

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

SCOTTS LIQUID GOLD INC

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

OR

**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

(State or other jurisdiction of
incorporation or organization)

4880 Havana Street, Suite 400, Denver, CO

(Address of principal executive offices)

84-0920811

(I.R.S. Employer
Identification No.)

80239

(Zip Code)

Registrant's telephone number, including area code: (303) 373-4860

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

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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 NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the common stock held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on June 30, 2017, was \$23,165,002.

The number of shares of Registrant's Common Stock outstanding as of March 30, 2018 was 12,023,716.

Certain information required by Part III is incorporated by reference to the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be filed within 120 days after December 31, 2017.

CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K (this "Report") contains "forward-looking statements" within the meaning of U.S. federal securities laws. All statements, other than statements of historical facts, included in this Report that address activities, events, or developments with respect to our financial condition, results of operations, or economic performance that we expect, believe, or anticipate will or may occur in the future, or that address plans and objectives of management for future operations, are forward-looking statements. You can typically identify forward-looking statements by the use of words, such as "may," "could," "should," "assume," "project," "believe," "anticipate," "expect," "estimate," "potential," "plan," and other similar words. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and our 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:

- changing consumer preferences and the continued acceptance of each of our significant products in the marketplace;
- the degree of success of any new product or product line introduction by us;
- competitive factors, including any decrease in distribution of (i.e., retail stores carrying) our significant products;
- continuation of our distributorship agreement for Montagne Jeunesse skin care products and Batiste Dry Shampoos;
- the need for effective advertising of our products and limited resources available for such advertising;
- new competitive products and/or technological changes;
- dependence upon third party vendors and upon sales to major customers;
- the availability of necessary raw materials and potential increases in the prices of these raw materials;
- changes in the regulation of our products, including applicable environmental and U.S. Food and Drug Administration ("FDA") regulations;
- the continuing availability of financing on terms and conditions that are acceptable to us;
- the degree of success of the integration of product lines or businesses we may acquire;
- future losses which could affect our liquidity;
- the loss of any executive officer;
- dependence on the efforts of our exclusive distributor in the People's Republic of China ("PRC") to market and sell certain of our products there; and
- other matters discussed in this Report, including the risks described in the *Risk Factors* section of this Report.

We caution you that forward-looking statements are not guarantees of future performance and that actual results or performance may be materially different from those expressed or implied in the forward-looking statements. The forward-looking statements in this Report speak as of the filing date of this Report. Although we may from time to time voluntarily update our prior forward-looking statements, we undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Report.

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ITEM 1. BUSINESS**General**

Scott's Liquid Gold-Inc., a Colorado corporation, was incorporated on February 15, 1954. Through our wholly-owned subsidiaries, we develop, manufacture, market and sell quality household and skin and hair care products. These products include:

- Scott's Liquid Gold® Wood Care, a product that has been sold in the United States for over 60 years;
- Alpha® Skin Care, our skin care brand, which was one of the first to use alpha hydroxy acids ("AHAs");
- Prell® Shampoo, an iconic brand since 1947, is a classic clean shampoo for healthy hair;
- Denorex® and Zincon® Shampoos and Conditioners are dermatologist-recommended medicated dandruff shampoos and conditioners;
- Our Neoteric Diabetic® product which was specially developed to address the skin conditions of persons living with diabetes;
- 7th Heaven by Montagne Jeunesse face and other skin care masque sachets, which are manufactured by another company and distributed exclusively by us in the United States under a distribution agreement with the manufacturer; and
- Batiste Dry Shampoo, which is manufactured by another company and distributed exclusively by us to the specialty retailer channel in the United States under a distribution agreement with the manufacturer.

In this Report the terms "we", "us" or "our" refer to Scott's Liquid Gold-Inc. and our subsidiaries, collectively. Our business is divided into two operating segments, household products and skin and hair care products.

The following table sets forth the principal products in our household products segment.

<i>Operating Segment</i>	<i>Key Products</i>
Household	Scott's Liquid Gold® Wood Care
	Scott's Liquid Gold® Floor Restore
	Scott's Liquid Gold® Dust 'N Go Wipes

The following table sets forth the principal products in our skin and hair care products segment.

<i>Operating Segment</i>	<i>Key Products</i>
Skin and Hair Care	Alpha® Skin Care Products
	Prell® Shampoo
	Denorex® and Zincon® Shampoos and Conditioners
	Neoteric Diabetic® Healing Cream
	7 th Heaven by Montagne Jeunesse Face and Other Skin Care Masque Sachets
	Batiste Dry Shampoos

For information on our operating segments, please see Note 10 to our Consolidated Financial Statements in Item 8.

Strategy

We are focused on strategies that we believe will enhance our long-term financial health and deliver long-term shareholder value. In order to achieve these objectives, we plan to generate continued growth of our existing brands and products, as well as pursue new opportunities to develop, acquire or distribute new brands and products.

On June 30, 2016, Neoteric Cosmetics, Inc., (“Neoteric”), a wholly owned subsidiary of the Company, entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Ultimark Products, Inc. (“Ultimark”) and consummated the transaction contemplated thereby (the “Acquisition”), pursuant to which Neoteric purchased from Ultimark all intellectual property assets and certain related assets owned by Ultimark as well as inventory of finished goods owned by Ultimark and used in connection with the manufacture, sale and distribution of the Prell®, Denorex® and Zincon® brands of hair and scalp care products (collectively, the “Brands”). The total consideration Neoteric paid for the Brands was approximately \$9 million, plus the assumption by Neoteric of certain specific liabilities of Ultimark related to the performance of certain purchase orders and contracts following June 30, 2016.

On June 30, 2016, the Company and Neoteric, as borrowers, entered into a Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A. (“Chase”), as lender, pursuant to which Chase provided a term loan and a revolving credit facility that was used by us to finance a portion of the Acquisition and for the Company’s general corporate purposes and working capital.

For 2018, we plan to pursue the following primary goals: (1) continue to increase sales by strengthening and broadening consumer awareness of our products; (2) continue to add additional products to the mix of products that one or more of our existing major customers already buy from us; (3) continue to obtain new distribution of our products at retailers that currently do not buy products from us; and (4) continue to evaluate potential products to be developed, acquired, manufactured and/or distributed by us.

Household Products

Scott’s Liquid Gold® Wood Care has been our core product since our inception. It has been sold in the United States for over 60 years. Unlike a furniture polish, our product contains natural oils that penetrate the wood’s surface to clean, replace lost moisture, minimize the appearance of scratches and bring out the natural beauty of wood. We have also introduced an additional wood care product in a wipe form, and a floor restore product. Our Dust ‘N Go pre-moistened cloth wipes are quick, easy and convenient dusting wipes for wood and numerous other surfaces, and our Scott’s Liquid Gold® Floor Restore product is a quick and easy way to renew and protect hardwood floors.

Household products accounted for 13.4% of our consolidated net sales in 2017 and 17.0% in 2016. We continually evaluate potential new household products to be developed, acquired, manufactured and/or distributed by us.

Skin and Hair Care Products

In 1992, we began to develop, manufacture, market and sell skin care products under the trade name of Alpha Hydrox®. These products include facial care products, a body lotion, and a body wash. Our Alpha Hydrox® skin care brand was one of the first to use AHAs. Products containing AHAs gently slough off dead skin cells to promote a healthier, more youthful appearance and help to diminish fine lines and wrinkles. Starting in January 2016, we began marketing and selling our Alpha Hydrox® Skin Care line of products under the trade name of Alpha® Skin Care. There were several reasons for the change in names, including the desire to reflect that our line of skin care products is broader than just products containing AHAs.

In 2016, we acquired the Prell®, Denorex® and Zincon® brands of hair and scalp care products. Prell® Shampoo, an iconic brand since 1947, is a classic clean shampoo for healthy hair. Our Denorex® products are dermatologist-recommended medicated shampoos and conditioners to control the symptoms of dandruff, seborrheic dermatitis and psoriasis. Our Zincon® product is a medicated anti-dandruff shampoo.

Our Neoteric Diabetic® Healing Cream product was introduced in 2001. This product was developed to address the skin conditions of persons living with diabetes, caused by poor blood circulation. Our healing cream is a therapeutic moisturizer that provides a clinically proven and patented treatment for dry skin by helping to increase blood circulation and speed the healing of minor scrapes and cuts.

Since 2001, we have been the exclusive distributor in the United States for face and other skin care masque sachets manufactured by Montagne Jeunesse International Ltd. ("Montagne Jeunesse"). These masque sachets are currently sold under the trade name 7th Heaven. Montagne Jeunesse is based in the United Kingdom. Their sachet products are currently sold worldwide. These masques are sold for single use in unique and attractive packages in a wide assortment of types and fragrances. A significant portion of our business consists of the sale of these sachet products. See "Manufacturing and Suppliers" in this Item 1 below for information on the terms of our agreement with Montagne Jeunesse.

We have been a distributor in the United States for Batiste Dry Shampoo since 2009. Under our distribution agreement with the manufacturer of Batiste Dry Shampoo, Church & Dwight Co. Inc. ("Church & Dwight"), we are the exclusive distributor in the United States of Batiste Dry Shampoo in the specialty retailer channel. The specialty retailer channel includes primarily beauty supply stores, such as Ulta Salon, Cosmetics & Fragrance, Inc. ("Ulta"), our second largest customer, apparel retailers, and department stores. Dry shampoo is a quick and convenient way to refresh hair between washes. Batiste was one of the innovators of dry shampoo that we believe is currently one of the top selling brands of dry shampoo in the United States. See "Manufacturing and Suppliers" in this Item 1 below for information on the terms of our agreement with Church & Dwight.

Skin and hair care products accounted for 86.6% of our consolidated net sales in 2017 and 83.0% in 2016. We continually evaluate potential new skin and hair care products as well as other beauty care products to be developed, acquired, manufactured and/or distributed by us.

Marketing and Distribution

We primarily market our products through: (1) trade promotions to support price features, displays, slotting fees and other merchandising of our products by our retail customers; (2) consumer incentives such as coupons and rebates; and (3) consumer marketing in print, social and digital media and television advertising.

Our products are sold nationally and internationally (primarily Canada and China), directly through our sales force and indirectly through independent brokers and manufacturer's representatives, to mass merchandisers, drugstores, supermarkets, hardware stores, e-commerce retailers, and other retail outlets and to wholesale distributors.

In 2017 and 2016, Wal-Mart Stores, Inc. ("Wal-Mart") accounted for approximately 33% and 32%, respectively, of our net sales of household products. For our skin and hair care products, Wal-Mart accounted for approximately 25% and 18% of our net sales in 2017 and 2016, respectively. Wal-Mart accounted for approximately 26% and 21% of our aggregate net sales on a consolidated basis in 2017 and 2016, respectively. In 2017 and 2016, Ulta accounted for approximately 25% and 29%, respectively, of our skin and hair care products and approximately 22% and 24% of our aggregate net sales on a consolidated basis in 2017 and 2016, respectively. In 2017 and 2016, TJ Maxx and Marshalls (collectively, "TJ Maxx") together accounted for approximately 9% and 14%, respectively, of our skin and hair care products and approximately 8% and 12% of our aggregate net sales on a consolidated basis in 2017 and 2016, respectively. As is typical in our industry, we do not have a long-term contract with Wal-Mart, Ulta, TJ Maxx or any other retail customer.

We also use our Scott's Liquid Gold and Neoteric Cosmetics websites for sales of our products directly to consumers. Such sales accounted for approximately 7% and 6% of total net sales in 2017 and 2016, respectively.

Our household and skin and hair care products are available in China, Canada, and certain other foreign countries. Currently, foreign sales are made to distributors who are responsible for the selling and marketing of the products, and we are paid for these products in United States dollars or in the case of sales to our Canadian distributor, in Canadian dollars.

From time to time, our customers return products to us. For our household products, we permit returns only for a limited time. With regard to our skin and hair care products, returns are more frequent under an unwritten industry standard that permits returns for a variety of reasons. In the event a skin and hair care customer requests a return of a product, we will consider the request, and may grant such request in order to maintain or enhance our relationship with the customer, even in the absence of an enforceable right of the customer to do so. Typically, customers that return products to us take a credit on our invoice equal to the original sale price plus a handling charge ranging from 8-10% of the original sales price.

Manufacturing and Suppliers

We owned all of our manufacturing facilities until February 1, 2013, when we sold the facilities and entered into a lease with the new owner for a portion of the facilities. Please see Note 12 to our Consolidated Financial Statements in Item 8 for information on our leasing back certain of the manufacturing facilities that we sold. We own and operate all of our manufacturing equipment. We manufacture all of our products with the exception of the following products: (1) those products for which we act as a distributor; (2) Denorex[®] and Zincon[®], which were acquired in the Acquisition; and (3) our Scott's Liquid Gold[®] Dust 'N Go wipes. We plan to start manufacturing Denorex[®] and Zincon[®] during 2018. We maintain sufficient inventories of all of our products 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. We purchase our raw materials from a number of suppliers and, at the present time, all of our raw materials are readily available. However, we do not have long term contracts with our suppliers and any contracts we do have with suppliers may be terminated at any time. Our sole supplier for the oxygenated oil used in our Neoteric Diabetic[®] Healing Cream product is a French company with which we have a non-exclusive supply agreement. In addition, we have sole suppliers for two of the polymers used in our Scott's Liquid Gold[®] Floor Restore product. We believe that we have good relationships with all of our suppliers.

Most of our manufacturing operations, including most packaging, are highly automated, and, as a result, our manufacturing operations are not labor intensive, nor, for the most part, do they involve extensive training. We currently operate on a one-shift basis. Our manufacturing facilities can produce substantially larger quantities of our products without any expansion, including the products that we acquired in the Acquisition and, for that reason, we believe that our physical plant facilities are adequate for the foreseeable future.

In 2001, Neoteric commenced purchases of face and other skin care sachets from Montagne Jeunesse under a distributorship agreement covering the United States. Pursuant to our distribution agreement with Montagne Jeunesse that became effective on September 15, 2014, we continue as the exclusive distributor to market and sell Montagne Jeunesse's face and other skin care sachets in the United States. The current term of our distribution agreement with Montagne Jeunesse expires on September 15, 2019. Our distribution agreement with Montagne Jeunesse automatically renews for two year terms, unless terminated at the end of any such term upon six months prior notice.

Under the terms of the distribution agreement with Montagne Jeunesse, Neoteric agreed, among other things: (1) not to distribute during the duration of the distribution agreement any goods of the same description as and which compete with the Montagne Jeunesse products; (2) to use our commercially reasonable endeavors to develop, promote and sell the products in the United States and to expand the sale of the Montagne Jeunesse products to all potential purchasers by all reasonable and proper means; (3) to purchase certain core products from Montagne Jeunesse; and (4) to maintain an inventory of the Montagne Jeunesse products for our own account for sale of these products throughout the United States. Further, under the terms of our distribution agreement, Montagne Jeunesse agreed to use commercially reasonable efforts to meet all of our orders for the Montagne Jeunesse products. The initial pricing terms for the products were negotiated with Montagne Jeunesse. Any changes to the prices must be mutually agreed to by both parties and must be agreed to at least six months in advance. Neoteric may not assign or transfer any rights or obligations under the distribution agreement with Montagne Jeunesse or subcontract the performance of any obligation.

Under our distribution agreement with Church & Dwight that became effective on January 1, 2015, as amended effective July 1, 2016 and July 17, 2017, respectively, we are the exclusive distributor of Batiste Dry Shampoo products in the specialty retailer channel in the United States. The specialty retailer channel includes primarily beauty supply stores, such as Ulta, our second largest customer, apparel retailers and department stores. Church & Dwight retained the rights to sell Batiste products to the remainder of the market in the United States.

The distribution agreement with Church & Dwight provides that we will not be permitted to manufacture, distribute or sell any products that are competitive with Batiste Dry Shampoo products. The initial pricing terms for the Batiste products were negotiated with Church & Dwight, but may be increased by Church & Dwight at any time upon 90 days' prior written notice of any price increase. The term of the distribution agreement with Church & Dwight runs through December 31, 2018 and will automatically renew for successive one year terms until it is terminated by either party upon 30 days' prior written notice.

Competition

Both the household and skin and hair care products markets are highly competitive. We compete in both markets against a range of competitors, most of which are significantly larger and have greater financial resources, name recognition and product and market diversification than us. We compete in both categories primarily on the basis of quality and the distinguishing characteristics of our products. The wood care product category is dominated by three to five companies that are significantly larger than us and each of these competitors produces several competing products. In the skin and hair care category, several of our competitors are significantly larger than us and each of these competitors produces several competing products. Some of these companies also manufacture products with AHAs with which our Alpha[®] Skin Care products must compete.

