ 3,458	$ 11,602
Income (loss) before income taxes	$ (416)	$ (747)	$ 231	$ 742	$ (190)
Net income (loss)	$ (416)	$ (747)	$ 231	$ 742	$ (190)
Income (loss) per share	$ (0.04)	$ (0.07)	$ 0.02	$ 0.07	$ (0.02)
Diluted income (loss per share)	$ (0.04)	$ (0.07)	$ 0.02	$ 0.07	$ (0.02)

11

Item 7. Management's Discussion & Analysis Of Financial Condition and Results of Operations

General

The Company manufactures and markets both household and skin care products. The Company's products are sold throughout the United States and Canada and insignificantly in other countries.

Critical Accounting Policies

The Company has identified the policies below as critical to the Company's business operations and the understanding of the Company's results of operations. These policies involve significant judgments, estimates and assumptions by the Company's management. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements.

Revenue Recognition

The Company's revenue recognition policy is significant because the amount and timing of revenue is a key component of the Company's results of operations. The Company follows the guidance of Staff Accounting Bulletin No. 104 ("SAB 104"), which requires that a strict series of criteria are met in order to recognize revenue related to product shipment. If these criteria are not met, the associated revenue is deferred until the criteria are met. Generally, these criteria are that there be an arrangement to sell the product, the Company has delivered the product in accordance with that arrangement, the sales price is determinable, and collectibility is probable.

The Company's reserves for accounts receivable consist of a bad debt reserve and reserves for returns and customer allowances. Reserves for marketing rebates, pricing allowances and returns, coupons and certain other promotional activities involve estimates made by management based upon an assessment of historical trends, information from customers, and anticipated returns and allowances related to current sales activity. The level of returns and allowances are impacted by, among other things, promotional efforts performed by customers, changes in customers, changes in the mix of products sold, and the stage of the relevant product life cycle. Changes in estimates may occur based on actual results and consideration of other factors that cause returns and allowances. In the event that actual results differ from these estimates, results of future periods may be impacted.

Reserves for bad debts ($83,000 and $82,000 at December 31, 2004 and December 31, 2003, respectively) are recorded based on estimates by management including factors surrounding the credit risk of specific customers and historical trends. The Company has been exposed to potential losses on receivables due from specific customers that have suffered financial difficulties. The Company has provided reserves against certain receivables from such customers in addition to amounts related to unidentified losses. Those reserves are reduced as those accounts are settled or written off. In the event that actual losses differ from these estimates or there is an increase in exposure relating to sales to specific customers, results of future periods may be impacted.

Income Taxes

As of December 31, 2004, the Company has deferred income tax assets of $1,140,000 which primarily relate to expenses that are not yet deductible for tax purposes and net operating loss carryforwards, offset by deferred income tax liabilities for differences in the book and tax bases of property and equipment. The net deferred tax asset is fully reserved by a valuation allowance. The valuation allowance represents management's determination that the Company will more likely than not be unable to realize the value of such assets due to the uncertainty of future profitability.

During the quarter ended March 31, 2002, the Company recorded a tax benefit of $483,000 related to taxes to be recouped pursuant to changes in the federal tax law which allowed the Company to carryback tax losses incurred in 2001 against taxes paid in prior years.

Inventory Valuation and Reserves

The Company's inventory is a significant component of the Company's total assets. In addition, the carrying value of such inventory directly impacts the gross margins that the Company recognizes when the Company sells the inventory and records adjustments to carrying values. The Company's inventory is valued at the lower of cost or market, cost being determined under the first-in, first-out method. Management estimates reserves for slow moving and obsolete products and raw materials based upon historical and anticipated sales. In the event that actual results differ from these estimates, results of future periods may be impacted.

Recently Issued Accounting Pronouncements

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 as of the beginning of the first interim period that begins after June 15, 2005, with early adoption encouraged. The Company is currently evaluating the statement's transition methods and does not expect this statement to have an effect materially different than that of the pro forma SFAS 123 disclosures provided in Note 1 to the Company's Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data."

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 carry over 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. If the Company enters into significant nonmonetary asset exchanges in the future, SFAS 153 could have a material effect on its consolidated financial position, results of operations or cash flows.

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"). FIN 46R requires a company to consolidate a variable interest entity, as defined, when the company will absorb a majority of the variable interest entity's expected losses, receive a majority of the variable interest entity's expected residual returns, or both. FIN 46R also requires certain disclosures relating to consolidated variable interest entities and unconsolidated variable interest entities in which a company has a significant variable interest. The provisions of FIN 46R are required for companies that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. The provisions of FIN 46R are required to be applied for periods ending after March 15, 2004 for all other types of entities. The Company was required to perform this assessment at December 31, 2004, and consolidate any variable interest entries for which it would absorb a majority of the entities' expected losses or receive a majority of the expected residual gains. The Company does not have any variable interest entities as of December 31, 2004, therefore this assessment had no impact on the Company's consolidated financial statements.