Regulation

We are subject to various federal, state and local laws and regulations that pertain to the types of consumer products that we manufacture and sell. Many chemicals used in consumer products, some of which are used in several of our product formulations, have come under scrutiny by various state governments and the Federal government. These chemicals are called volatile organic compounds ("VOCs"), which arguably contribute to the formation of ground level ozone. Many states as well as the Federal government have passed regulations that limit the amount of VOCs allowed in various categories of consumer products. All of our products currently meet the most stringent VOC regulations and may be sold throughout the United States. Any new or revised VOC regulations developed by various states or the Federal government may apply to our products and could potentially require reformulation of those products in the future. Limitation of VOC content in consumer products by both state and Federal governments will continue to be part of regulatory efforts to achieve compliance with clean air regulations. We continue to monitor all environmental regulatory activities and believe that we have done all that is necessary to satisfy the current requirements of the Federal Clean Air Act and the laws of various state governments.

Our production facility is also subject to Federal, state, and local regulations governing water quality, air quality, and waste related to stationary sources. We have obtained the necessary permits from the state of Colorado, which implements the delegated Federal programs. These programs regulate the emissions, discharges, and waste generated in the production of our products. Like the Federal standards for our products, we continue to monitor the standards and take measures to comply with them.

Many of our skin care products, several of which contain AHAs, are considered cosmetics within the definition of the Federal Food Drug and Cosmetic Act (the "FFDCA"). The FFDCA defines cosmetics as products intended for cleansing, beautifying, promoting attractiveness or altering the appearance without affecting the body's structure or functions. Our cosmetic products are subject to the regulations under the FFDCA and the Fair Packaging and Labeling Act. The relevant laws and regulations are enforced by the FDA. Such laws and regulations govern the ingredients and labeling of cosmetic products and set forth good 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 submit the results of any testing performed or any other data or information with respect to any ingredient to the FDA. As to our products containing AHAs, based on guidance and Q&A's published by the FDA, we believe we are appropriately marketing our products as cosmetics and our labeling fully complies with the FDA's guidance.

Our advertising is subject to regulation under the Federal Trade Commission Act and related regulations, which prohibit false and misleading claims in advertising. We believe that all of our labeling and promotional materials comply with these regulations.

Employees

As of March 30, 2018, we employ 66 people of which 37 full-time and 1 part-time work in plant and production related functions and 28 work in administrative, sales and advertising functions. No contracts exist between us and any union. We monitor wage and salary rates in the Rocky Mountain area and pursue a policy of providing competitive compensation to our employees. The compensation of our executive officers is subject to annual review by the Compensation Committee of our Board of Directors. Additional benefits that we provide for our employees include medical, vision and dental plans, short-term disability, life insurance, a 401(k) plan with matching contributions for employees earning \$50,000 or less per annum and an employee stock ownership (ESOP) plan. We consider our employee relations to be satisfactory.

Patents and Trademarks

At present, we own one patent for our Neoteric Diabetic[®] Healing Cream. Additionally, we actively use our registered trademarks for Scott's Liquid Gold[®], Alpha[®] Skin Care, Prell[®], Denorex[®], Zincon[®], and Neoteric[®] in the United States and have registered trademarks in a number of additional countries. Our registered trademarks protect names and logos relating to our products as well as the design of boxes for certain of our products.

During 2017 and 2016, our expenditures for research and development were insignificant.

Available Information and Code of Ethics

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). We will make available free of charge through our website (www.slginc.com), this annual report on Form 10-K, 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 SEC. Information on our website is not incorporated by reference into this Report and should not be considered part of this document. We will provide upon request (see below for instructions) and at no charge electronic or paper copies of these filings with the SEC (excluding exhibits).

You may access and read our filings without charge through the SEC's website, at www.sec.gov. You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of its public reference room. We will also provide to any person without charge, upon request (see below for instructions), a copy of our Code of Business Conduct and Ethics Policy.

A request for our reports filed with the SEC or our Code of Business Conduct and Ethics Policy may be made to: Corporate Secretary, Scott's Liquid Gold-Inc., 4880 Havana Street, Suite 400, Denver, Colorado 80239.

ITEM 1A. RISK FACTORS.

The following is a discussion of certain risks that may affect our business. These risks may negatively impact our existing business, future business opportunities, our financial condition or our financial results. In such case, the trading price of our common stock could also decline. Additional risks and uncertainties not presently known to us, or that we currently see as immaterial, may also negatively impact our business.

Our cash flow is dependent upon operating cash flow, available cash and available funds under our financing agreement with Chase.

Because we are dependent on our operating cash flow, any loss of a significant customer, any further decreases in the distribution of our skin and hair care or household products, new competitive products affecting sales levels of our products or any significant expense not included in our internal budget could result in the need to raise cash. Our agreement with Chase has a term that expires on June 30, 2019. We have no other arrangements for any external financing of debt or equity, and any such financing may not be available on acceptable terms. In order to improve our operating cash flow, we need to continue to increase our revenues and/or further reduce our costs.

Unfavorable economic conditions could adversely affect demand for our products.

Unfavorable and uncertain economic conditions in the past have adversely affected, and in the future may adversely affect, consumer demand for some of our products, resulting in reduced sales volume. Factors that can affect consumer demand include rates of unemployment, consumer confidence, health care costs, fuel and other energy costs and other economic factors affecting consumer spending behavior.

Sales of our existing products are affected by changing consumer preferences.

Our primary market is retail stores in the United States which sell to consumers or end users in the mass market. Consumer preferences can change rapidly and are affected by new competitive products. This situation is true for both skin and hair care and household products and has affected our products. For example, we believe that our Alpha® Skin Care products with AHAs are effective in helping to diminish fine lines and wrinkles, but consumers may change permanently or temporarily to other products using other technologies or otherwise viewed as "new." Any changes in consumer preferences can materially affect the sales and distribution of our products and thereby our revenues and results of operations.

In both skin and hair care and household products, our competitors include some of the largest consumer products companies in the United States.

The markets in which our products compete are intensely competitive, and many of the other competitors in these markets are multi-national consumer products companies that are significantly larger than us. These large competitors have financial, technical, and other resources exceeding those available to us, and as a result, are able to regularly introduce new products and spend considerably more than we can on advertising. The distribution and sales of our products can be adversely impacted by the actions of our competitors, and we may have little or no ability to take action to prevent or mitigate these adverse impacts.

We have limited resources to promote our products with effective advertising and marketing.

We believe the growth of our net sales is substantially dependent upon our ability to introduce our products to current and new consumers through advertising and marketing. At present, we have limited resources compared to many of our competitors to spend on advertising and marketing. Advertising and marketing can be important in reaching consumers, although the effectiveness of any particular advertisement and marketing cannot be predicted. Additionally, we may not be able to obtain optimal effectiveness at our current advertising and marketing budget. Our limited resources to promote our products through advertising and marketing may adversely affect our net sales and operating performance.

Maintaining or increasing our revenues is dependent, in part, on the introduction of new products that are successful in the marketplace.

If we are not successful in making ongoing sales of our newer products to retail stores or these products are not well received by consumers, our revenues could be materially and adversely affected.

A loss of one or more of our major customers could have a material adverse effect on our product sales.

For more than a majority of our sales, we are dependent upon sales to a small number of major retail customers, including Wal-Mart, which is our largest customer and Ulta, which is our second largest customer. The easy access of consumers to our products is dependent upon these major retail stores and other retail stores carrying our products. The willingness of these customers (i.e., retail stores) to carry any of our products depends on various factors, including the level of sales of the product at their stores. Any declines in sales of a product to consumers can result in the loss of retail stores and a corresponding decrease in the distribution of the product. It is uncertain whether the consumer base served by these stores would purchase our products at other retail stores. In the past, sales of our products have been affected by retail stores which discontinue a product or carry the product in fewer stores.

A significant part of our sales of skin and hair care products are represented by the Montagne Jeunesse sachet products and Batiste Dry Shampoo products, both of which depend upon the continuation of our distributorship agreements with the manufacturers of these products.

If our agreements with Montagne Jeunesse or Church & Dwight are terminated, we will no longer be able to distribute Montagne Jeunesse or Batiste Dry Shampoo products and sales in our skin and hair care segment would be adversely affected. Please see "Manufacturing and Suppliers" in Item 1 for information on the terms of our agreements with Montagne Jeunesse and Church & Dwight.

We face the risk that raw materials for our products may not be available or that costs for these materials will increase, thereby affecting either our ability to manufacture the products or our gross margin on the products.

We obtain our raw materials from third party suppliers, three of which are sole source suppliers. We have no long term contracts with our suppliers, and, if a contract exists, it is subject to termination or cost increases. We may not have sufficient raw materials for production of products manufactured by us if there is a shortage in raw materials or one of our suppliers terminates our relationship. In addition, changing suppliers could involve delays that restrict our ability to manufacture or buy products in a timely manner to meet delivery requirements of our customers. Our suppliers of products which we distribute can also be subject to the same risk with their vendors.

Until we start to manufacture the Denorex® and Zincon® products that we acquired in the Acquisition we face the risk that there may be issues starting the manufacturing or that costs for these products will increase, thereby affecting either our ability to sell the products or our gross margin on the products.

We previously obtained these products in the Acquisition from a third party contract manufacturer. We have terminated our relationship with this third party contract manufacturer after purchasing enough inventory of these products to last us until we start manufacturing Denorex® and Zincon® products ourselves during 2018. We may not have sufficient inventory of these products if there is a delay in our starting the manufacturing of them.

Our sales are affected adversely by returns.

In our industry, our customers may be given authorization by us to return products. These returns result in refunds, a reduction of our revenues and usually the need to dispose of the resulting inventory at discounted prices. Accordingly, the level of returns can significantly impact our revenues and cash flow. See information about returns in "Results of Operations" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Changes in the regulation of our products, including environmental regulations, could have an adverse effect on the distribution, cost or function of our products.

Regulations affecting our products include requirements of the FDA for cosmetic products and environmental regulations affecting emissions from the manufacture of our products. In the past, the FDA has mentioned the treatment of products with AHAs as drugs, which could make our production and sale of certain Alpha® Skin Care products more expensive or prohibitive. Also, in the past, we have been required to change the formulation of our household products to comply with environmental regulations and may be required to do so again in the future if the applicable regulations are further amended.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, on our networks. The secure processing, maintenance and transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations, and damage our reputation, which could adversely affect our future financial results and stock price.

Any adverse developments in litigation could have a material impact on us.

We are subject to lawsuits from time to time in the ordinary course of business. While we expect those lawsuits not to have a material effect on us, an adverse development in any such lawsuit or the insurance coverage for a lawsuit could materially and adversely affect our financial condition and cash flow.

Any loss of our key executives or other personnel could harm our business.

Our success has depended on the experience and continued service of our executive officers and key employees. If we fail to retain these officers or key employees, our ability to continue our business and effectively compete may be substantially diminished. Because of our size, we must rely in many departments within our Company on one or two key employees. The loss of any one of these employees could slow our product development, production of a product and sale and distribution of a product.

Our stock price can be volatile and can decline substantially.

Our stock is traded on the OTC Bulletin Board. The volume of trades in our stock varies from day to day but is relatively limited. As a result, any events affecting us can result in volatile movements in the price of our stock and can result in significant declines in the market price of our stock.

Our international operations in China expose us to a number of risks.

We have little experience with international distribution of our products in China. There is both cost and risk associated with establishing, developing, and maintaining international sales operations, and promoting our brand internationally. Effective January 1, 2018, we entered into a distribution agreement where we appointed HK NFS Limited ("HK NFS"), a Hong Kong limited company to act as the exclusive distributor of Alpha® Skin Care products in the territory of the PRC. The PRC's economic, political, and social conditions, and its government policies, could adversely affect our business. We may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that we violated the Foreign Corrupt Practices Act could have a material adverse effect on our business.

We rely on trademark, copyright, and trade secret laws, which may not be sufficient to protect our intellectual property.

We rely on a combination of laws, such as copyright, trademark and trade secret laws, and contractual restrictions, such as confidentiality provisions and limited licenses, to establish and protect our intellectual property. We have registered U.S. and foreign country trademarks, and HK NFS has contractually agreed to undertake steps to prevent counterfeiting of our products and to otherwise protect our trademarks in the PRC. These forms of intellectual property protection are critically important to our ability to establish and maintain our competitive position. However, it is possible that laws, contractual restrictions, and other efforts may not be sufficient to prevent misappropriation of our property or to deter others from developing similar intellectual property.

Our goodwill and other assets may be subject to impairment in the future.

We are required, at least annually, to test goodwill and indefinite intangible assets to determine if any impairment has occurred. Impairment may result from various factors, including adverse changes in assumptions used for valuation purposes, such as actual or projected revenue growth rates, profitability or discount or interest rates. If the testing indicates that an impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or indefinite intangible assets and the implied fair value of the goodwill or the fair value of indefinite intangible assets.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Until February 1, 2013, we owned real property, buildings and related improvements located in Denver, Colorado consisting of four connected buildings and a parking garage (approximately 241,684 square feet in total) and about 16.3 acres of land (the "Property"). These buildings range in age from approximately 16 to 39 years (126,600 square feet having been added in 1995 and 1996). We sold the Property on February 1, 2013 and leased the portion of the Property used by our facilities back from the purchaser. Our facilities house our corporate headquarters and all of our manufacturing and warehouse operations, which are used by both of our operating segments. Please see Note 12 to our Consolidated Financial Statements in Item 8 for information on our leasing back of certain of the facilities that we sold. We believe that our current leased space will provide capacity for growth for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS.

We are subject to lawsuits from time to time in the ordinary course of business. While we expect those lawsuits not to have a material effect on us, an adverse development in any such lawsuit or the insurance coverage for a lawsuit could materially and adversely affect our financial condition and cash flow.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our \$0.10 par value common stock is traded on the OTC Bulletin Board (a regulated quotation service) under the ticker symbol "SLGD." Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The high and low prices of our common stock as traded on the OTC Bulletin Board were as follows.

<u>Three Months Ended</u>	<u>2017</u>		<u>2016</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
March 31	\$ 1.70	\$ 1.32	\$ 1.35	\$ 1.15
June 30	2.95	1.61	1.47	1.17
September 30	2.69	2.07	1.79	1.19
December 31	2.90	2.11	1.44	1.05

Shareholders

As of March 30, 2018, based on inquiry, we had approximately 678 shareholders of record.

Dividends

We did not pay any cash dividends during the two most recent fiscal years. No decision has been made as to future dividends.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

Critical Accounting Policies

We have identified the accounting policies summarized below as critical to our business operations and the understanding of our results of operations. These policies involve significant judgments, estimates and assumptions by us. For a detailed discussion on the application of these and other accounting policies, see Note 1 to our Consolidated Financial Statements in Item 8.

Revenue Recognition

Our revenue recognition policy is significant because the amount and timing of revenue is a key component of our results of operations. Certain criteria are required to be met in order to recognize revenue. If these criteria are not met, then the associated revenue is deferred until it is met. In our case, the criteria generally are met when we have an arrangement to sell a product, we have delivered the product in accordance with that arrangement, the sales price of the product is determinable and we believe that we will be paid for the sale.

We establish reserves for customer returns of our products and customer allowances. We estimate these reserves based upon, among other things, an assessment of historical trends, information from customers and anticipated returns and allowances related to current sales activity. These reserves are established in the period of sale and reduce our revenue in that period.

Our reserve for customer allowances primarily includes reserves for trade promotions to support price features, displays, slotting fees and other merchandising of our products to our customers. The actual level of returns and customer allowances are influenced by several factors, including the promotional efforts of our customers, changes in the mix of our customers, changes in the mix of the products we sell and the maturity of the product. We may change our estimates based on actual results and consideration of other factors that cause returns and allowances. In the event that actual results differ from our estimates, the results of future periods may be impacted.

We also establish reserves for coupons, rebates and certain other promotional programs for consumers. We estimate these reserves based upon, among other things, an assessment of historical trends and current sales activity. These reserves are recorded as a reduction of revenue at the later of the date at which the revenue is recognized or the date at which the sale incentive is offered. In the event that actual results differ from our estimates, the results of future periods may be impacted.

We have also established an allowance for doubtful accounts. We estimate this allowance based upon, among other things, an assessment of the credit risk of specific customers and historical trends. We believe our allowance for doubtful accounts is adequate to absorb any losses which may arise. In the event that actual losses differ from our estimates, the results of future periods may be impacted.

Intangible Assets

Intangible assets consist of customer relationships, trade names, formulas and batching processes and a non-compete agreement. The fair value of the intangible assets is amortized over their estimated useful lives and range from a period of five to 15 years and are reviewed for impairment when changes in market circumstances occur and written down to fair value if impaired.

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired in the Acquisition discussed in Notes 4 and 5. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests, and in certain circumstances these assets are written down to fair value if impaired.