Results of Operations

During 2004 we experienced a small increase in sales of household chemical products primarily because of the increased distribution of Scott's Liquid Gold for wood. The Company commenced in May, 2004 the introduction of an additional wood care product in a wipe form during this period; however, sales have been minimal so far. During 2004 the Company experienced a decrease in sales of our skin care products, including the Montagne Jeunesse line of products, for reasons explained below. Our net loss for 2004 was $903,100 versus a loss of $189,600 in 2003. The loss for 2004 was primarily due to slower sales of Montagne Jeunesse products and reduced gross profit over all product lines in 2004 versus 2003 as explained below.

Summary of Results as a Percentage of Net Sales

	Year Ended December 31,		
	2004	2003	2002
Net sales			
Scott's Liquid Gold household products	41.3%	36.8%	40.7%
Skin care products	58.7%	63.2%	59.3%
Total net sales	100.0%	100.0%	100.0%
Cost of sales	57.0%	52.6%	53.5%
Gross profit	43.0%	47.4%	46.5%
Other revenue	0.2%	0.2%	2.6%
	43.2%	47.6%	49.1%
Operating expenses	46.4%	47.5%	43.7%
Interest expense	0.8%	0.9%	1.0%
	47.2%	48.4%	44.7%
Income (loss) before income taxes	(4.0)%	(0.8)%	4.4%

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%. The Company has continued to experience a drop in unit sales of the Company's 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 the Company's 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 the Company's 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, the Company's largest customer (which accounted for 23.6% of sales of Alpha Hydrox skin care products in 2002) decreased significantly the number of stores carrying Alpha Hydrox products of the Company. This change has resulted, and may result in the future, in lower sales of those products. For 2004, the sales of the Company's 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 the Company's skin care products. Net sales of Montagne Jeunesse were approximately $10,010,500 in 2004 compared to $11,485,400 in 2003. The Company believes 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 the Company.

As part of its sales efforts in 2003, the Company used direct response television (infomercial) commercials for the sale of its Alpha Hydrox products. These efforts were not repeated in 2004. The Company has not used television advertisements for the Montagne Jeunesse products. The Company did not introduce new skin care products during 2004, except different items in Montagne Jeunesse sachets. The Company has prepared, and will start selling in 2005, a refined formulation of certain Alpha Hydrox products.

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 the Company's 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.

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 the Company's revenues and operating results. The Company believes that its future success is highly dependent on favorable acceptance in the marketplace of Montagne Jeunesse products and the sales of its Alpha Hydrox products and "Scott's Liquid Gold" for wood.

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 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. We are seeing increases in raw material costs in 2005, particularly the cost of steel cans which have been affected by a shortage of steel.

The Company is working on ways to more fully utilize its production capacity at its manufacturing facilities in Denver. The Company discusses from time to time manufacturing private label products, but those discussions have not resulted in any agreements to date. The Company is 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. The Company does not know whether it will be successful in these efforts to manufacture products for third parties.

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)%
Other Income	$	$	%
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, the Company spent $255,000 to advertise its 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%. The Company plans to advertise its skin care products in 2005 at about 2004 levels, while decreasing slightly its advertising of household products in 2005 versus 2004. The Company periodically reviews its advertising plans and may revise planned advertising expenditures based upon actual sales results and competitive conditions.

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 the Company's bank loan. Interest income for 2004 was $42,500 compared to $58,300 for 2003, which consists of interest earned on the Company's cash reserves in 2004 and 2003.

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

Year Ended December 31, 2003
Compared to Year Ended December 31, 2002

Comparative Net Sales

	2003	2002	Percentage Increase (Decrease)
Scott's Liquid Gold	$ 6,577,800	$ 7,356,100	(10.60)%
Touch of Scent	2,438,100	2,798,500	(12.90)%
Total household chemical Products	9,015,900	10,154,600	(11.20)%
Alpha Hydrox and other skin care	3,969,400	4,937,400	(19.60)%
Montagne Jeunesse skin care	11,485,400	9,867,000	16.40%
Total skin care products	15,454,800	14,804,400	4.40%
Total Net Sales	$ 24,470,700	$ 24,959,000	(2.00)%

Consolidated net sales for 2003 were $24,470,700 versus $24,959,000 for 2002, a decrease of $488,300 or 2.0%. Average selling prices for 2003 were up by $623,800, or 2.5% from those of 2002. Average selling prices of household products being up by $160,500, or 1.6%, and average selling prices of skin care products were up by $463,300, or 3.1%. This increase in average selling prices was primarily due to a decrease in coupon usage during 2003 and an increase in pricing on our Scott's Liquid Gold for wood products in 2003 versus 2002. Co-op advertising, marketing funds, slotting fees, and coupons paid to retailers are deducted from gross sales, and totaled $1,916,600 in 2003 versus $2,860,900 in 2002, a decrease of $944,300 or 33.0%, the majority of which was a decrease in coupon and co-op advertising expenses.