Income Taxes

Income taxes reflect the tax effects of transactions reported in the financial statements and consist of taxes currently payable plus deferred income taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income 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.

Taxes are reported based on tax positions that meet a more-likely-than-not standard and that are measured at the amount that is more-likely-than-not to be realized. Differences between financial and tax reporting which do not meet this threshold are required to be recorded as unrecognized tax benefits or expense. We classify penalty and interest expense related to income tax liabilities as an income tax expense. There are no significant interest and penalties recognized in the Consolidated Statements of Income or accrued on the Consolidated Balance Sheets. For additional discussion, see Note 7, "Income Taxes," to our Consolidated Financial Statements in Item 8.

Inventories Valuation and Reserves

Inventories consist of raw materials and finished goods and are stated at the lower of cost (first-in, first-out method) or net realizable value, which is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We estimate an inventory reserve for slow moving and obsolete products and raw materials based upon, among other things, an assessment of historical and anticipated sales of our products. In the event that actual results differ from our estimates, the results of future periods may be impacted. We record a reserve for slow moving and obsolete products and raw materials. We estimate this reserve based upon historical and anticipated sales. Amounts are stated in Note 2, "Inventories," to our Consolidated Financial Statements in Item 8.

Recently Issued Accounting Standards

For information on recently issued accounting standards, see Note 1(p), "*Recently Issued Accounting Standards*," to our Consolidated Financial Statements in Item 8.

Recently Adopted Accounting Standards

For information on recently adopted accounting standards, see Note 1(q), "*Recently Adopted Accounting Standards*," to our Consolidated Financial Statements in Item 8.

Results of Operations

Our consolidated net sales for 2017 were \$42,186,200 compared to \$35,228,400 for 2016, an increase of \$6,957,800 or 19.8%. We saw a 67.2% increase in net sales of our own line of skin and hair care products and a 7.4% increase in net sales of the skin and hair care products that we distribute for other companies. We saw a 5.4% decrease in net sales of our household products. The reasons for the foregoing changes in net sales of our products are described below.

Our net income for 2017 was \$4,662,400 compared to a net income of \$1,854,500 for 2016, an increase of \$2,807,900 or 151.4%. The increase in net income for 2017 compared to the net income for 2016 resulted primarily from: (1) increased sales as a result of the Acquisition and further growth of the skin and hair care products that we distribute; (2) an increase in the sales of Alpha® Skin Care products; and (3) the incurrence of professional fees in 2016 related to the Acquisition. The increase in net income was offset in part by additional income tax expense and additional amortization of the acquired intangible assets. Our income tax expense for 2017 was \$2,827,100 versus expense of \$1,248,100 for 2016. See Note 1(k), "*Income Taxes*," and Note 7, "*Income Taxes*," to our Consolidated Financial Statements in Item 8.

Summary of Results as a Percentage of Net Sales

	Year Ended December 31,	
	2017	2016
Net sales		
Household products	13.4%	17.0%
Skin and hair care products	86.6%	83.0%
Total net sales	100.0%	100.0%
Cost of sales	54.1%	56.9%
Gross profit	45.9%	43.1%
Expenses		
Operating expenses	27.8%	34.0%
Interest expense	0.3%	0.4%
Total expenses	28.1%	34.4%
Income before income taxes	17.8%	8.7%

Our gross margins may not be comparable to those of other companies who include all of the costs related to their distribution network in cost of sales because we, like some other companies, exclude a portion of these costs (i.e., freight out to customers) from gross margin. Instead, we include them as part of selling expenses. See Note 1(o), "Operating Costs and Expenses Classification," to our Consolidated Financial Statements in Item 8.

Comparative Net Sales

	Year Ended December 31,		Percentage Increase (Decrease)
	2017	2016	
Total household products	\$ 5,668,100	\$ 5,992,600	(5.4%)
Total skin and hair care products	36,518,100	29,235,800	24.9%
Total net sales	\$ 42,186,200	\$ 35,228,400	19.8%

Sales of household products for 2017 accounted for 13.4% of consolidated net sales compared to 17.0% for the same period in 2016. During 2017, the sales of our household products were \$5,668,100 as compared to \$5,992,600 for the same period in 2016, a decrease of \$324,500 or 5.4%. This decrease is attributable primarily to: (1) lower sales of our Scott's Liquid Gold® Floor Restore product because one of our customers discontinued the product in the second quarter of 2016; and (2) lower sales of our other household products.

Sales of skin and hair care products for 2017 accounted for 86.6% of consolidated net sales compared to 83.0% in 2016. The net sales of these products were \$36,518,100 in 2017 compared to \$29,235,800 in 2016, an increase of \$7,282,300 or 24.9%, primarily as a result of the addition of the net sales of Prell®, Denorex®, and Zincon®, which we acquired in the Acquisition on June 30, 2016, and increases in the sales of Alpha® Skin Care products primarily to exporters to China and to Amazon.com, Inc., and Montagne Jeunesse face masque sachets to existing customers, and offset by a decrease in the sales of Batiste Dry Shampoo due to changes in our distribution agreement with Church & Dwight, as previously disclosed in two Form 8-K filings dated July 17, 2017 and September 7, 2016.

The net sales of our own skin and hair care products were \$14,314,100 in 2017 compared to \$8,561,700 in 2016, an increase of \$5,752,400 or 67.2%. This increase is primarily attributable to: (1) an increase in the sales of Alpha® Skin Care products; and (2) the addition of the net sales of Prell®, Denorex®, and Zincon®. The net sales of Prell®, Denorex®, and Zincon® were \$6,411,400 in 2017 and \$3,412,700 in the second half of 2016 when we owned the Brands.

The net sales of Montagne Jeunesse sachet products and Batiste Dry Shampoo were \$22,204,000 in 2017 compared to \$20,674,100 in 2016, an increase of \$1,529,900 or 7.4%. This increase is primarily attributable to increased sales of Montagne Jeunesse face masque sachets and was offset by a decrease in sales of Batiste Dry Shampoo primarily related to the loss of our ability under our July 17, 2017 amendment to our distribution agreement with Church & Dwight to continue to sell Batiste Dry Shampoo to TJ Maxx.

We paid our customers a total of \$3,409,500 in 2017 for trade promotions to support price features, displays, slotting fees and other merchandising of our products, compared to total spending of \$2,574,800 in 2016, an increase of \$834,700 or 32.4%. This increase is primarily attributable to the addition of the sales and trade promotions of Prell®, Denorex®, and Zincon® as well as increased sales of Montagne Jeunesse face masque sachets.

From time to time, our customers return products to us. For our household products, we permit returns only for a limited time. With regard to our skin and hair care products, returns are more frequent under an unwritten industry standard that permits returns for a variety of reasons. In the event a skin and hair care customer requests a return of a product, we will consider the request, and may grant such request in order to maintain or enhance our relationship with the customer, even in the absence of an enforceable right of the customer to do so. Typically, customers that return products to us take a credit on our invoice equal to the original sales price plus a handling charge ranging from 8-10% of the original sales price. Our product returns (as a percentage of net sales) were 0.13% in 2017 and less than 0.1% in 2016.

On a consolidated basis, cost of sales was \$22,820,100 for 2017 compared to \$20,036,700 for 2016, an increase of \$2,783,400 or 13.9%, on a net sales increase of 19.8%. As a percentage of consolidated net sales, cost of sales was 54.1% in 2017 compared to 56.9% in 2016.

As a percentage of net sales of our household products, the costs of sales for our household products decreased to 49.5% of net sales in 2017 compared to 50.0% in 2016.

As a percentage of net sales of our skin and hair care products, the cost of sales for our skin and hair care products decreased to 54.8% in 2017 compared to 58.3% in 2016. This change varies from period to period based on product mix and trade promotions of the products we make versus the products we distribute for other companies, which have higher costs and higher trade promotions. The underlying costs of the products did not significantly change in 2017 compared to 2016, except for an increase in certain overhead costs incurred from leasing additional warehouse space starting in the second quarter of 2016.

Operating Expenses, Interest Expense and Other Income

	Year Ended December 31,		Percentage Increase (Decrease)
	2017	2016	
Operating expenses			
Advertising	\$ 883,500	\$ 1,567,200	(43.6%)
Selling	6,543,100	5,838,000	12.1%
General and administrative	4,314,100	4,571,700	(5.6%)
Total operating expenses	\$ 11,740,700	\$ 11,976,900	(2.0%)
Other income	\$ -	\$ 12,600	(100.0%)
Interest expense	\$ 135,900	\$ 124,800	8.9%

Our operating expenses for 2017 were \$11,740,700 compared to \$11,976,900 for 2016, a decrease of \$236,200 or 2.0%. These expenses consisted primarily of advertising, selling, and general and administrative expenses.

Advertising expenses for 2017 were \$883,500 compared to \$1,567,200 for 2016, a decrease of \$683,700 or 43.6%. This decrease is primarily due to: (1) the one-time expenses we incurred during 2016 relating to the repositioning of our Alpha® Skin Care products and Scott's Liquid Gold® household products in the marketplace, which were not repeated in 2017; and (2) spending less on a national television campaign in 2017 compared to 2016 on our Scott's Liquid Gold® Wood Care product. This decrease was partially offset by a national television campaign for Prell® during the fourth quarter of 2017.

Selling expenses for 2017 were \$6,543,100 compared to \$5,838,000 for 2016, an increase of \$705,100 or 12.1%. This increase is primarily attributable to an increase in the commissions that we paid our sales brokers and an increase in our costs of freight-out to our customers due to higher sales volume. This increase was offset primarily by a reduction in certain marketing and promotional activities compared to 2016.

General and administrative expenses for 2017 were \$4,314,100 compared to \$4,571,700 for 2016, a decrease of \$257,600 or 5.6%. This decrease is due primarily to a decrease in professional fees in 2017 compared to higher fees in 2016 related to the Acquisition and was partially offset by amortization of the acquired intangible assets.

Other income from interest earned on our cash reserves for 2017 and 2016 was \$0 and \$12,600, respectively.

Interest expense for 2017 was \$135,900 compared to \$124,800 for 2016, an increase of \$11,100 or 8.9%. The increase is due to borrowings under the Credit Agreement entered into on June 30, 2016 to help fund the Acquisition.

During 2017 and 2016, our expenditures for research and development were insignificant.

Liquidity and Capital Resources

Financing Agreements

Please see Note 6 to our Consolidated Financial Statements in Item 8 for information on our Credit Agreement with Chase. Please see Note 1(e) to our Consolidated Financial Statements in Item 8 for information on our financing agreement with Wells Fargo Bank, National Association ("Wells Fargo"), which was terminated during 2016.

Liquidity

At December 31, 2017, we had approximately \$4.1 million in cash on hand, which was \$2,016,500 more compared to December 31, 2016, primarily due to cash provided by operating activities, and offset by: (1) our use of cash to reduce the outstanding balance on our line-of-credit to zero; (2) repayments of long-term debt; (3) payment of income taxes; and (4) the payment of performance bonuses in 2017 to our management, sales, administrative support and operations personnel that were accrued for in 2016. For 2017, the primary components of working capital that significantly affected operating cash flows were the following: (1) net accounts receivable were \$352,200 less at December 31, 2017 than at December 31, 2016 due primarily to the timing of receiving payments; (2) inventory at December 31, 2017 was \$3,145,400 more than at December 31, 2016 due primarily to higher sales volume and the timing of receiving certain inventory from our vendors and shipping our products to our customers; and (3) accounts payable and accrued expenses at December 31, 2017 were \$312,900 less than at December 31, 2016 due primarily to the timing of payments on our inventory.

We anticipate that our existing cash and our cash flow from operations, together with our current Credit Agreement with Chase, will be sufficient to meet our cash requirements for the next 12 months. During 2017, we spent \$484,500 to purchase production and warehouse equipment to improve our manufacturing capabilities and efficiencies and on additional production and warehouse equipment that is primarily related to the Acquisition. We expect to make approximately \$200,000 in capital expenditures in 2018 for the same purposes as in 2017.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Scott's Liquid Gold – Inc.
Denver, Colorado

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of Scott's Liquid Gold – Inc. (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of income, stockholders' equity, and cash flows, for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EKS&H LLLP

April 2, 2018
Denver, Colorado

We have served as the Company's auditor since 2003.

Consolidated Statements of Income

	Year Ended	
	December 31,	
	2017	2016
Net sales	\$ 42,186,200	\$ 35,228,400
Operating costs and expenses:		
Cost of sales	22,820,100	20,036,700
Advertising	883,500	1,567,200
Selling	6,543,100	5,838,000
General and administrative	4,314,100	4,571,700
Total operating costs and expenses	<u>34,560,800</u>	<u>32,013,600</u>
Income from operations	7,625,400	3,214,800
Other income	-	12,600
Interest expense	(135,900)	(124,800)
Income before income taxes	7,489,500	3,102,600
Income tax expense	(2,827,100)	(1,248,100)
Net income	<u>\$ 4,662,400</u>	<u>\$ 1,854,500</u>
Net income per common share		
Basic	<u>\$ 0.39</u>	<u>\$ 0.16</u>
Diluted	<u>\$ 0.38</u>	<u>\$ 0.15</u>
Weighted average shares outstanding		
Basic	<u>11,852,271</u>	<u>11,735,202</u>
Diluted	<u>12,267,240</u>	<u>11,971,249</u>

See accompanying notes to these Consolidated Financial Statements.

Consolidated Balance Sheets

	December 31,	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,113,800	\$ 2,097,300
Accounts receivable, net	3,104,200	3,456,400
Inventories, net	8,786,700	5,641,300
Income taxes receivable	-	7,000
Prepaid expenses	285,100	319,600
Total current assets	16,289,800	11,521,600
Property and equipment, net	908,800	578,400
Deferred tax asset	384,200	1,392,600
Goodwill	1,520,600	1,520,600
Intangible assets, net	6,148,400	6,769,100
Other assets	49,100	51,000
Total assets	\$ 25,300,900	\$ 21,833,300
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,655,900	\$ 1,939,400
Accrued expenses	935,400	964,800
Income taxes payable	365,900	-
Current maturities of long-term debt	800,000	800,000
Total current liabilities	3,757,200	3,704,200
Line-of-credit	-	750,000
Long-term debt, net of current maturities and debt issuance costs	362,400	1,137,300
Total liabilities	4,119,600	5,591,500
Shareholders' equity:		
Preferred stock, no par value, authorized 20,000,000 shares; no shares issued and outstanding	-	-
Common stock; \$0.10 par value, authorized 50,000,000 shares; issued and outstanding 11,885,839 shares (2017) and 11,749,589 shares (2016)	1,188,600	1,175,000
Capital in excess of par	6,441,300	6,177,800
Retained earnings	13,551,400	8,889,000
Total shareholders' equity	21,181,300	16,241,800
Total liabilities and shareholders' equity	\$ 25,300,900	\$ 21,833,300

See accompanying notes to these Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

	Common Stock		Capital in Excess of Par	Retained Earnings	Total
	Shares	Amount			
Balance, December 31, 2015	11,710,745	\$ 1,171,100	\$ 5,901,100	\$ 7,023,600	\$ 14,095,800
Excess tax benefit	-	-	-	10,900	10,900
Stock-based compensation	-	-	248,600	-	248,600
Stock options exercised	38,844	3,900	28,100	-	32,000
Net income	-	-	-	1,854,500	1,854,500
Balance, December 31, 2016	11,749,589	1,175,000	6,177,800	8,889,000	16,241,800
Stock-based compensation	-	-	242,300	-	242,300
Stock options exercised	136,250	13,600	21,200	-	34,800
Net income	-	-	-	4,662,400	4,662,400
Balance, December 31, 2017	11,885,839	\$ 1,188,600	\$ 6,441,300	\$ 13,551,400	\$ 21,181,300

See accompanying notes to these Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Year Ended	
	December 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 4,662,400	\$ 1,854,500
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	799,900	458,000
Stock-based compensation	242,300	248,600
Excess tax benefit	-	10,900
Deferred income taxes	1,008,400	1,163,600
Change in operating assets and liabilities:		
Accounts receivable	352,200	(2,441,700)
Inventories	(3,145,400)	(542,700)
Prepaid expenses and other assets	36,400	(92,400)
Income taxes payable (receivable)	372,900	(12,300)
Accounts payable and accrued expenses	(312,900)	862,500
Total adjustments to net income	(646,200)	(345,500)
Net cash provided by operating activities	4,016,200	1,509,000
Cash flows from investing activities:		
Cash paid for Acquisition	-	(9,000,000)
Purchase of property and equipment	(484,500)	(283,600)
Net cash used by investing activities	(484,500)	(9,283,600)
Cash flows from financing activities:		
Borrowing under line-of-credit	-	3,694,100
Repayments under line-of-credit	(750,000)	(2,944,100)
Proceeds from issuance of long-term debt	-	2,400,000
Repayments of long-term debt	(800,000)	(400,000)
Debt issuance costs	-	(75,200)
Proceeds from exercise of stock options	34,800	32,000
Net cash (used) provided by financing activities	(1,515,200)	2,706,800
Net increase (decrease) in cash and cash equivalents	2,016,500	(5,067,800)
Cash and cash equivalents, beginning of period	2,097,300	7,165,100
Cash and cash equivalents, end of period	\$ 4,113,800	\$ 2,097,300
Supplemental disclosures:		
Cash paid during the period for interest	\$ 110,800	\$ 112,300
Cash paid during the period for income taxes	\$ 1,445,700	\$ -

Supplemental disclosure of non-cash activity:

In connection with the Acquisition (defined in Note 4) during the year ended December 31, 2016, the Company acquired \$400,000 of inventory, intangible assets of \$7,079,400 and goodwill of \$1,520,600 for a total of \$9,000,000.