During 2003, net sales of skin care products accounted for 63.2% of consolidated net sales compared to 59.3% in 2002. Net sales of those products were $15,454,800 in 2003 compared to $14,804,400 in 2002, an increase of $650,400 or 4.4%. The Company has continued to experience a drop in unit sales of the Company's 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 the Company's Alpha Hydrox products (with and without alpha hydroxy acid) have also decreased during 2002 and 2003, due to reduced distribution of those products at retail stores, including the Company's largest and other customers having reduced in 2003 the number of types of those products carried on their shelves and discontinuation 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, the Company's largest customer (which accounted for 23.6% of sales of Alpha Hydrox skin care products in 2002) decreased significantly the number of stores carrying Alpha Hydrox products of the Company. This change resulted in lower sales of those products. For 2003, the sales of the Company's Alpha Hydrox products accounted for 16.1% of net sales of skin care products and 10.2% of total net sales, compared to 23.5% of net sales of skin care products and 13.9% of total net sales in 2002.

For 2003, sales of Montagne Jeunesse products comprised a majority of net sales of the Company's skin care products and offset declining shipments of Alpha Hydrox products. Net sales of Montagne Jeunesse were approximately $11,485,400 in 2003 compared to $9,867,000 in 2002. The Company believes that this increase in sales of Montagne Jeunesse is attributable primarily to wider distribution of the product, with more retail store chains carrying brands of Montagne Jeunesse sachets, new skin and hair care items in sachets of Montagne Jeunesse, and consumer acceptance of the product.

As part of its sales efforts in the first half of 2003, the Company used direct response television (infomercial) commercials for the sale of its Alpha Hydrox products. The Company has not used television advertisements for the Montagne Jeunesse products. The Company did not introduce new products during 2003, except different items in Montagne Jeunesse sachets.

Sales of household products in 2003 accounted for 36.8% of consolidated net sales compared to 40.7% in 2002. 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 $9,015,900 in 2003 compared to $10,154,600 in 2002, a decrease of $1,138,700, or 11.2%. Sales of Scott's Liquid Gold for wood decreased from $7,356,100 in 2002 to $6,577,800 in 2003 (down by $778,300 or 10.6%) which the Company believes is due to limited television advertisement to support this product and to increased competition from existing and new products. Decreased distribution of this product in retail stores during the first half of 2003 and earlier periods may also have caused in part the sales decline. In the second half of 2003, the Company focused its efforts on the re-establishment or establishment of Scott's Liquid Gold for wood in certain national and local retail store chains. These efforts resulted in sales of the product to several retail store chains not carrying it. Sales of Touch of Scent decreased to $2,438,100 in 2003 compared to $2,798,500 in 2002 (down by $360,400 or 12.9%) primarily due to a decrease in orders for, and distribution of, the Company's Touch of Scent dispenser package. Touch of Scent is primarily sold in a few large retail store chains in the United States.

On a consolidated basis, cost of goods sold was $12,868,500 in 2003 compared to $13,354,800 for 2002, a decrease of $486,300 or 3.6% (on a sales decrease of about 1.2%). As a percentage of consolidated net sales, cost of goods sold was 52.6% in 2003 compared to 53.5% in 2002. The cost of goods sold as a percentage of consolidated net sales for 2003 compared to 2002 is almost unchanged as a result of offsetting factors. These factors include higher sales in 2003 of Montagne Jeunesse products (which have a higher cost than products manufactured by the Company) and spreading ongoing manufacturing costs of the Company over lower unit production in 2003 compared to 2002, offset by a decrease in 2003 of coupons and cooperative advertising deducted from gross revenues.

Operating Expenses, Interest Expense and Other Income

	2003	2002	Percentage Increase (Decrease)
Operating Expenses			
Advertising	$ 1,843,800	$ 1,200,300	53.6%
Selling	6,151,500	5,594,500	10.0%
General & Administrative	3,641,500	4,105,000	(11.3)%
Total operating expenses	$ 11,636,800	$ 10,899,800	6.8%
Interest Income	$ 58,300	$ 54,000	8.0%
Other Income	$	$ 594,600	(100.0)%
Interest Expense	$ 213,300	$ 261,100	(18.3)%

Operating expenses, comprised primarily of advertising, selling, and general and administrative expenses, increased by $737,000 or 6.8% in 2003, when compared to 2002. The various components of operating expenses are discussed below.

Advertising expenses for 2003 were $1,843,800 compared to $1,200,300 for 2002, an increase of $643,500 or 53.6% (primarily from an increase in television advertising). In 2003, the Company spent $976,100 to advertise its cosmetics products, compared to $742,500 in 2002, an increase of 31.5% and $867,700 in 2003 compared to $457,800 in 2002 to advertise household products, an increase of 89.5%.

Selling expenses for 2003 were $6,151,500 compared to $5,594,500 for 2002, an increase of $557,000 or 10.0%. That increase was comprised of an increase of $165,200 in freight and brokerage costs, an increase in travel expenses of $61,700, an increase in salary and fringe benefits of $161,300, an increase in internet and direct television sales expenses of $94,000 and a net increase in a variety of other expenses, none of which, by itself, was significant of $74,800.

General and administrative expenses for 2003 were $3,641,500 compared to $4,105,000 for 2002, a decrease of $463,500 or 11.3% That decrease is made up of a decrease in salaries and fringe benefits of $656,800 (the year 2002 included the expensing of a separation agreement pertaining to the retirement of the Company's executive vice president), all offset by an increase in professional fees of $138,500, an increase in travel expenses of $37,200 and a net increase in other administrative expenses, none of which, by itself, was significant, of $17,600.

Interest expense for 2003 was $213,300 versus $261,100 for 2002. Interest expense decreased because of the reduced principal of the Company's bank loan. Interest income for 2003 was $58,300 compared to $54,000 for 2002, which consists of interest earned on the Company's cash reserves in 2003 and 2002.

Other revenue for 2002 reflects $594,000 received from a lawsuit settlement. This amount was the final judgment in the lawsuit against an insurer not participating in the settlement of an earlier environmental matter.

Liquidity and Capital Resources

On August 10, 2004 the Company obtained a $1,500,000 line of credit from a bank to finance additional inventory and accounts receivable associated with upcoming holiday sales. The line of credit bears interest at a rate of .5% over the bank's base rate (5.75% at December 31, 2004) and matures on August 10, 2005. The line of credit is secured by inventory and accounts receivable. The covenants are the same as the bank loan described below. At December 31, 2004, the outstanding amount under this line of credit was $790,000; and as of the date of this Report, the Company had $660,000 outstanding under this line of credit.

The Company has a bank loan for approximately $2.8 million at the bank's base rate, adjustable yearly (5.00% at December 31, 2004), secured by the Company's 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. The Company 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 the each quarter during 2004 and at December 31, 2004.

During 2004, the Company's working capital decreased by $1,253,800 to $3,804,400, while its current ratio (current assets divided by current liabilities) decreased from 2.3:1 at December 31, 2003 to 1.8:1 at December 31, 2004. This decrease in working capital is attributable to a net loss of $903,100, a reduction of long-term debt of $914,300, a decrease in deferred tax liabilities of $43,000, an increase in non-current deferred tax assets of $26,000, a decrease in accumulated comprehensive income of $1,400, offset by depreciation in excess of capital additions of $559,700, and an increase in common stock and capital in excess of par of $63,500, and a decrease in other assets of $10,800.

At December 31, 2004, net trade accounts receivable were $1,419,700 compared to $1,108,600 at the end of 2003, an increase of $311,100, primarily due to an increase in December 2004 sales versus those of the same period last year. Inventories were down by $182,300 at the end of 2004 compared to 2003, largely due to late fourth quarter sales (inventory was not replenished until early in 2005). Prepaid expenses increased by $233,200, primarily because of an increase in prepaid advertising and an increase in prepaid insurance expense. Trade accounts payable increased by $538,800 primarily due to an increase in sales promotion, advertising and trade suppliers payables. Accrued payroll and benefits decreased $55,800 from December 31, 2003 to December 31, 2004 primarily because of the timing related to accrued payroll. Other accrued liabilities decreased by $138,800 primarily because of a decrease in accrued coupon expense related to skin care products.

The Company has no significant capital expenditures planned for 2005 and has no current plans for any external financing, other than its existing bank loans. The Company expects that its available cash and cash flows from operating activities will fund the next twelve months' cash requirements.

The Company's dependence on operating cash flow means that risks involved in its business can significantly affect its liquidity. Any loss of a significant customer, any further decreases in distribution of its skin care or household chemical products, any new competitive products affecting sales levels of the Company's products, or any significant expense not included in the Company's 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, the Company has no arrangements for an external financing of debt or equity, and the Company is 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. The Company expects its operating cash flows to improve if the Company achieves profitability in 2005.

The following table sets forth the contractual obligations of the Company in the aggregate. The Company has no capital lease obligations, unconditional purchase obligations or other long-term contractual obligations. The Company's long-term debt interest rate is a variable rate. The table below assumes a 5.00% annual interest rate for the Company's long-term debt, and a 5.75% annual interest rate for the Company's line of credit.