See accompanying notes to these Consolidated Financial Statements.

Note 1. Organization and 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," "we," "our" or "us") develop, manufacture, market and sell quality household and skin and hair care products. We are also a distributor in the United States of Montagne Jeunesse skin sachets and Batiste Dry Shampoo manufactured by two other companies. Our business is comprised of two segments, household products and skin and hair care products.

(b) *Principles of Consolidation*

Our Consolidated Financial Statements include our accounts and those of our wholly-owned subsidiaries. All 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 requires us to make estimates and assumptions that affect the reported amounts in our financial statements of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, the realization of deferred tax assets, reserves for slow moving and obsolete inventory, customer returns and allowances, intangible asset useful lives and amortization method, and stock-based compensation. Actual results could differ from our estimates.

(d) *Cash Equivalents*

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

(e) *Sale of Accounts Receivable*

On March 16, 2011, we entered into a financing agreement with Wells Fargo Bank, National Association ("Wells Fargo") for the purpose of further lowering the cost of borrowing associated with the financing of our accounts receivable. Pursuant to this agreement, we were able to sell accounts receivable from Wal-Mart at a discount to Wells Fargo. On January 29, 2016 we terminated our agreement with Wells Fargo due to Wal-Mart changing its accounts payable policy.

In 2017 and 2016, we sold approximately \$0 and \$306,800, respectively, of our relevant accounts receivable to Wells Fargo for approximately \$0 and \$305,200, respectively. The difference between the invoiced amount of the receivable and the cash that we received from Wells Fargo was a cost to us. This cost was in lieu of any cash discount our customer would have been allowed and, thus, was treated in a manner consistent with standard trade discounts granted to our customers.

The reporting of the sale of accounts receivable to Wells Fargo was treated as a sale rather than as a secured borrowing. As a result, affected accounts receivable were relieved from the Company's financial statements upon receipt of the cash proceeds.

(f) *Inventories Valuation and Reserves*

Inventories consist of raw materials and finished goods and are stated at the lower of cost (first-in, first-out method) or net realizable value, which is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We estimate an inventory reserve for slow moving and obsolete products and raw materials based upon, among other things, an assessment of historical and anticipated sales of our products. In the event that actual results differ from our estimates, the results of future periods may be impacted.

(g) *Property, Plant and Equipment*

Property, plant and equipment are recorded at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from three to 20 years. Production equipment and production support equipment are estimated to have useful lives of 15 to 20 years and three to 10 years, respectively. Office furniture and office machines are estimated to have useful lives of 10 to 20 and three to five years, respectively. Maintenance and repairs are expensed as incurred. Improvements that extend the useful lives of the asset or provide improved efficiency are capitalized.

(h) *Intangible Assets*

Intangible assets consist of customer relationships, trade names, formulas and batching processes and a non-compete agreement. The fair value of the intangible assets is amortized over their estimated useful lives and range from a period of five to 15 years and are reviewed for impairment when changes in market circumstances occur and written down to fair value if impaired.

(i) *Goodwill*

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired in the Acquisition discussed in Notes 4 and 5. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests at the reporting unit level, which include the review of factors to determine if it is more-likely-than-not that the fair values of its reporting units were below carrying value. In certain circumstances, these assets are written down to fair value if impaired.

(j) *Financial Instruments*

Financial instruments which potentially subject us to concentrations of credit risk include cash and cash equivalents and accounts receivable. We maintain our cash balances in the form of bank demand deposits with financial institutions that we believe are creditworthy. As of December 31, 2017, and periodically throughout the year, we have maintained balances in various operating accounts in excess of federally insured limits. We establish an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. We have no significant financial instruments with off-balance sheet risk of accounting loss, such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

The recorded amounts for cash and cash equivalents, receivables, other current assets, accounts payable, accrued expenses, and current maturities of long-term debt approximate fair value due to the short-term nature of these financial instruments. The recorded amount of long-term debt approximates fair value and is estimated primarily based on current market rates for debt with similar terms and remaining maturities. At December 31, 2017 we had long-term debt of \$1,200,000 and no outstanding balance on our line-of-credit. At December 31, 2016 we had long-term debt of \$2,000,000 and a \$750,000 outstanding balance on our line-of-credit.

(k) *Income Taxes*

Income taxes reflect the tax effects of transactions reported in the Consolidated Financial Statements and consist of taxes currently payable plus deferred income taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income 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.

Taxes are reported based on tax positions that meet a more-likely-than-not standard and that are measured at the amount that is more-likely-than-not to be realized. Differences between financial and tax reporting which do not meet this threshold are required to be recorded as unrecognized tax benefits or expense. We classify penalty and interest expense related to income tax liabilities as an income tax expense. There are no significant interest and penalties recognized in the Consolidated Statements of Income or accrued on the Consolidated Balance Sheets.

(l) *Revenue Recognition*

Our revenue recognition policy is significant because the amount and timing of revenue is a key component of our results of operations. Certain criteria are required to be met in order to recognize revenue. If these criteria are not met, then the associated revenue is deferred until it is met. In our case, the criteria generally are met when we have an arrangement to sell a product, we have delivered the product in accordance with that arrangement, the sales price of the product is determinable and we believe that we will be paid for the sale.

We establish reserves for customer returns of our products and customer allowances. We estimate these reserves based upon, among other things, an assessment of historical trends, information from customers and anticipated returns related to current sales activity. These reserves are established in the period of sale and reduce our revenue in that period.

Our reserve for customer allowances includes primarily reserves for trade promotions to support price features, displays, slotting fees and other merchandising of our products to our customers. The actual level of returns and customer allowances are influenced by several factors, including the promotional efforts of our customers, changes in the mix of our customers, changes in the mix of the products we sell and the maturity of the product. We may change our estimates based on actual results and consideration of other factors that cause returns and allowances. In the event that actual results differ from our estimates, the results of future periods may be impacted.

We also establish reserves for coupons, rebates and certain other promotional programs for consumers. We estimate these reserves based upon, among other things, an assessment of historical trends and current sales activity. These reserves are recorded as a reduction of revenue at the later of the date at which the revenue is recognized or the date at which the sale incentive is offered. In the event that actual results differ from our estimates, the results of future periods may be impacted.

We have also established an allowance for doubtful accounts. We estimate this allowance based upon, among other things, an assessment of the credit risk of specific customers and historical trends. We believe our allowance for doubtful accounts is adequate to absorb any losses which may arise. In the event that actual losses differ from our estimates, the results of future periods may be impacted.

At December 31, 2017 and December 31, 2016 approximately \$1,069,700 and \$1,184,700, respectively, had been reserved for as a reduction of accounts receivable. Trade promotions to our customers and incentives such as coupons and rebates to the consumer are deducted from gross sales and totaled \$3,409,500 and \$2,574,800 for the years ended December 31, 2017 and 2016, respectively.

(m) *Advertising Costs*

We expense advertising costs as incurred.

(n) *Stock-Based Compensation*

We account for share based payments by recognizing compensation expense based upon the estimated fair value of the awards on the date of grant. We determine the estimated grant-date fair value of stock options using the Black-Scholes option pricing model. In order to calculate the fair value of the options, certain assumptions are made regarding the components of the model, including the estimated fair value of underlying common stock, risk-free interest rate, volatility, expected dividend yield and expected option life. Changes to the assumptions could cause significant adjustments to the valuation. The Company recognizes compensation costs ratably over the vesting period using the straight-line method, which approximates the service period.

(o) *Operating Costs and Expenses Classification*

Cost of sales includes costs associated with manufacturing and distribution including labor, materials, freight-in, purchasing and receiving, quality control, internal transfer costs, repairs, maintenance and other indirect costs, as well as warehousing and distribution costs. We classify shipping and handling costs comprised primarily of freight-out as selling expenses. Other selling expenses consist primarily of wages and benefits for sales and sales support personnel, travel, brokerage commissions and promotional costs, as well as certain other indirect costs. Shipping and handling costs totaled \$2,614,300 and \$1,799,900, for the years ended December 31, 2017 and 2016, respectively.

General and administrative expenses consist primarily of wages and benefits associated with management and administrative support departments, business insurance costs, professional fees, amortization of intangible assets, office facility rent and related expenses and other general support costs.

(p) *Recently Issued Accounting Standards*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). This guidance, as amended by subsequent ASUs on the topic, outlines a comprehensive model for determining revenue recognition for contracts with customers, which replaces numerous industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. This guidance implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The new guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts and customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The new guidance is effective for reporting periods beginning after December 15, 2017, and early adoption is permitted. Entities can transition to the new guidance

either retrospectively or as a cumulative-effect adjustment as of the date of the adoption. Effective January 1, 2018, we adopted the new guidance on a “full retrospective” basis, which did not have a material impact on our financial statements. We do not expect the new guidance will have a material impact on future periods of our financial statements.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows: Classification of Certain Cash Receipts and Payments*” (“ASU 2016-15”), which provides guidance on eight specific cash flow issues with the objective of reducing diversity in practice. Application of ASU 2016-15, which should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2017. Effective January 1, 2018, we adopted ASU 2016-15. The adoption of this standard did not have a material impact on our financial statements.

In January 2017, the FASB issued ASU 2017-01, “*Business Combinations (Topic 805): Clarifying the Definition of a Business*” (“ASU 2017-01”), which provides a more defined framework to use in determining when a set of assets and activities is a business. ASU 2017-01 also provides greater consistency in applying the guidance, making the definition of a business more operable. ASU 2017-01 is effective for public companies for annual periods, including interim periods, beginning after December 15, 2017. Effective January 1, 2018, we adopted ASU 2017-01. The adoption of this standard did not have a material impact on our financial statements.

In May 2017, the FASB issued ASU 2017-09, “*Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*” (“ASU 2017-09”), clarifying when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. ASU 2017-09 is effective for public companies for annual periods, including interim periods, beginning after December 15, 2017. Effective January 1, 2018, we adopted ASU 2017-09. The adoption of this standard did not have a material impact on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases (Topic 842)*” (“ASU 2016-02”), which requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We anticipate that most of our operating leases will result in recognition of additional assets and the corresponding liabilities on the Consolidated Balance Sheets. We have not determined the amount of these transactions or the final impact to our earnings as the actual impact will depend on the Company’s lease portfolio at the time of adoption.

In June 2016, FASB issued ASU No. 2016-13, “*Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*” (“ASU 2016-13”). Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2016-13 is not expected to have a material impact on our financial statements.

(q) *Recently Adopted Accounting Standards*

In January 2017, the FASB issued ASU 2017-04, “*Simplifying the Test for Goodwill Impairment*” (“ASU 2017-04”). ASU 2017-04 simplifies the accounting for goodwill impairment by elimination of the Step 2 requirement to calculate the implied fair value of goodwill. Instead, if a reporting unit’s carrying amount exceeds its fair value, an impairment charge will be recorded based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. ASU 2017-04 will be applied prospectively and is effective for impairment tests performed after December 15, 2019, with early adoption permitted. Effective January 1, 2018, we adopted ASU 2017-04. The adoption of this standard did not have a material impact on our financial statements.

Note 2. Inventories

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

	2017	2016
Finished goods	\$ 6,983,600	\$ 2,668,700
Raw materials	1,811,200	3,035,000
Inventory reserve for obsolescence	(8,100)	(62,400)
	<u>\$ 8,786,700</u>	<u>\$ 5,641,300</u>

Note 3. Property, Plant and Equipment

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

	2017	2016
Production equipment	\$ 5,397,200	\$ 4,995,600
Office furniture and equipment	706,200	674,600
Other	217,900	202,400
	6,321,300	5,872,600
Less accumulated depreciation	(5,412,500)	(5,294,200)
	<u>\$ 908,800</u>	<u>\$ 578,400</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$154,100 and \$135,200, respectively.

Note 4. Acquisition

On June 30, 2016, Neoteric Cosmetics, Inc. ("Neoteric"), a wholly-owned subsidiary of the Company, entered into an Asset Purchase Agreement (the "Purchase Agreement") with Ultimark Products, Inc. ("Ultimark") and consummated the transaction contemplated thereby (the "Acquisition"), pursuant to which Neoteric purchased from Ultimark all intellectual property assets and certain related assets owned by Ultimark as well as inventory of finished goods owned by Ultimark and used in connection with the manufacture, sale and distribution of the Prell®, Denorex®, and Zincon® brands of hair and scalp care products (collectively, the "Brands"). The total consideration Neoteric paid for the Brands was approximately \$9.0 million, plus the assumption by Neoteric of certain specific liabilities of Ultimark related to the performance of certain purchase orders and contracts following June 30, 2016.

Note 5. Goodwill and Intangible Assets

Intangible assets consisted of the following:

	As of December 31, 2017			As of December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
<u>Intangible assets:</u>						
Customer relationships	\$ 4,022,100	\$ 603,300	\$ 3,418,800	\$ 4,022,100	\$ 201,100	\$ 3,821,000
Trade names	2,362,400	236,100	2,126,300	2,362,400	78,700	2,283,700
Formulas and batching processes	668,600	83,700	584,900	668,600	27,900	640,700
Non-compete agreement	26,300	7,900	18,400	26,300	2,600	23,700
	7,079,400	931,000	6,148,400	7,079,400	310,300	6,769,100
Goodwill			1,520,600			1,520,600
Total intangible assets			<u>\$ 7,669,000</u>			<u>\$ 8,289,700</u>

The amortization expense for the years ended December 31, 2017 and 2016 was \$620,700 and \$310,300, respectively.

Estimated amortization expense for 2018 and subsequent years is as follows:

2018	\$	620,700
2019		620,700
2020		620,700
2021		617,600
2022		615,400
Thereafter		3,053,300
Total	\$	6,148,400

Note 6. Long-Term Debt and Line-of-Credit

On June 30, 2016, Neoteric and the Company, as borrowers, entered into a Credit Agreement, as amended (the "Credit Agreement") with JPMorgan Chase Bank, N.A. ("Chase"), as lender, pursuant to which Chase provided a term loan and a revolving credit facility that was used to finance a portion of the Acquisition and for the Company's general corporate purposes and working capital. The term loan amount is \$2.4 million with quarterly payments fully amortized over three years and interest of (i) the LIBO Rate + 3.75% or (ii) the Prime Rate + 1.00%, with a floor of the one month LIBO Rate + 2.5%. At December 31, 2017, our rate was 5.10%. The revolving credit facility amount is \$4 million with interest of (i) the LIBO Rate + 3.00% or (ii) the Prime Rate + 0.25%, with a floor of the one month LIBO Rate + 2.5%. At December 31, 2017, our rate was 4.35%. The revolving credit facility will terminate on June 30, 2019 or any earlier date on which the revolving commitment is otherwise terminated pursuant to the Credit Agreement. Under the Credit Agreement we are obligated to pay quarterly an unused commitment fee equal to 0.5% per annum on the daily amount of the undrawn portion of the revolving line-of-credit. The loans are secured by all of the assets of the Company and all of its subsidiaries.

On January 10, 2018, the Company entered into the First Amendment to the Credit Agreement (the "First Amendment") which lowered interest rates for the term loan and the revolving credit facility. The term loan bears interest of: (i) the LIBO Rate + 2.5%; or (ii) the Prime Rate, with a floor of the one month LIBO Rate + 2.5%. The revolving credit facility bears interest of (i) the LIBO Rate + 2.5% or (ii) the Prime Rate, with a floor of the one month LIBO Rate + 2.5%. There were no changes to any other key terms of the Credit Agreement.