CONTRACTUAL OBLIGATIONS

	Payments due by Period				
	Total	**Less than 1-Year**	**1-3 Years**	**4-5 Years**	**5 Years**
Long-term debt, including interest	$ 3,028,600	$ 1,038,400	$ 1,990,200	$	$
Line of credit, including interest	820,300	820,300			
Employee separation agreement	73,100	63,100	5,000	5,000	
Operating lease obligations	134,800	71,900	62,900		
Total Contractual Cash Obligations	$ 4,056,800	$ 1,993,700	$ 2,058,100	$ 5,000	

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. The Company is not materially exposed to market risks regarding interest rates because the interest on the Company's outstanding debt is at the lender's base rate, which approximates the prime rate, adjustable yearly. The Company's 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 the Company's debt and equity securities would have decreased by approximately $11,800. Further, the Company does not use foreign currencies in its business. Currently, it receives payments for sales to parties in foreign countries in U.S. dollars. Additionally, the Company does not use derivative instruments or engage in hedging activities. As a result, the Company does not believe that near-term changes in market risks will have a material effect on results of operations, financial position or cash flows of the Company.

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, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the years then ended. 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, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

Denver, Colorado
February 11, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Scott's Liquid Gold-Inc.:

We have audited the accompanying consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows of Scott's Liquid Gold-Inc. and subsidiaries for the year ended December 31, 2002. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Scott's Liquid Gold-Inc. and subsidiaries for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Denver, Colorado
April 3, 2003

Consolidated Statements of Operations

	Year ended December 31,		
	2004	2003	2002
Net sales	$ 22,647,200	$ 24,470,700	$ 24,959,000
Operating costs and expenses:			
Cost of sales	12,907,200	12,868,500	13,354,800
Advertising	1,143,400	1,843,800	1,200,300
Selling	5,804,800	6,151,500	5,594,500
General and administrative	3,557,900	3,641,500	4,105,000
	23,413,300	24,505,300	24,254,600
Income (loss) from operations	(766,100)	(34,600)	704,400
Interest income	42,500	58,300	54,000
Interest expense	(177,800)	(213,300)	(261,100)
Other income			594,600
Income (loss) before income taxes	(901,400)	(189,600)	1,091,900
Income tax (expense)benefit (Note 5)	(1,700)		480,100
Net income (loss)	$ (903,100)	$ (189,600)	$ 1,572,000
Net income (loss) per common share (Note 7):			
Basic	$ (0.09)	$ (0.02)	$ .15
Diluted	$ (0.09)	$ (0.02)	$ .15
Weighted average shares outstanding:			
Basic	10,404,500	10,209,200	10,153,100
Diluted	10,404,500	10,209,200	10,153,100

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	December 31,	
	2004	**2003**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,354,600	$ 3,498,600
Investment securities	54,200	305,300
Trade receivables, net of allowance for doubtful accounts of $83,000 and $82,000, respectively	1,419,700	1,108,600
Other receivables	56,900	35,400
Inventories (Note 2)	2,940,300	3,122,600
Prepaid expenses	489,600	256,400
Deferred tax assets (Note 5)	456,000	525,000
Total current assets	8,771,300	8,851,900
Property, plant and equipment, net (Note 3)	14,349,600	14,909,300
Deferred tax assets (Note 5)	684,000	658,000
Other assets	22,600	33,400
	$ 23,827,500	$ 24,452,600
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of Credit (Note 4)	$ 790,000	$
Accounts payable	1,795,700	1,256,900
Accrued payroll and benefits	1,050,500	1,106,300
Other accrued expenses	413,700	552,500
Current maturities of long-term debt (Note 4)	917,000	878,000
Total current liabilities	4,966,900	3,793,700
Long-term debt, net of current maturities (Note 4)	1,893,000	2,807,300
Deferred tax liabilities (Note 5)	1,140,000	1,183,000
	7,999,900	7,784,000
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 10,471,000 shares (2004), and 10,356,000 shares (2003)	1,047,100	1,035,600
Capital in excess of par	4,979,200	4,927,200
Accumulated comprehensive income	4,200	5,600
Retained earnings	9,797,100	10,700,200
Shareholders' equity	15,827,600	16,668,600
	$ 23,827,500	$ 24,452,600