The Credit Agreement requires, among other things, that beginning on December 31, 2016, the Company maintain a Debt Service Coverage Ratio of no less than 1.25 to 1.0 and a Funded Indebtedness to Adjusted EBITDA Ratio of no greater than 3.0 to 1.0. The Credit Agreement also contains covenants typical of transactions of this type, including among others, limitations on the Company's ability to: create, incur or assume any indebtedness or lien on our assets; pay dividends or make other distributions; redeem, retire or acquire the Company's outstanding common stock, options, warrants or other rights; make fundamental changes to its corporate structure or business; make investments or asset sales; or engage in certain other activities as set forth in the Credit Agreement. The Company was in compliance with the covenants in the Credit Agreement as of December 31, 2017. Capitalized terms used but not defined shall have the meanings provided in the Credit Agreement.

Maturities of long-term debt and line-of-credit are as follows as of December 31, 2017:

2018	\$	800,000
2019		400,000
		1,200,000
Less unamortized debt issuance costs		(37,600)
Total	\$	1,162,400

Debt issuance costs recognized as a component of interest expense for the years ended December 31, 2017 and 2016 were \$25,100 and \$12,500, respectively. These costs are amortized using the effective interest method over the term of the Credit Agreement.

Note 7. Income Taxes

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

	2017	2016
Current provision:		
Federal	\$ 1,806,900	\$ 71,100
State	11,800	2,400
Total current provision	<u>1,818,700</u>	<u>73,500</u>
Deferred provision:		
Federal	858,800	1,071,300
State	149,600	103,300
Total deferred provision	<u>1,008,400</u>	<u>1,174,600</u>
Provision:		
Federal	2,665,700	1,142,400
State	161,400	105,700
Total provision	<u>\$ 2,827,100</u>	<u>\$ 1,248,100</u>

Income tax expense at the statutory tax rate is reconciled to the overall income tax expense for the years ended December 31 as follows:

	2017	2016
Federal income tax at statutory rates	\$ 2,546,400	\$ 1,054,900
State income taxes, net of federal tax effect	228,900	94,800
Permanent differences	11,400	12,900
Nondeductible stock-based compensation	87,900	81,800
Benefit from domestic manufacturing deduction	(229,300)	-
Impact of change in U.S. corporate income tax rate	193,200	-
Other	(11,400)	3,700
Provision for income taxes	<u>\$ 2,827,100</u>	<u>\$ 1,248,100</u>

Deferred income taxes are based on estimated future tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes given the provision of enacted tax laws. On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted which, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, and resulted in a one-time adjustment to deferred tax assets and liabilities. The TCJA also repealed the domestic manufacturing deduction beginning in 2018. In 2017, we realized a one-time benefit from the domestic manufacturing deduction in the amount disclosed above. The net deferred tax assets and liabilities as of December 31, 2017 and 2016 are comprised of the following:

	2017	2016
Deferred tax assets:		
Net operating loss carryforwards	\$ -	\$ 611,800
Tax credit and other carryforwards	-	491,700
Accounts receivable	196,200	80,000
Inventories	114,400	60,800
Accrued vacation and bonus	24,500	32,600
Intangibles and Goodwill	82,600	113,800
Other	15,200	23,500
Total deferred tax assets	<u>432,900</u>	<u>1,414,200</u>
Deferred tax liabilities:		
Accumulated depreciation for tax purposes	(48,700)	(21,600)
Total deferred tax liabilities	<u>(48,700)</u>	<u>(21,600)</u>
Net deferred tax asset	<u>\$ 384,200</u>	<u>\$ 1,392,600</u>

As of December 31, 2017, the Company has utilized all federal and state net operating loss carryovers of approximately \$960,000 and \$8,220,000, respectively. As of December 31, 2017, the Company also has utilized all federal tax credit carryforwards

related to research and development efforts of approximately \$300,000, and all alternative minimum tax credits of approximately \$189,000.

During the year ended December 31, 2016, the Company has early adopted ASU 2016-09 relating to stock compensation and appropriately recorded the cumulative effect adjustment to retained earnings.

Accounting for uncertainty in income taxes is based on a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We recognize in our consolidated financial statements only those tax positions that are more-likely-than-not of being sustained as of the adoption date, based on the technical merits of the position. Each year we perform a comprehensive review of our material tax positions.

Our policy is to recognize interest and penalties related to uncertain tax benefits in income tax expense. As we had no uncertain tax benefits during 2017 and 2016, we had no accrued interest or penalties related to uncertain tax positions in either year.

We and our subsidiaries are subject to the following material taxing jurisdictions: United States and Colorado. The tax years that remain open to examination by the Internal Revenue Service are 2014 and years thereafter. The tax years that remain open to examination by the State of Colorado are 2013 and years thereafter.

Note 8. Shareholders' Equity

During 2017, we granted: (i) options to acquire 16,560 shares of our common stock to employees at prices ranging between \$1.80 and \$2.25 per share; and (ii) options to acquire 30,000 shares of our common stock to a non-employee board member at a price of \$2.25 per share.

During 2016, we granted: (i) options to acquire 45,576 shares of our common stock to employees at prices ranging between \$1.20 and \$1.26 per share; and (ii) options to acquire 90,072 shares of our common stock to non-employee board members at a price of \$1.26 per share.

The weighted average fair market value of the options granted during the years ended December 31 were estimated on the date of grant, using a Black-Scholes option pricing model with the following assumptions:

	2017	2016
Expected life of options (using the "simplified" method)	4 years	4 years
Average risk-free interest rate	1.44%	1.10%
Average expected volatility of stock	78%	87%
Expected dividend rate	None	None
Fair value of options granted	\$55,100	\$104,935

Compensation cost related to stock options recognized in operating results (included in general and administrative expenses) totaled \$242,300 and \$248,600 for the years ended December 31, 2017 and 2016, respectively. Approximately \$436,200 of total unrecognized compensation costs related to non-vested stock options is expected to be recognized over the next four years, depending on the vesting provisions of the options. There was no tax benefit from recording the non-cash expense as it relates to the options granted to employees, as these were qualified stock options which are not normally tax deductible.

In 2005, we adopted a stock option plan for our employees, officers and directors (the "2005 Plan"). At the Annual Shareholders' Meeting in May 2011, shareholders approved an amendment to the 2005 Plan to increase the number of shares issuable under the plan from 1,500,000 shares to a total of 3,000,000 shares.

In 2015, we adopted a stock option plan for our employees, officers and directors (the "2015 Plan") to replace the 2005 Plan, which expired on March 31, 2015. At the Annual Shareholders' Meeting in June 2015, shareholders approved the adoption of the 2015 Plan.

Stock option activity under the 2005 and 2015 Plans are as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
2005 Plan				
Maximum number of shares under the plan	3,000,000			
Outstanding, December 31, 2015	676,513	\$ 0.63	4.7 years	\$ 525,300
Granted	-	\$ -		
Exercised	(27,051)	\$ 0.64		
Cancelled/Expired	(21,149)	\$ 0.78		
Outstanding, December 31, 2016	628,313	\$ 0.63	3.8 years	\$ 510,000
Exercisable, December 31, 2016	445,818	\$ 0.55	2.8 years	\$ 398,200
Available for issuance, December 31, 2016	-			
Granted	-	\$ -		
Exercised	(136,250)	\$ 0.26		
Cancelled/Expired	-	\$ -		
Outstanding, December 31, 2017	492,063	\$ 0.73	3.8 years	\$ 1,067,000
Exercisable, December 31, 2017	396,646	\$ 0.70	3.1 years	\$ 872,100
Available for issuance, December 31, 2017	-			
2015 Plan				
Maximum number of shares under the plan	2,000,000			
Outstanding, December 31, 2015	716,500	\$ 1.27	8.4 years	\$ 102,100
Granted	135,648	\$ 1.26		
Exercised	(11,793)	\$ 1.25		
Cancelled/Expired	(52,740)	\$ 1.25		
Outstanding, December 31, 2016	787,615	\$ 1.27	7.2 years	\$ 136,000
Exercisable, December 31, 2016	261,293	\$ 1.27	6.5 years	\$ 45,500
Available for issuance, December 31, 2016	1,212,385			
Granted	46,560	\$ 2.18		
Exercised	-	\$ -		
Cancelled/Expired	(49,491)	\$ 1.26		
Outstanding, December 31, 2017	784,684	\$ 1.32	6.4 years	\$ 1,238,200
Exercisable, December 31, 2017	422,335	\$ 1.31	6.0 years	\$ 672,900
Available for issuance, December 31, 2017	1,215,316			

A summary of additional information related to the options outstanding as of December 31, 2017 under the 2005 and 2015 Plans are as follows:

Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
2005 Plan			
\$0.41-\$0.62	131,563	0.4 years	\$ 0.43
\$0.63-\$0.86	360,500	5.0 years	\$ 0.84
Total	492,063	3.8 years	\$ 0.73
2015 Plan			
\$1.20-\$1.25	535,500	7.1 years	\$ 1.25
\$1.26-\$1.38	202,624	4.3 years	\$ 1.32
\$1.80-\$2.25	46,560	6.4 years	\$ 2.18
Total	784,684	6.4 years	\$ 1.32

We have an Employee Stock Ownership Plan (“Plan”) to provide retirement benefits for our employees. The Plan is designed to invest primarily in our common stock and is non-contributory on the part of our employees. Contributions to the Plan are discretionary as determined by our Board of Directors. We expense the cost of contributions to the Plan. No contributions were made to the Plan in 2017 and 2016. At December 31, 2017 and 2016, a total of 617,624 and 633,426 shares of our common stock, respectively, have been allocated and earned by our employees.

Note 9. 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. 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.

Basic earnings per share include no dilution and are computed by dividing income available to common shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect the potential of securities that could share in our earnings.

A reconciliation of the weighted average number of common shares outstanding for the years ended December 31 is as follows:

	2017	2016
Common shares outstanding, beginning of the year	11,749,589	11,710,745
Weighted average common shares issued	102,682	24,457
Weighted average number of common shares outstanding	11,852,271	11,735,202
Dilutive effect of common share equivalents	414,969	236,047
Diluted weighted average number of common shares outstanding	12,267,240	11,971,249

Common stock equivalents that have been excluded from the calculation of earnings per share as of December 31 because they would have been anti-dilutive are as follows:

	2017	2016
Stock options	89,136	787,615

Note 10. Segment Information

We operate in two different segments: household products and skin and hair care products. Our products are sold nationally and internationally (primarily Canada and China), directly through our sales force and indirectly through independent brokers and manufacturer’s representatives, to mass merchandisers, drugstores, supermarkets, hardware stores, e-commerce retailers, and other retail outlets and to wholesale distributors. We have chosen to organize our business around these segments based on differences in the products sold.

Accounting policies for our segments are the same as those described in Note 1. We evaluate segment performance based on segment income or loss before income taxes.

The following provides information on our segments as of and for the years ended December 31:

	2017			
	Household Products	Skin and Hair Care Products	Corporate	Total
	Net sales	\$ 5,668,100	\$ 36,518,100	\$ -
Operating (loss) income	(327,800)	7,953,200	-	7,625,400
Identifiable assets	2,195,500	22,721,200	384,200	25,300,900
Capital and intangible asset expenditures	190,400	294,100	-	484,500
Depreciation and amortization	126,400	673,500	-	799,900

	2016			
	Household Products	Skin and Hair Care Products	Corporate	Total
	Net sales	\$ 5,992,600	\$ 29,235,800	\$ -
Operating (loss) income	(1,042,100)	4,256,900	-	3,214,800
Identifiable assets	1,957,900	18,479,400	1,396,000	21,833,300
Capital and intangible asset expenditures	273,400	8,610,200	-	8,883,600
Depreciation and amortization	66,600	391,400	-	458,000

Corporate assets noted above are comprised of our deferred tax assets.

In 2017 and 2016, Wal-Mart accounted for approximately \$10,983,400 and \$7,221,400, respectively, of our consolidated net sales, Ulta accounted for approximately \$9,164,300 and \$8,479,800, respectively, of our consolidated net sales, and TJ Maxx and Marshalls (collectively, "TJ Maxx") together accounted for approximately \$3,168,100 and \$4,137,200, respectively, of our consolidated net sales. We sell both household products and skin and hair care products to Wal-Mart, but we sell only skin and hair care products to Ulta and TJ Maxx. These customers are not related to us.

The outstanding accounts receivable from Wal-Mart accounted for 53.8% and 48.9% of our total accounts receivable at December 31, 2017 and 2016, respectively. The outstanding accounts receivable from Ulta accounted for 17.5% and 9.7% of our total accounts receivable at December 31, 2017 and 2016, respectively. The outstanding accounts receivable from TJ Maxx accounted for 0.0% and 16.3% of our total accounts receivable at December 31, 2017 and 2016, respectively. On July 17, 2017, our distribution agreement with Church & Dwight was amended such that, effective September 1, 2017, TJ Maxx was eliminated from the authorized specialty retailers to whom we distribute. A loss of Wal-Mart or Ulta could have a material adverse effect on us because it is uncertain whether our consumer base served by these customers would purchase our products at other retail outlets. No long-term contracts exist between us and these customers.

Note 11. Retirement Plans

We have a 401(k) Profit Sharing Plan ("401(k) Plan") covering our full-time employees who have completed four months of service as defined in the 401(k) Plan and are age 18 or older. Participants may defer up to 75% of their compensation up to the maximum limit determined by law. We may make discretionary "matching" contributions up to a maximum of 6% of each participant's compensation, but only for those employees earning no more than \$50,000 annually. Additionally, we can make discretionary "profit sharing" contributions to eligible employees. Participants are always fully vested in their contributions, matching contributions and allocated earnings thereon. Vesting in our profit sharing contribution is based on years of service, with a participant fully vested after five years. Our Company matching contributions totaled \$7,000 in 2017 and 2016, respectively. We made no discretionary profit sharing contributions in 2017 and 2016.

Note 12. Commitments and Contingencies

Operating Leases

On February 1, 2013, we entered into a lease with an unrelated third party for approximately 16,078 square feet of office space (the "Office Lease") and approximately 113,620 square feet of manufacturing and warehouse space (the "Warehouse Lease"). Each of the Office Lease and the Warehouse Lease had an initial term of three years, with options to extend the term for two additional terms of three years each. Effective February 1, 2016, we exercised our first option to extend the term of the Office Lease and Warehouse Lease for three years. The initial rent for the Office Lease was \$13.00 per square foot per annum, with annual 3% increases. The initial rent for the Warehouse Lease was \$3.25 per square foot per annum, with annual 3% increases, and we will pay an additional \$1.25 per square foot per annum as our share of the purchaser's operating expenses under the Warehouse Lease (including taxes, insurance and common area maintenance charges). If certain uncontrollable operating expenses increase by more than 5% per year, our share of operating expenses under the Warehouse Lease may be increased. On March 25, 2016, we entered into a lease with an unrelated third party for approximately 53,440 square feet of warehouse space that connects to our current warehouse space (the "Expansion Lease"). The initial rent for Expansion Lease is \$4.90 per square foot per annum, with annual increases ranging from 7% in the second year of the lease to 3% in the last two years of the lease. The term of the Expansion Lease will be coterminous with the Warehouse Lease and will be subject to all of the terms and conditions for the Warehouse Lease. The Office Lease and Warehouse Lease are subject to escalation clauses for rent, which have been straight-lined over the life of the respective lease agreements.

Annual rental expense under the Office Lease and Warehouse Lease for 2017 was \$216,700 and \$912,800, respectively. Annual rental expense under the Office Lease and Warehouse Lease for 2016 was \$227,900 and \$555,300, respectively.

We have entered into various operating lease agreements, primarily for office equipment. Annual rental expense under these leases totaled \$47,800 and \$42,300 in 2017 and 2016, respectively.

Future minimum annual lease payments are as follows:

2018	\$	992,800
2019		90,800
	\$	<u>1,083,600</u>

Contingencies

We are subject to lawsuits from time to time in the ordinary course of business. While we expect those lawsuits not to have a material effect on us, an adverse development in any such lawsuit or the insurance coverage for a lawsuit could materially and adversely affect our financial condition and cash flow. We regularly review all pending litigation matters in which we might be involved and establish accruals deemed appropriate by us for these litigation matters when a probable loss estimate can be made. As of December 31, 2017 there were no pending litigation matters that required an accrual.

Note 13. Subsequent Events

Exclusive Distribution Agreement

Effective January 1, 2018, we entered into a distribution agreement with HK NFS Limited ("HK NFS"), a Hong Kong limited company, where we appointed HK NFS to act as the exclusive distributor of Alpha® Skin Care products in the territory of the People's Republic of China. The distribution agreement is effective for a one-year term and automatically renews for additional successive one-year terms unless and until either party provides notice of nonrenewal at least 90 days before the end of the then-current term. HK NFS will also undertake commercially reasonable efforts to protect the products covered under the agreement from being counterfeited in the territory.

First Amendment to Credit Agreement

On January 10, 2018, the Company entered into the First Amendment which lowered interest rates for the term loan and the revolving credit facility. See Note 6 for further discussion.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of December 31, 2017, we conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2017.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, based on the criteria for effective internal control described in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

This Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permits us to provide only management's report in this Report.

This Report shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

For Part III, the information set forth in our definitive Proxy Statement for our Annual Meeting of Shareholders to be filed within 120 days after December 31, 2017, hereby is incorporated by reference into this Report.

- ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.
- ITEM 11. EXECUTIVE COMPENSATION.
- ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.
- ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.
- ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

PART IV

- ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Income for the years ended December 31, 2017 and 2016
Consolidated Balance Sheets as of December 31, 2017 and 2016
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2017 and 2016
Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016
Notes to Consolidated Financial Statements

Exhibits

Exhibit Number	Document
3.1	<u>Restated Articles of Incorporation, as amended and restated through May 1, 1996, incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-KSB for the year ended December 31, 2007.</u>
3.2	<u>Bylaws, as amended through July 13, 2011, incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K filed on July 19, 2011.</u>
4.1	<u>Shareholder Rights Agreement, dated February 21, 2001 incorporated by reference to Exhibit 2 to the Company's Registration Statement on Form 8-A filed on February 22, 2001.</u>
4.2	<u>Amendment to Shareholder Rights Agreement, dated February 15, 2011 incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on February 22, 2011.</u>
4.3	<u>Second Amendment to Shareholder Rights Agreement, dated January 6, 2012 incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 10, 2012.</u>
4.4	<u>Third Amendment to Shareholder Rights Agreement, dated as of February 19, 2016, between the Company and Broadridge Corporate Issuer Solutions, Inc., as Rights Agent, incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on February 23, 2016.</u>
10.1*	<u>Scott's Liquid Gold-Inc. Health and Accident Plan, Plan Document and Summary Plan Description Amended and Restated Effective October 1, 2003 incorporated by reference to Exhibit 10.1 of our Annual Report on Form 10-K for the year ended December 31, 2004.</u>
10.2*	<u>Scott's Liquid Gold & Affiliated Companies Employee Benefit Health and Welfare Plan Amendment #1-2004 incorporated by reference to Exhibit 10.2 of our Annual Report on Form 10-K for the year ended December 31, 2004.</u>

Exhibit Number	Document
10.3*	<u>Form of Indemnification Agreement for executive officers and directors incorporated by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.</u>
10.4*	<u>Employment Agreement, dated as of March 26, 2014, between Scott's Liquid Gold-Inc. and Mark Goldstein incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K, filed on March 28, 2014.</u>
10.5*	<u>Employment Agreement, dated as of March 26, 2014, between Scott's Liquid Gold-Inc. and Barry Levine incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K, filed on March 28, 2014.</u>
10.6*	<u>2005 Stock Incentive Plan, as amended, incorporated by reference to Exhibit 4 of our Registration Statement No. 333-156191, filed on December 16, 2008.</u>
10.7*	<u>Amendment to the 2005 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on September 8, 2014.</u>
10.8*	<u>Form of 2005 Stock Option Plan Incentive Stock Option Agreement, incorporated by reference to Exhibit 10.4 of our Quarterly Report on Form 10-QSB for the quarter ended March 31, 2007.</u>
10.9*	<u>Form of 2005 Stock Incentive Plan Nonqualified Stock Option Agreement, incorporated by reference to Exhibit 10.6 of our Quarterly Report on Form 10-QSB for the quarter ended March 31, 2007.</u>
10.10*	<u>Scott's Liquid Gold-Inc. 2015 Equity and Incentive Plan incorporated by reference to Appendix A to the Company's Definitive Proxy Statement for its annual meeting of shareholders held on June 4, 2015 filed on April 27, 2015.</u>
10.11*	<u>Form of 2015 Equity and Incentive Plan Incentive Stock Option Agreement incorporated by reference to Exhibit 10.24 of the Company's Annual Report on Form 10-K, filed on March 30, 2016.</u>
10.12*	<u>Form of 2015 Equity and Incentive Plan Non-Qualified Stock Option Agreement incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K, filed on March 30, 2016.</u>
10.13*	<u>Scott's Liquid Gold-Inc. Employee Stock Ownership Plan and Trust Agreement, Amended and Restated effective January 1, 2012 incorporated by reference to Exhibit 10.27 of the Company's Annual Report on Form 10-K, filed on March 28, 2014.</u>
10.14	<u>Asset Purchase Agreement, dated as of June 30, 2016, between Neoteric Cosmetics, Inc. and Ultimark Products, Inc. incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on July 7, 2016.</u>
10.15	<u>Credit Agreement, dated as of June 30, 2016, between the Company, Neoteric Cosmetics, Inc. and the other Loan parties thereto and JPMorgan Chase Bank, N.A. incorporated by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K filed on July 7, 2016.</u>
10.16	<u>Amendment to Credit Agreement, dated as of January 10, 2018, between Company, Neoteric Cosmetics, Inc. and the other Loan parties thereto and JPMorgan Chase Bank, N.A.</u>
10.17	<u>Receivables Purchase Agreement dated March 16, 2011 between Wells Fargo Bank, National Association and Scott's Liquid Gold, Inc., incorporated by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K filed on March 29, 2011.</u>
10.18	<u>Receivables Purchase Agreement dated March 16, 2011 between Wells Fargo Bank, National Association and Neoteric Cosmetics, Inc., incorporated by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K filed on March 29, 2011.</u>
10.19	<u>Exclusive Distribution Agreement, effective September 15, 2014, between Montagne Jeunesse International Limited and Neoteric Cosmetics, Inc. incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, filed on November 14, 2014.</u>
10.20	<u>Amendment to the Exclusive Distribution Agreement, dated April 1, 2015, between Montagne Jeunesse International Limited and Neoteric Cosmetics, Inc., incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, filed on November 14, 2017.</u>
10.21	<u>Second Amendment to the Exclusive Distribution Agreement, dated September 5, 2017, between Montagne Jeunesse International Limited and Neoteric Cosmetics, Inc., incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q, filed on November 14, 2017.</u>

Exhibit Number	Document
10.22	Customer Agreement, dated July 15, 2014, between Church & Dwight Co. Inc. and Neoteric Cosmetics, Inc. incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, filed on August 14, 2014.
10.23	Amendment to Customer Agreement, dated as of July 1, 2016, between Church & Dwight Co. Inc. and Neoteric Cosmetics, Inc. incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 23, 2016.
10.24	Second Amendment to the Customer Agreement, dated as of July 17, 2017, between Church & Dwight Co., Inc. and Neoteric Cosmetics, Inc. incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on July 18, 2017.
10.25	Distribution Agreement, effective January 1, 2018, between Neoteric Cosmetics, Inc. and HK NFS Limited.
10.26	Purchase and Sale Agreement, dated November 21, 2012, between the Company and Havana Gold, LLC. incorporated by reference to Exhibit 10.24 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.
10.27	Real Property Lease (Warehouse Lease), dated February 1, 2013, between the Company and Havana Gold, LLC. incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.
10.28	Real Property Lease (Office Lease), dated February 1, 2013, between the Company and Havana Gold, LLC. incorporated by reference to Exhibit 10.26 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.
10.29	First Amendment to Real Property Lease (Warehouse Lease), dated March 25, 2016, between the Company and Havana Gold, LLC incorporated by reference to Exhibit 10.26 of the Company's Annual Report on Form 10-K, filed on March 30, 2016.
10.30	First Amendment to Real Property Lease (Office Lease), dated March 25, 2016, between the Company and Havana Gold, LLC incorporated by reference to Exhibit 10.27 of the Company's Annual Report on Form 10-K, filed on March 30, 2016.
21	List of Subsidiaries incorporated by reference to Exhibit 21 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
23	Consent of EKS&H LLLP.
24	Powers of Attorney.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1**	Section 1350 Certification.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Management contract or compensatory plan or arrangement.

** Furnished, not filed.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

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

SCOTT'S LIQUID GOLD-INC.,
a Colorado corporation

By: /s/ Mark E. Goldstein
Mark E. Goldstein, President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Barry J. Levine
Barry J. Levine, Treasurer, Chief Financial Officer,
Chief Operating Officer and Corporate Secretary
(Principal Financial and Chief Accounting Officer)

Date: April 2, 2018

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

<u>Date</u>	<u>Name and Title</u>	<u>Signature</u>
April 2, 2018	Mark E. Goldstein, Director, President and Chief Executive Officer	<u>/s/ Mark E. Goldstein</u>
April 2, 2018	Gerald J. Laber, Director	Mark E. Goldstein, for himself and as
April 2, 2018	Philip A. Neri, Director	Attorney-in-Fact for the named directors
April 2, 2018	Leah S. Bailey, Director	who constitute all of the members of the the Board of Directors and for the named officers
April 2, 2018	Barry J. Levine, Director, Treasurer, Chief Financial Officer, Chief Operating Officer and Corporate Secretary	

**FIRST AMENDMENT TO
CREDIT AGREEMENT**

THIS FIRST AMENDMENT to Credit Agreement (this "Amendment") is entered into this 10th day of January 2018, by and between **JPMORGAN CHASE BANK, N.A.** ("Lender"), and **SCOTT'S LIQUID GOLD-INC.**, a Colorado corporation, and **NEOTERIC COSMETICS, INC.**, a Colorado corporation (each a "Borrower" and collectively, the "Borrowers").

RECITALS

A.Lender and Borrowers have entered into that certain Credit Agreement dated as of June 30, 2016 (as the same may from time to time be amended, modified, supplemented or restated, the "Credit Agreement").

B.Lender has extended credit to Borrowers for the purposes permitted in the Credit Agreement.

C.Borrowers have requested that Lender amend the Credit Agreement to (i) revise the interest rate spreads and (ii) make certain other revisions to the Credit Agreement as more fully set forth herein.

D.Lender has agreed to so amend certain provisions of the Credit Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

AGREEMENT

Now, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1.Definitions. Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Credit Agreement.

2.Amendments to Credit Agreement.

2.1The definitions of "Revolving Commitment CBFR Spread", "Revolving Commitment Eurodollar Spread" and "Term Loan CBFR Spread" and "Term Loan Eurodollar Spread" in Section 1.01 of the Credit Agreement are hereby deleted in their entirety and replaced with the following:

"Revolving Commitment CBFR Spread" means 0%.

"Revolving Commitment Eurodollar Spread" means 2.5%.

"Term Loan CBFR Spread" means 0%.

"Term Loan Eurodollar Spread" means 2.5%.

3.Limitation of Amendments.

3.1The amendments set forth in Section 2, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Lender may now have or may have in the future under or in connection with any Loan Document.

3.2This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

4.Representations and Warranties. To induce Lender to enter into this Amendment, each Borrower hereby represents and warrants to Lender, jointly and severally, as follows:

4.1Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

4.2Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Credit Agreement, as amended by this Amendment;

4.3The organizational documents of Borrower previously delivered to Lender remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

4.4The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Credit Agreement, as amended by this Amendment, have been duly authorized;

4.5The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Credit Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

4.6The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Credit Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on either Borrower, except as already has been obtained or made; and

4.7This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5.Counterparts. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

6.Effectiveness. This Amendment shall be deemed effective upon the due execution and delivery to Lender of this Amendment by each party hereto.

BORROWERS:

SCOTT'S LIQUID GOLD-INC.,
a Colorado Corporation

By: /s/ Mark Goldstein
Name: Mark Goldstein
Title: President and CEO

NEOTERIC COSMETICS, INC.,
a Colorado Corporation

By: /s/ Mark Goldstein
Name: Mark Goldstein
Title: President and CEO

LENDER:

JPMORGAN CHASE BANK, N.A.

By: /s/ Karl Thomasma
Name: Karl Thomasma
Title: Vice President

Acknowledged and Agreed:

GUARANTORS:

COLORADO PRODUCT CONCEPTS, INC.,
a Colorado Corporation

By: /s/ Mark Goldstein
Name: Mark Goldstein
Title: President and CEO

SLG CHEMICALS, INC.,
a Colorado Corporation

By: /s/ Mark Goldstein
Name: Mark Goldstein
Title: President and CEO

SLG TOUCH-A-LITE, INC.,

By: /s/ Mark Goldstein
Name: Mark Goldstein
Title: Vice President

**Distribution Agreement
between
Neoteric Cosmetics, Inc.
and
HK NFS Limited
dated as of
January 1, 2018**

Distribution Agreement

This Distribution Agreement (the “**Agreement**”), dated as of January 1, 2018 (the “**Effective Date**”), is entered into by and between Neoteric Cosmetics, Inc., a Colorado corporation (“**Seller**”), and HK NFS Limited, a Hong Kong limited company (“**Distributor**”), and together with Seller, the “**Parties**”, and each, a “**Party**”).

Recitals

- A. Seller is in the business of manufacturing and selling the Goods (as defined below).
- B. Distributor is in the business of marketing and reselling products that are similar in kind to the Goods.
- C. Distributor wishes to purchase the Goods from Seller and resell the Goods to Customers (as defined below), subject to the terms and conditions of this Agreement.
- D. Seller wishes to sell the Goods to Distributor and to appoint Distributor as an exclusive distributor under the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals, which are incorporated herein, the mutual covenants, terms, and conditions set out herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

Article 1

Definitions

Capitalized terms have the meanings set out in this Section, or in the Section in which they first appear in this Agreement.

“**Affiliate**” of a Person means any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, this Person.

“**Agreement**” has the meaning set out in the preamble.

“**Anti-Corruption Laws**” has the meaning set out in Section 10.4(a).

“**Anti-Corruption Terms**” has the meaning set out in Section 10.4(b).

“**Business Day**” means any day except Saturday, Sunday, or a US holiday.

“**Claim**” has the meaning set out in Article 16.

“**Confidential Information**” has the meaning set out in Article 14.

“**Contract Year**” means the period from the Effective Date until the first anniversary thereof and each 12-month period thereafter.

“**Control**” (and with correlative meanings, the terms “Controlled by” and “under common Control with”) means, regarding any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of another Person, whether through the ownership or voting securities, by contract, or otherwise.

“**Customer**” means the final purchaser that (a) has acquired a Good from Distributor for its own internal use and not for resale, remarketing, or distribution, and (b) is a Person located in the Territory purchasing such Good through Distributor’s flagship store and online presence as permitted herein.

“Delivery Point” means 2319 Edwards Ave, South El Monte, CA 91733, or such other location in the United States as set forth in a Purchase Order accepted by Seller.

“Disclosing Party” has the meaning set out in Section 14.1.

“Distributor” has the meaning set out in the preamble of this Agreement.

“Effective Date” has the meaning set out in the preamble.

“Firm Forecast” has the meaning set out in Section 6.1.

“Force Majeure Event” has the meaning set out in Section 19.14.

“Forecast” means, regarding any rolling six-month period, a forecast of Distributor’s demand for each calendar month during the period, by Goods.

“Goods” means products included in Seller’s “Alpha Skin Care” product line.

“Governmental Authority” means any federal, state, local, or foreign government or political subdivision thereof, or any agency or instrumentality of the government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority, or quasi-governmental authority (to the extent that the rules, regulations, or orders of this organization or authority have the force of Law), or any arbitrator, court, or tribunal of competent jurisdiction.

“Governmental Order” means any order, writ, judgment, injunction, decree, stipulation, award, or determination entered by or with any Governmental Authority.

“Indemnified Party” has the meaning set out in Article 16.

“Initial Term” has the meaning set out in Section 13.1.

“Inspection Period” has the meaning set out in Section 7.4.

“Intellectual Property Rights” means all industrial and other intellectual property rights comprising or relating to: (a) patents and patent applications; (b) Trademarks; (c) internet domain names, whether or not Trademarks, registered by any authorized private registrar or Governmental Authority, web addresses, web pages, website, and URLs; (d) works of authorship, expressions, designs, and design registrations, whether or not copyrightable, including copyrights and copyrightable works, software, and firmware, data, data files, and databases and other specifications and documentation; (e) Trade Secrets; and (f) all industrial and other intellectual property rights, and all rights, interests, and protections that are associated with, equivalent or similar to, or required for the exercise of, any of the foregoing, however arising, in each case whether registered or unregistered and including all registrations and applications for, and renewals or extensions of, these rights or forms of protection under the Laws of any jurisdiction throughout in any part of the world.

“Law” has the meaning set out in Section 19.5.

“Losses” has the meaning set out in Article 16.

“Minimum Order Commitment” means Distributor’s purchase from Seller of Goods having aggregate Prices (a) in the first Contract Year, of at least \$6,000,000 US dollars, and (b) in each subsequent Contract Year of the Term, of at least 120% of the aggregate Prices paid by Distributor for Goods purchased in the preceding Contract Year, in each case excluding any payments made by Seller to Distributor for Goods returned or destroyed pursuant to Section 7.4.

“Party” has the meaning set out in the preamble to this Agreement.