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

Years ended December 31, 2004, 2003, and 2002	Common Stock Shares	Common Stock Amount	Capital in Excess of Par	Accumulated Comprehensive Income (loss)	Retained Earnings	Comprehensive Income (loss)
Balance, December 31, 2001	10,153,100	$ 1,015,300	$ 4,847,000	$ 8,200	$ 9,317,800	
Unrealized gain on investment securities				200		$ 200
Net income					1,572,000	1,572,000
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)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended December 31,		
	2004	**2003**	**2002**
Cash Flows from Operating Activities:			
Net income (loss)	$ (903,100)	$ (189,600)	$ 1,572,000
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	683,500	704,200	756,000
Stock issued for services	2,600		
Stock issued to ESOP	60,900	100,500	
Change in assets and liabilities:			
Trade and other receivables, net	(332,600)	688,500	(767,600)
Inventories	182,300	(516,000)	1,590,200
Prepaid expenses and other assets	(233,200)	173,100	(308,400)
Accounts payable and accrued expenses	344,200	(662,000)	(970,000)
Total adjustments to net income (loss)	707,700	488,300	300,200
Net Cash Provided (Used) by Operating Activities	(195,400)	298,700	1,872,200
Cash Flows from Investing Activities:			
Purchase of investment securities		(495,600)	(1,605,800)
Proceeds from sale or maturity of investment securities	250,000	1,760,500	2,102,000
Purchases of property, plant and equipment	(113,300)	(21,300)	(13,900)
Net Cash Provided by Investing Activities	136,700	1,243,600	482,300
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	950,000		
Principal payments on short-term borrowings	(160,000)		
Principal payments on long-term borrowings	(875,300)	(830,100)	(788,900)
Net Cash Used by Financing Activities	(85,300)	(830,100)	(788,900)
Net Increase (Decrease) in Cash and Cash Equivalents	(144,000)	712,200	1,565,600
Cash and Cash Equivalents, beginning of year	3,498,600	2,786,400	1,220,800
Cash and Cash Equivalents, end of year	$ 3,354,600	$ 3,498,600	$ 2,786,400
Supplemental disclosures:			
Cash paid during the year for:			
Interest	$ 178,700	$ 214,900	$ 261,900
Income taxes	$ 1,700	$ 400	$ 1,900

See accompanying notes to consolidated financial statements.

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 "Company"), manufactures and markets quality household and skin care products. In the first quarter of 2001, the Company began acting as a distributor in the United States of beauty care products contained in individual sachets and manufactured by Montagne Jeunesse. The Company's business is comprised of two segments, household products and skin care products.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

(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 and 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

The Company considers 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

The Company accounts 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 the Company classify investments in marketable securities according to management's intended use of such investments. The Company invests its excess cash and has 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. The Company considers all investments as available for use in its current operations, and therefore classifies 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, 2004 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 The Company records a reserve for slow moving and obsolete products and raw materials.

Amounts are discussed in Note 2.

(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 the Company to concentrations of credit risk are primarily cash and cash equivalents, investments in marketable securities, and trade receivables. The Company maintains its cash balances in the form of bank demand deposits with financial institutions that management believes are creditworthy. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. The Company has 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. The Company's 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, 2004 and 2003.

(i) Long-Lived Assets

The Company accounts 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

The Company accounts 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, 2004 and December 31, 2003, approximately $862,600 and $873,400, respectively, had been reserved as a reduction of accounts receivable, and approximately $90,000 and $175,000, respectively, had been reserved as current liabilities. Co-op advertising, marketing funds, slotting fees and coupons are deducted from gross sales, and totaled $2,074,700 and $1,916,600, and $2,860,900 in 2004, 2003, and 2002, respectively.

(l) Advertising Costs

The Company expenses advertising costs as incurred.

(m) Stock-based Compensation

The Company has elected to follow Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options. Under APB No. 25, employee stock options are accounted for based upon the intrinsic value, which is the difference between the exercise price and fair value of the underlying common stock. Generally, if the exercise price of employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recorded. The Company has adopted the disclosure only provisions of SFAS No. 123, "Accounting for Stock-based Compensation" (See Note 6 Shareholders' Equity).

The Company granted no options for shares of the Company's common stock during the fourth quarter of 2004, 5,000 options for shares of the Company's common stock during the third quarter of 2004 with an exercise price equal to $0.53 and 35,000 options for shares of the Company's common stock were granted in the first quarter of 2004 with an exercise price of $0.76.

Had compensation cost been recorded based on the fair value of the options granted, the Company's pro-forma net income (loss) and net income (loss) per share for the years ended December 31, 2004, 2003, and 2002 would have been as follows:

	2004		2003		2002	
	As Reported	**Pro Forma**	**As Reported**	**Pro-Forma**	**As Reported**	**Pro Forma**
Net income (loss)	$ (903,100)	$ (920,500)	$ (189,600)	$ (393,300)	$ 1,572,000	$ 1,454,700
Basic earnings (loss) per share	$ (0.09)	$ (0.09)	$ (0.02)	$ (0.04)	$ 0.15	$ 0.14
Diluted earnings (loss) per share	$ (0.09)	$ (0.09)	$ (0.02)	$ (0.04)	$ 0.15	$ 0.14

(n) Comprehensive Income

The Company follows 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

The Company classifies amounts billed to a customer in a sale transaction related to shipping and handling as revenue and classifies shipping and handling costs as a component of selling expense on the accompanying Consolidated Statement of Operations. Shipping and handling costs totaled $1,544,100, $1,503,000, and $1,239,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

(p) Recently Issued Accounting Pronouncements

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 as of the beginning of the first interim period that begins after June 15, 2005, with early adoption encouraged. The Company is currently evaluating the statement's transition methods and does not expect this statement to have an effect materially different than that of the pro forma SFAS 123 disclosures provided in Note 1 to the Company's Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data."

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 carry over 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. If the Company enters into significant nonmonetary asset exchanges in the future, SFAS 153 could have a material effect on its consolidated financial position, results of operations or cash flows.

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"). FIN 46R requires a company to consolidate a variable interest entity, as defined, when the company will absorb a majority of the variable interest entity's expected losses, receive a majority of the variable interest entity's expected residual returns, or both. FIN 46R also requires certain disclosures relating to consolidated variable interest entities and unconsolidated variable interest entities in which a company has a significant variable interest. The provisions of FIN 46R are required for companies that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. The provisions of FIN 46R are required to be applied for periods ending after March 15, 2004 for all other types of entities. The Company was required to perform this assessment at December 31, 2004, and consolidate any variable interest entries for which it would absorb a majority of the entities' expected losses or receive a majority of the expected residual gains. The Company does not have any variable interest entities as of December 31, 2004, therefore this assessment had no impact on the Company's consolidated financial statements.

Note 2: Inventories

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

	2004	2003
Finished goods	$ 2,256,100	$ 2,413,700
Raw Materials	993,200	1,072,900
Inventory valuation in reserve	(309,000)	(364,000)
	$ 2,940,300	$ 3,122,600

The reduction of the inventory reserves was the result of the disposal of products and materials previously reserved.

Note 3: Property, Plant and Equipment

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

	2004	2003
Land	$ 1,091,500	$ 1,091,500
Buildings	16,283,000	16,257,300
Production equipment	7,530,000	7,502,800
Office furniture and equipment	1,920,000	1,880,100
Other	182,000	182,000
	27,006,500	26,913,700
Less accumulated depreciation	12,656,900	12,004,400
	$ 14,349,600	$ 14,909,300

Depreciation expense for the years ended December 31, 2004, 2003, and 2002 was $673,000, $693,400, and $721,500, respectively.

Note 4: Debt

The Company has a term loan agreement in the original amount of $6.0 million with a commercial bank. The loan agreement with the Company's 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. The covenants were met at the end of each quarter during 2004, 2003 and 2002 and at December 31, 2004 and 2003.

Long-term debt at December 31 is presented below:

	2004	2003
First mortgage loan, secured by land and buildings, due November 20, 2007, principal and interest of $86,200 payable monthly, interest at bank base rate (5.75% at December 31, 2004), adjusted annually	$ 2,810,000	$ 3,685,300
Less current maturities	917,000	878,000
Long-term debt	$ 1,893,000	$ 2,807,300

Maturities of long-term debt for the years 2005 through 2007 are respectively: $917,000; $965,000; and $928,000.

On August 10, 2004 the Company obtained a $1,500,000 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 (5.75% at December 31, 2004) and matures on August 10, 2005. 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, 2004, the outstanding amount under this line of credit was $790,000; and as of the date of this Report, the Company had $660,000 outstanding under this line of credit.

The average interest rate on the above debt as of December 31, 2004 was 5.19%.

Note 5: Income Taxes

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

	2004	2003	2002
Current provision (benefit):			
Federal	$	$	$ (483,000)
State	1,700		2,900
Total current provision (benefit)	1,700		(480,100)
Deferred provision (benefit):			
Federal	(258,900)	(24,100)	783,900
State	(23,600)	(2,200)	70,500
Valuation allowance	282,500	26,300	(854,400)
Total deferred provision (benefit)			
Provision (benefit):			
Federal			(483,000)
State	1,700		2,900
Total provision (benefit)	$ 1,700	$	$ (480,100)

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

	2004	2003	2002
Federal income tax at statutory rates	$ (307,000)	$ (64,500)	$ 371,200
State income taxes, net of federal tax effect	(27,600)	(5,800)	41,900
Other	53,800	44,000	(38,800)
Total	(280,800)	(26,300)	374,300
Change in valuation allowance	282,500	26,300	(854,400)
Effective tax	$ 1,700	$	$ (480,100)

Deferred taxes are determined based on estimated future tax effects of differences between the amounts reflected in the financial statements and the tax basis of assets and liabilities given the provisions of enacted tax laws. The net deferred tax assets and liabilities as of December 31, 2004 and 2003 are comprised of the following:

	2004	2003
Deferred tax assets:		
Trade receivables	$ 30,800	$ 30,400
Inventories	103,400	133,800
Accrued insurance	21,700	18,300
Accrued vacation	262,400	252,300
Accrued payroll	27,100	78,000
Net operating loss carryforwards	1,187,900	879,400
Other	10,600	12,200
Valuation allowance	(503,900)	(221,400)
Total deferred tax assets	1,140,000	1,183,000
Less current portion	456,000	525,000
Net non-current deferred tax assets	$ 684,000	$ 658,000
Deferred tax liability:		
Accelerated depreciation for tax purposes	$ (1,140,000)	$ (1,183,000)
Net noncurrent deferred tax liability	$ (1,140,000)	$ (1,183,000)

At December 31, 2004, the Company had federal net operating loss carryforwards of approximately $2,619,000, which expire over a period ending in 2024, and federal tax credit carryforwards related to research and development efforts of approximately $145,000. The Company has state net operating losses of approximately $9,500,000 expiring over a period ending in 2024.

Prior to 2002, the Company established a valuation allowance due mainly to the uncertainty relating to the realization of the Company's net operating loss carryforwards. Tax law changes in 2002 permitted the Company to carryback its 2001 tax loss to 1997 and recover $483,000 in previously paid federal income taxes. This change in the tax law, along with taxable income in 2002 resulted in the utilization of operating losses from both 2001 and 2000. As a result of the utilization of net operating loss carryforwards, the Company reduced the valuation allowance by $854,400 during the year ended December 31, 2002. The Company further increased the valuation allowance by $282,100 and $26,300 for 2004 and 2003, respectively, primarily related to uncertainty as to realization of its operating losses 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 management's assessment of the Company's ability to realize those deferred tax assets through the generation of taxable income or other tax events.

A reconciliation of the Company's income (loss) before taxes for financial statement purposes to taxable income (loss) is as follows:

	Year Ended December 31,		
	2004	2003	2002
Income (loss) before income taxes	$ (901,400)	$ (189,600)	$ 1,091,900
Differences between income (loss) before income taxes and taxable income (loss):			
Permanent differences	20,000	12,000	10,600
Net changes in temporary differences	(53,200)	(105,600)	(320,500)
Federal taxable income (loss)	$ (934,600)	$ (283,200)	$ 782,000

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 Company employees. The 1993 plan expired in January of 2003, and accordingly no shares are available for option under that plan. In 1998, a stock option plan for Company employees, officers and directors was adopted. All of the plans permitted the Company to grant options up to an aggregate of 1,800,000 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 to employees are fully vested on the date of grant.

	1993 Plan		1997 Plan		1998 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
Maximum number of shares under the plans	400,000		300,000		1,100,000	
Outstanding, December 31, 2001	181,700	$ 1.55	232,200	$ 1.64	625,800	$ 0.96
Granted in 2002	100,000	0.57	50,000	0.50	50,000	0.57
Exercised						
Cancelled/Expired	(106,700)	1.66	(15,000)	1.59	(161,000)	1.11
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
Available for issuance, December 31, 2004			240,000		174,500	

A summary of additional information related to the options outstanding as of December 31, 2004 is as follows:

	Options Outstanding and Exercisable		
		Weighted Average	
Range of Exercise Prices	Number Outstanding	Remaining Contractual Life	Exercise Price
$0.46 - $0.97	1,115,500	2.4 years	$ 0.63
Total	1,115,500	2.4 years	$ 0.63

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:

	2004	2003	2002
Dividend rate	$	$	$
Expected volatility	169%	169%	172%

	2004	2003	2002
Risk-free interest rate	3.04%	3.04%	3.06%
Expected life	4.5 years	4.5 years	4.5 years

Using these assumptions, the fair value of the stock options granted in 2004, 2003, and 2002 were estimated to be approximately $17,400, $203,700, and $117,300, respectively, net of income taxes.

The Company has an Employee Stock Ownership Plan ("Plan") to provide retirement benefits for its employees. The Plan is designed to invest primarily in the Company's common stock and is non-contributory on the part of the Company's employees. Contributions to the Plan are discretionary as determined by the Company's Board of Directors. The Company expenses the cost of contributions to the Plan which amounted to $60,900 (110,000 shares),$100,500 (202,900 shares), and $27,700 (50,000 shares), in 2004, 2003 and 2002, respectively. In 2004 and 2003 the shares contributed were issued from authorized but unissued shares, in 2002 all shares contributed were purchased on the open market.

Note 7: Earnings per Share

The Company presents 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 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:

	2004	2003	2002
Common shares outstanding, beginning of the year	10,356,000	10,153,100	10,153,100
Common stock issued	5,000	202,900	
Stock issued to ESOP	110,000		
Stock options exercised			
Common shares outstanding, end of year	10,471,000	10,356,000	10,153,100
Weighted average number of common shares outstanding	10,404,500	10,209,200	10,153,100
Common share equivalents			