“Payment Failure” has the meaning set out in Section 13.3(a).

“**Person**” means any individual, partnership, corporation, trust, limited liability entity, unincorporated organization, association, Governmental Authority, or any other entity.

“**Personnel**” means agents, employees, or subcontractors engaged or appointed by Seller or Distributor.

“**Post-Term Sale Period**” has the meaning set out in Section 13.6.

“**Price**” has the meaning set out in Section 8.1.

“**Purchase Order**” means Distributor’s then-current standard form purchase order.

“**Purchase Order Transaction Terms**” means the terms specified by Distributor in a Purchase Order under Section 6.3 (not including any general terms and conditions of any Purchase Order).

“**Receiving Party**” has the meaning set out in Section 14.1.

“**Renewal Term**” has the meaning set out in Section 13.2.

“**Representatives**” means a Party’s Affiliates, employees, officers, directors, partners, shareholders, agents, attorneys, third-party advisors, successors, and permitted assigns.

“**Seller**” has the meaning set out in the preamble of this Agreement.

“**Seller’s Intellectual Property Rights**” means all Intellectual Property Rights owned by or licensed to Seller.

“**Seller’s Trademarks**” means all Trademarks owned by or licensed to Seller.

“**Term**” has the meaning set out in Section 13.2.

“**Territory**” means the People’s Republic of China.

“**Trademarks**” means all rights in and to US and foreign trademarks, service marks, trade dress, trade names, brand names, logos, trade dress, corporate names, and domain names and other similar designations of source, sponsorship, association, or origin, together with the goodwill symbolized by any of the foregoing, in each case whether registered or unregistered and including all registrations and applications for, and renewals or extensions of, these rights and all similar or equivalent rights or forms of protection in any part of the world.

“**Trade Secrets**” means all inventions, discoveries, trade secrets, business and technical information and know-how, databases, data collections, patent disclosures, and other confidential and proprietary information and all rights therein.

“**US**” means the United States of America, including its territories, possessions, and military bases.

“**U.S. Export Control Laws**” has the meaning set out in Section 10.3.

Article 2

Appointment and Relationship

Section 2.1 Exclusive Appointment. Seller hereby appoints Distributor, and Distributor accepts the appointment, to act as the exclusive distributor of Goods to Customers located in the Territory during the Term and the Post-Term Sale Period solely in accordance with the terms and conditions of this Agreement.

Section 2.2 No Franchise or Business Opportunity Agreement. The Parties are independent contractors and nothing in this Agreement shall be deemed or construed as creating a joint venture, partnership, agency relationship, franchise, or business opportunity between Seller and Distributor. Neither Party, by virtue of

this Agreement, will have any right, power, or authority to act or create an obligation, express or implied, on behalf of the other Party. Each Party assumes responsibility for the actions of their Personnel under this Agreement and will be solely responsible for their supervision, daily direction and control, wage rates, withholding income taxes, disability benefits, or the manner and means through which the work under this Agreement will be accomplished. Except as provided otherwise in this Agreement, Distributor has the sole discretion to determine Distributor's methods of operation, Distributor's accounting practices, the types and amounts of insurance Distributor carries, Distributor's personnel practices, Distributor's advertising and promotion, Distributor's customers, and Distributor's service areas and methods. The relationship created hereby between the parties is solely that of Seller and Distributor. If a Governmental Authority determines that this Agreement creates a franchise relationship between the parties, then Seller may immediately terminate this Agreement.

Article 3

General Distributor Performance Obligations

Section 3.1 Maintaining Facilities and Inventory. Distributor shall, in good faith and at its own expense purchase and maintain at all times a representative quantity of each Good sufficient for and consistent with the Distributor's Customers' needs.

Section 3.2 Marketing and Selling Goods. Subject to Section 3.6, Distributor shall, in good faith and at its own expense:

(a) market, advertise, promote, and sell the Goods to Customers consistent with good business practice, in each case using its best efforts to maximize the sales volume of the Goods;

(b) establish and maintain distribution system and business platform sufficient to develop to the satisfaction of Seller the market potential for the sale of the Goods and facilities sufficient to make the Goods available for shipment by Distributor to each Customer immediately on receipt of order;

(c) develop and execute a marketing plan sufficient to fulfill its obligations under this Agreement and deliver to Seller (i) such plan within one month after the Effective Date and (ii) any updates thereto on Seller's request;

(d) have sufficient knowledge of the features of each Good so as to be able to explain such features in detail to the Customers;

(e) observe all reasonable directions and instructions given to it by Seller in relation to the marketing, advertisement, and promotion of the Goods, to the extent that these marketing materials, advertisements, or promotions refer to the Goods or otherwise use Seller's Trademarks;

(f) in any and all contact between Distributor and any Customer, identify to the Customer Distributor's full legal name, trade name, or both;

(g) establish the "Alpha Skin Care" TMall global flagship store for the sale of the Goods in the Territory, and establish an online presence on Taobao, Kaola, Xiaohongshu, JD Global, and VIPS for the sale of Goods in the Territory;

(h) market, advertise, promote, and resell Goods and conduct business in a manner that reflects favorably at all times on Goods and the good name, goodwill, and reputation of Seller; and

(i) promptly notify Seller of and address and investigate any complaint or adverse claim about any Good or its use of which Distributor becomes aware.

Section 3.3 Reporting and Recordkeeping. Distributor shall, at its own expense, maintain books, records, and accounts of all transactions and activities covered by this Agreement and permit full examination thereof by Seller and its Representatives in accordance with Article 12.

Section 3.4 Authority to Perform Under this Agreement. Distributor shall, at its own expense, obtain and maintain required certification credentials, licenses, and permits necessary to conduct business in accordance with this Agreement.

Section 3.5 Government Approval.

(a) If at any time during the Term or the Post-Term Sale Period any notification, registration, or approval is required for giving legal effect in any applicable jurisdiction to this Agreement or the transactions contemplated under this Agreement, Distributor shall (1) immediately take whatever steps may be necessary to properly notify, register, or obtain approval; (2) be responsible for any charges incurred in connection with notifying, registering, or obtaining this approval; and (3) keep Seller currently informed of its efforts regarding this Section 3.5.

(b) Seller is not obligated to ship any Goods or other materials to Distributor under this Agreement until Distributor has provided Seller with satisfactory evidence that this approval, notification, or registration is not required or that it has been obtained.

Section 3.6 Prohibited Acts. Notwithstanding anything to the contrary in this Agreement, Distributor shall not, and shall ensure that its Personnel do not:

(a) engage in any unfair, competitive, misleading, or deceptive practices respecting Seller, Seller's Trademarks, or the Goods;

(b) subject to the authentication system set forth in Section 11.6 and any changes necessary to comply with Law pursuant to Distributor's obligations in Section 10.2, market or distribute the Goods other than in the form and packaging as delivered by Seller to Distributor under this Agreement;

(c) sell or offer to sell to customers in the Territory any goods containing alpha hydroxy acid (AHA) or retinol, other than the Goods purchased from Seller;

(d) except as explicitly authorized herein, service, repair, modify, alter, replace, reverse engineer, or otherwise change any Goods;

(e) sell, offer to sell, export, or divert any of the Goods outside the Territory; or

(f) sell or offer to sell any Goods or other Seller-branded goods other than the goods purchased from Seller.

Article 4

Seller Performance Obligations

During the Term and the Post-Term Sale Period Seller may provide any information in the Territory that may be reasonably requested by Distributor regarding the marketing, advertising, promotion, and sale of Goods sold to Distributor under this Agreement. Seller shall provide Distributor with reasonable assistance in establishing the "Alpha Skin Care" TMall global flagship store pursuant to Section 3.2(g).

Article 5

Agreement to Purchase and Sell the Goods

Section 5.1 Terms of the Sale. Seller shall sell Goods to Distributor at the Prices and on the terms and conditions set out in this Agreement.

Section 5.2 Availability/Changes in Goods. Seller may, in its sole discretion, and without obligation to modify or change any Goods previously delivered (a) discontinue the sale of any Goods on three months' prior notice to Distributor, or (b) effect changes to any Goods on 30 days' prior notice to Distributor.

Article 6

Order Procedure

Section 6.1 Forecasts of Distributor Demand. Distributor has provided to Seller a Forecast for the period beginning with the Effective Date. No later than three Business Days after the first day of each following calendar month, Distributor shall deliver to Seller a Forecast for the rolling six-month period beginning with the first day of the following calendar month. The Forecasts constitute firm commitments to order with respect to the first three calendar months included in a Forecast (such portion of a Forecast, the "**Firm Forecast**"), and Distributor shall not change the forecasted quantity of Goods for the same calendar months contained in the previous Firm Forecast. The remaining months included in a Forecast only provide good faith estimates of Distributor's demand for Goods for the period covered by the Forecast, and are not binding on either Party. Notwithstanding the foregoing, if Distributor submits a Firm Forecast or Purchase Order reflecting an increase in the quantity of Goods to be ordered in a calendar month from a previous Forecast (including any prior Firm Forecast), Seller shall use commercially reasonable efforts to satisfy such requested increase.

Section 6.2 Purchase Orders. To fulfill its firm order commitment under a Firm Forecast, Distributor shall issue Purchase Orders to S and cause each Purchase Order to contain the Purchase Order Transaction Terms. By placing a Purchase Order, Distributor makes an offer to purchase Goods under the terms and conditions of this Agreement, including the Purchase Order Transaction Terms, and on no other terms. Except regarding the Purchase Order Transaction Terms, any variations made to the terms and conditions of this Agreement by Distributor in any Forecast are void and have no effect.

Section 6.3 Purchase Order Transaction Terms. Distributor shall specify in each Purchase Order (a) a list of Goods to be purchased, (b) the quantities ordered; (c) the Prices; (d) the requested delivery date; and (d) the Delivery Point (the "**Purchase Order Transaction Terms**").

Section 6.4 Seller's Right to Reject Purchase Orders. Seller may reject any Purchase Order that (a) does not conform to the Firm Forecast for the month for which such Purchase Order is made or (b) includes incorrect Prices or an unacceptable Delivery Point.

Section 6.5 Cancellation of Purchase Order. Seller may, without liability or penalty, cancel any Purchase Order placed by Distributor, in whole or in part (1) if Seller discontinues its sale of Goods pursuant to Section 5.2 or reduces or allocates its inventory of Goods; or (2) if Seller determines that Distributor is in violation of its payment obligations under or has breached this Agreement.

Section 6.6 Minimum Order Commitments. Distributor shall meet the Minimum Order Commitments for each Contract Year. Within 15 days after the end of the first six months of each Contract Year, Distributor shall deliver to Seller evidence reasonably satisfactory to Seller that Distributor will comply with the Minimum Order Commitment for such Contract Year. If Distributor fails to deliver evidence reasonably satisfactory to Seller as provided in this Section that Distributor will comply with the Minimum Order Commitment, Seller may terminate this Agreement on 30 days' prior notice to Distributor. If Distributor

fails to achieve the Minimum Order Commitment for any Contract Year, then notwithstanding any renewal of this Agreement pursuant to Section 13.2, Seller may terminate this Agreement by delivery of notice to Distributor within five Business Days after the end of the applicable Contract Year.

Article 7 Shipment and Delivery

Section 7.1 Shipment. Unless expressly agreed to by the Parties in writing, Seller shall select the method of shipment of and the carrier for the Goods. Seller may, in its sole discretion, without liability or penalty, make partial shipments of Goods to Distributor.

Section 7.2 Delivery. Unless expressly agreed to by the Parties, Seller shall deliver the Goods to the Delivery Point, using Seller's standard methods for packaging and shipping the Goods. Seller shall use commercially reasonable efforts to deliver only Goods that have been manufactured within six months prior to the date on which such Goods are shipped.

Section 7.3 Late Delivery. Any time quoted for delivery is an estimate only, except that Seller shall use commercially reasonable efforts to deliver all Goods promptly after the later of (a) the requested delivery date and (b) the date on which Seller receives payment therefor. Subject to Section 19.14, Seller is not liable for or in respect of any loss or damage arising from any delay in filling any order, failure to deliver, or delay in delivery. No delay in the shipment or delivery of any Good relieves Distributor of its obligations under this Agreement, including accepting delivery of any remaining installment or other orders of Goods.

Section 7.4 Inspection.

(a) Distributor shall inspect Goods received under this Agreement within two Business Days after receipt (the **Inspection Period**) of the Goods at the Delivery Point and either accept or, if any Goods are damaged, reject these Goods. Distributor will be deemed to have accepted the Goods unless it notifies Seller in writing of any damaged Goods prior to the expiration of the Inspection Period and furnishes written evidence or other documentation as required by Seller. If Distributor timely notifies Seller of any damaged Goods, Seller shall determine, in its reasonable discretion, whether the Goods are damaged, and if Seller determines that the Goods are damaged, it shall either, at its option, replace the Goods or issue Distributor a credit in the amount of the Price for the damaged Goods. Distributor shall, upon Seller's request, destroy any damaged Goods or return such Goods to a location designated by Seller at Seller's cost and expense.

(b) The remedies set out in Section 7.4(a) are Distributor's exclusive remedy for the delivery of damaged Goods.

Section 7.5 Limited Right of Return. Except as provided under Section 7.4, all sales of Goods to Distributor under this Agreement are made on a one-way basis and Distributor has no right to return Goods purchased under this Agreement.

Section 7.6 Title and Risk of Loss. Title to and risk of loss of Goods shipped under any Purchase Order passes to Distributor on receipt by Distributor at the Delivery Point.

Article 8 Price and Payment

Section 8.1 Price. Distributor shall purchase the Goods from Seller at the prices set out in Seller's export price list in effect from time to time, which Seller may change upon 90 days' prior notice to Distributor ("**Prices**").

Section 8.2 Shipping Charges, Insurance, and Taxes. Seller shall pay for shipping charges and insurance costs for delivery of the Goods to the Delivery Point. All Prices are exclusive of all sales, use, and excise taxes, and any other similar taxes, duties, and charges of any kind imposed by any Governmental Authority on any amounts payable by Distributor under this Agreement. Distributor is responsible for all charges, costs, and taxes associated with Distributor's purchase of Goods hereunder, inspection and acceptance of Goods at the Delivery Point, and delivery of Goods from the Delivery Point to the Customers.

Section 8.3 Payment Terms. After accepting a Purchase Order, Seller shall issue an invoice to Distributor for all Goods listed in such Purchase Order, and Distributor shall pay all invoiced amounts due to Seller promptly (but no later than five Business Days after the date of the invoice). Distributor shall make all payments in US dollars by wire transfer to an account designated by Seller. Seller is not required to ship any Goods until Distributor has paid the Prices for such Goods and Seller has received the wire transfer for the Goods.

Section 8.4 Invoice Disputes. Distributor shall notify Seller in writing of any dispute with any invoice (along with substantiating documentation and a reasonably detailed dispute description) within two Business Days after the date of the invoice, or, if the dispute arises because of Seller's failure to deliver a sufficient quantity of Goods, during the Inspection Period. Distributor will be deemed to have accepted all invoices for which Seller does not receive timely notice of disputes, and shall pay and permit Seller to retain all undisputed amounts due under these invoices within the period set out in Section 8.3. Distributor shall continue performing its obligations under this Agreement during any dispute, including Distributor's obligation to pay all due and undisputed invoice amounts in accordance with the terms and conditions of this Agreement.

Section 8.5 No Setoff. Distributor shall perform its obligations under this Agreement without setoff, deduction, recoupment, or withholding of any kind for amounts owed or payable by Seller, whether relating to Seller's or Seller's Affiliates' breach, bankruptcy, or otherwise and whether under this Agreement, any Forecast, any other agreement between (a) Distributor or any of its Affiliates and (b) Seller or any of its Affiliates, or otherwise.

Article 9 Resale of the Goods

Section 9.1 Credit Risk on Resale to Customers. Distributor is responsible for all credit risks regarding, and for collecting payment for all Goods sold to Customers, whether or not Distributor has made full payment to Seller for the Goods. The inability of Distributor to collect the purchase price for any product does not affect Distributor's obligation to pay Seller for any Good.

Section 9.2 Resale Prices. Distributor unilaterally establishes its own resale prices and terms regarding Goods. On the online platform that Distributor will use to sell the Goods, Distributor shall establish and enforce minimum advertised pricing policies for the Goods to, among other things, ensure the pricing integrity of the Goods and to discourage sales of counterfeit Goods.

Article 10 Compliance with Laws

Section 10.1 General Compliance With Laws. Distributor represents and warrants to Seller that it is in compliance with, and shall comply at all times with, all Laws applicable to this Agreement, the Goods, and the operation of its business. Without limiting the generality of the foregoing, each Party shall at all times, at its own expense, obtain and maintain all certifications, credentials, authorizations, licenses, and permits necessary to conduct that portion of its business relating to the exercise of its rights and the performance of its obligations hereunder.

Section 10.2 Packaging Requirements. Distributor shall ensure that all packaging and labels used on the Goods that it sells into the Territory comply with all Laws.

Section 10.3 U.S Export Controls. Distributor acknowledges that the Goods are subject to U.S. export control laws, including (a) the Export Administration Act (50 U.S.C. app. 2401-2420), (b) the International Emergency Economic Powers Act (50 U.S.C. 1701-1707), (c) the Export Administration Regulations (15 C.F.R. 730-774), (d) the Foreign Assets Control Regulations (31 C.F.R. 501-599), all as amended, and (e) any legislation replacing the foregoing and any orders issued under the foregoing (collectively, the “**U.S. Export Control Laws**”). Distributor shall not export, re-export, re-sell or otherwise transfer, directly or indirectly, the Goods in violation of any Law, including the U.S. Export Control Laws. Distributor shall be responsible for obtaining any necessary U.S. government authorization required to ensure Distributor’s compliance with the U.S. Export Control Laws.

Section 10.4 Anti-Corruption Laws and Policies

(a) **Anti-Corruption Laws.** Distributor shall comply with all applicable laws related to anti-bribery and anti-corruption, including the Foreign Corrupt Practices Act, as amended (the “**Anti-Corruption Laws**”). Distributor represents and warrants to Seller that, in connection with this Agreement or any sale made or to be made hereunder or compensation paid or to be paid hereunder or any other transaction involving the business interests of Seller, neither Distributor, any of its Affiliates, nor any of their respective officers, directors, employees, agents, or other representatives has done or will do the following: pay, offer or promise to pay, or authorize the payment of, any money, or give or promise to give, or authorize the giving of, any services or anything else of value, either directly or through a third party, to any official or employee of any governmental authority or instrumentality, or of a public international organization, or of any agency or subdivision thereof, or to any political party or official thereof or to any candidate for political office for the purpose of (1) influencing any act or decision of that person in his or her official capacity, including a decision to fail to perform his or her official functions with such governmental agency or instrumentality, such public international organization, or such political party, (2) inducing such person to use his or her influence with such governmental agency or instrumentality, such public international organization, or such political party to affect or influence any act or decision thereof, or (3) securing any improper advantage.

(b) **Anti-Corruption Policies.** Distributor shall (a) create and maintain in place throughout the Term its own policies and procedures to ensure compliance with the Anti-Corruption Laws, (b) enforce such policies and procedures as appropriate, (c) promptly report to Seller any request or demand for any undue financial or other advantage of any kind received by Distributor related to, or that could reasonably impact the performance of, this Agreement, (d) immediately notify Seller if a foreign public official becomes an officer or employee of Distributor or acquires a direct or indirect interest in Distributor, (e) promptly upon Seller’s request, certify to Seller in a writing signed by an authorized officer of Distributor compliance with the Anti-Corruption Laws and the requirements of clauses (a) through (d) of this Section 10.4 (such laws, policies, and requirements, the “**Anti-Corruption Terms**”) and provide to Seller such supporting evidence thereof as Seller may reasonably request, and (f) ensure that all of its Personnel performing services or selling or purchasing Goods in connection with this Agreement do so on the basis of a written contract that imposes on and secures from such Personnel terms equivalent to those imposed by the Anti-Corruption Terms. Distributor shall be responsible for the observance and performance by such Personnel of the Anti-Corruption Terms.

Article 11
Intellectual Property Rights

Section 11.1 Ownership. Subject to the express rights and licenses granted by Seller in this Agreement, Distributor acknowledges the

- (a) any and all Seller's Intellectual Property Rights are the sole and exclusive property of Seller or its licensors;
- (b) Distributor shall not acquire any ownership interest in any of Seller's Intellectual Property Rights under this Agreement;
- (c) any goodwill derived from Distributor's use of Seller's Intellectual Property Rights inures to the benefit of Seller or its licensors, as the case may be;
- (d) if Distributor acquires any Intellectual Property Rights in or relating to any Goods purchased under this Agreement, by operation of law, or otherwise, these rights are deemed and are hereby irrevocably assigned to Seller or its licensors, as the case may be, without further action by either Party; and
- (e) Distributor shall use Seller's Intellectual Property Rights solely for the purposes of performing its obligations under this Agreement and only in accordance with this Agreement and the instructions of Seller.

Section 11.2 Seller's Trademark License Grant. This Agreement does not grant either Party the right to use the other Party's or their Affiliates' Trademarks except as set out under this Section 11.2. Subject to the terms and conditions of this Agreement, Seller hereby grants to Distributor a non-exclusive, non-transferable, and non-sublicensable license to use Seller's Trademarks in the Territory during the Term and the Post-Term Sale Period solely on or in connection with the promotion, advertising, and resale of the Goods in accordance with the terms and conditions of this Agreement. Distributor will promptly discontinue the display or use of any Trademark to change the manner in which a Trademark is displayed or used with regard to the Goods when requested by Seller. Other than the express licenses granted by this Agreement, Seller grants no right or license to Distributor, by implication, estoppel, or otherwise, to the Goods or any Intellectual Property Rights of Seller.

Section 11.3 License to Translated Marketing Materials and Other Documentation. To the extent that Distributor translates or causes to be translated, any of Seller's marketing materials, user manuals, or other documentation, Distributor hereby irrevocably assigns all Intellectual Property Rights in these translations to Seller, subject to a non-exclusive, non-transferable, and non-sublicensable license to Distributor, hereby granted by Seller, to use the translations in the Territory during the Term and the Post-Term Sale Period solely on or in connection with the promotion, advertising, resale, or use of the Goods permitted under this Agreement.

Section 11.4 Promotion as Authorized Distributor. Distributor may refer to and advertise itself to the Customers and to the online platforms through which Distributor intends to sell the Goods as an authorized exclusive distributor of the Goods in the Territory.

Section 11.5 Prohibited Acts. Distributor shall not:

- (a) take any action that may interfere with any of Seller's rights in or to Seller's Intellectual Property Rights;
- (b) challenge any right, title, or interest of Seller in or to Seller's Intellectual Property Rights;

- (c) make any claim or take any action adverse to Seller's ownership of Seller's Intellectual Property Rights;
- (d) register or apply for registrations for Seller's Trademarks or any other Trademark that is similar to Seller's Trademarks or that incorporates Seller's Trademarks in whole or in confusingly similar part;
- (e) use any Trademark, anywhere, that is confusingly similar to Seller's Trademarks;
- (f) engage in any action that disparages, dilutes the value of, or reflects negatively on the Goods or any Seller Trademark;
- (g) misappropriate any of Seller's Trademarks for use as a domain name;
- (h) alter, obscure, or remove any of Seller's Trademarks or trademark or copyright notices or any other proprietary rights notices placed on the Goods or other materials that Seller may provide; and
- (i) subject to Section 11.2 and Section 11.4, place any of Seller's Trademarks (1) on any place of business or other facility that is not used for, or directly related to, the marketing of the Goods; (2) on any place of business or other facility that is located outside the Territory; or (3) in the trade, corporate, or firm name or style of Distributor or any division, subsidiary, or affiliate thereof.

Section 11.6 Protection of Trademarks. Distributor shall, at its sole cost and expense, undertake commercially reasonable efforts to (a) ensure that the use of Seller's Trademarks in the Territory does not infringe or misappropriate any third-party Trademarks, and (b) protect the Goods from being counterfeited in the Territory and Seller's Trademarks from infringement by third parties in the Territory, including by (i) actively searching for infringing uses by third parties, (ii) issuing takedowns and cease and desist letters to such infringing third parties as appropriate, (iii) proactively working with the owners and operators of Distributor's online sales platforms and other third parties to protect against such counterfeiting and infringement, including the sale by third parties of goods that are similar to the Goods (but not identical) and that are being marketed as if they are the Goods or otherwise manufactured by Seller, and (iv) establishing an authentication system involving the placement of labels on the Goods authenticating the Goods as having originated with Seller.

Section 11.7 Seller's Trademark Notices. Distributor shall ensure that all Goods sold by Distributor and all related quotations, specifications, and descriptive literature, and all other materials carrying Seller's Trademark, are marked with the appropriate Trademark notices in accordance with Seller's instructions, except that, notwithstanding the foregoing, Distributor shall ensure that none of the Goods nor any of the foregoing materials contain any Trademark notices or other text or images that would result in infringement or violation of Law.

Section 11.8 No Continuing Rights. On expiration or earlier termination of this Agreement, subject to Distributor's rights under the Post-Term Sale Period: (a) Distributor's rights under Section 11.2 and Section 11.4 cease immediately; and (b) Distributor shall immediately cease all display, advertising, promotion, and use of all of Seller's Trademarks and shall not thereafter use, advertise, promote, or display any trademark, trade name, or product designation or any part thereof that is similar to or confusing with Seller's Trademarks or with any trademark, trade name, or product designation associated with Seller or any Good.

Article 12
Audit and Inspection Rights

Section 12.1 Audit Rights. On reasonable request, during the Term and within one year after the expiration or earlier termination of the Agreement or the Post-Term Sale Period, whichever is later, Seller may audit Distributor's files relating to its sales, marketing, and inventory of Goods regarding transactions that took place in the immediately preceding 12 months.

Section 12.2 Inspection Rights. During the Term and the Post-Term Sale Period, Distributor shall, on reasonable request, make available for physical inspection by Seller at any time during regular business hours: (1) any and all Goods in Distributor's inventory; and (2) the Distributor's principal place of business, marketing offices, or the distribution centers.

Article 13
Term; Termination

Section 13.1 Initial Term. The term of this Agreement commences on the Effective Date and continues for a period of one year, unless until earlier terminated as provided under this Agreement or applicable Law (the "**Initial Term**").

Section 13.2 Renewal Term. On expiration of the Initial Term, this Agreement automatically renews for additional successive one-year terms unless and until either Party provides notice of nonrenewal at least 90 days before the end of the then-current term, or unless and until earlier terminated as provided under this Agreement or applicable Law (each a "**Renewal Term**" and together with the Initial Term, the "**Term**").

Section 13.3 Seller's Right to Terminate.

(a) Seller may terminate this Agreement by providing notice to Distributor:

(1) if Distributor fails to pay any amount when due under this Agreement ("**Payment Failure**") and the failure continues for 10 days after Distributor's receipt of notice of nonpayment;

(2) if within any six-month period, two or more Payment Failures occur;

(3) if Distributor breaches any provision of this Agreement (other than a Payment Failure), and either the breach cannot be cured or, if the breach can be cured, it is not cured by Distributor within 30 days after Distributor's receipt of notice of such breach;

(4) under and in accordance with Section 2.2 and Section 6.6; or

(5) if Distributor becomes insolvent or files, or has filed against it, a petition for voluntary or involuntary bankruptcy or under any other insolvency Law, makes or seeks to make a general assignment for the benefit of its creditors, or applies for, or consents to, the appointment of a trustee, receiver, or custodian for a substantial part of its property, or is generally unable to pay its debts as they become due.

(b) Any termination under this Section 13.3 is effective on Distributor's receipt of Seller's notice of termination or any later date set out in the notice.

Section 13.4 Distributor's Right to Terminate.

(a) Distributor may terminate this Agreement by providing notice to Seller if:

(1) Seller breaches any provision of this Agreement and either the breach cannot be cured or, if the breach can be cured, it is not cured by Seller within 30 days after Seller's receipt of notice of such breach; or

(2) Seller becomes insolvent or files, or has filed against it, a petition for voluntary or involuntary bankruptcy or under any other insolvency Law, makes or seeks to make a general assignment for the benefit of its creditors or applies for, or consents to, the appointment of a trustee, receiver, or custodian for a substantial part of its property, or is generally unable to pay its debts as they become due.

(b) Any termination under this Section 13.4 is effective on Seller's receipt of Distributor's notice of termination or any later date set out in the notice.

Section 13.5 Effect of Expiration or Termination.

(a) The Term's expiration or earlier termination does not affect any rights or obligations that (1) are to survive the expiration or earlier termination of this Agreement as provided herein; and (2) were incurred by the Parties before the expiration or earlier termination, except that if Seller terminates this Agreement under Section 13.3(a), all indebtedness of Distributor to Seller of any kind is immediately due and payable on the effective date of the Term's expiration or earlier termination, without further notice to Distributor.

(b) Any notice of termination under this Agreement automatically operates as a cancellation of any deliveries of Goods to Distributor for which payment has not been made, whether or not any orders for the Goods had been accepted by Seller.

(c) Subject to Section 13.6, on the expiration or earlier termination of this Agreement, Distributor shall promptly (1) cease to represent itself as Seller's authorized exclusive distributor regarding the Goods, and shall otherwise desist from all conduct or representations that might lead the public to believe that Distributor is authorized by Seller to sell the Goods; (2) return to Seller all documents and tangible materials (and any copies) containing, reflecting, incorporating, or based on Seller's Confidential Information; (3) permanently erase all of Seller's Confidential Information from its computer systems, except for copies that are maintained as archive copies on its disaster recovery backup systems, its information technology backup systems, or both (which copies Distributor shall destroy on the normal expiration of its backup files); and (4) certify in writing to Seller that it has complied with the requirements of this Section 13.5(c).

(d) Subject to Section 13.5(a), the Party terminating this Agreement in accordance with the terms hereof, or in the case of the expiration of this Agreement, each Party, shall not be liable to the other Party for any damage of any kind (whether direct or indirect) incurred by the other Party by reason of the expiration or earlier termination of this Agreement.

Section 13.6 Post-Term Sale Period. On the expiration or earlier termination of this Agreement, Seller may, in its sole discretion, either (a) repurchase the Goods held in Distributor's inventory at the Prices for which Distributor purchased such Goods (in which case Distributor shall sell and deliver such Goods to Seller at such Prices), or (b) permit Distributor to, in accordance with the applicable terms and conditions of this Agreement, sell off its existing inventories of Goods for a period of three months following the last day of the Term (the "**Post-Term Sale Period**").

**Article 14
Confidentiality**

Section 14.1 Definition. From time to time during the Term, each Party (as "**Disclosing Party**") may disclose or make available to the other Party (as "**Receiving Party**") information about its business affairs, goods, and services, confidential information, and materials comprising or relating to Intellectual Property Rights, trade secrets, third-party confidential information, and other sensitive or proprietary information,

which information constitutes “**Confidential Information**” hereunder. Confidential Information excludes information that, at the time of disclosure:

- (a) is or becomes generally available to and known by the public other than as a result of, directly or indirectly, any breach of this Article 14 by Receiving Party or any of its Representatives;
- (b) is or becomes available to Receiving Party on a non-confidential basis from a third-party source, provided that such third party is not and was not prohibited from disclosing such Confidential Information;
- (c) was known by or in the possession of Receiving Party or its Representatives before being disclosed by or on behalf of Disclosing Party; or
- (d) was or is independently developed by Receiving Party without reference to or use of, in whole or in part, any of Disclosing Party’s Confidential Information.

Section 14.2 Protection of Confidential Information. Receiving Party shall:

- (a) protect and safeguard the confidentiality of Disclosing Party’s Confidential Information with at least the same degree of care as Receiving Party would protect its own Confidential Information, but in no event with less than a commercially reasonable degree of care;
- (b) not use Disclosing Party’s Confidential Information, or permit it to be accessed or used, for any purpose other than to exercise its rights or perform its obligations under this Agreement; and
- (c) not disclose any such Confidential Information to any Person, except (A) to Receiving Party’s Representatives who need to know the Confidential Information to assist Receiving Party, or act on its behalf, to exercise its rights or perform its obligations under this Agreement, or (B) as required by Law, on the condition that Receiving Party notifies Disclosing Party of such requirement and cooperates with Disclosing Party to exempt such Confidential Information from disclosing to the greatest extent possible.

Section 14.3 Breach by Representatives. Receiving Party shall be responsible for any breach of this Article 14 caused by any of its Representatives. The provisions of this Article 14 shall survive termination or expiration of this Agreement for any reason.

Section 14.4 Conflicting Confidentiality Provisions. In the event of any conflict between the terms and provisions of this Article 14 and those of any other provision in this Agreement, the terms and provisions of this Article 14 will prevail.

Article 15
Representations and Warranties

Section 15.1 Distributor’s Representations and Warranties. Distributor represents and warrants to Seller that:

- (a) it is a Hong Kong limited company duly organized, validly existing, and in good standing in the jurisdiction of Hong Kong, the People’s Republic of China;
- (b) it is duly qualified to do business and is in good standing in every jurisdiction in which such qualification is required for purposes of this Agreement, except where the failure to be so qualified, in the aggregate, would not reasonably be expected to adversely affect its ability to perform its obligations under this Agreement;
- (c) it has the full right, power and authority to enter into this Agreement, to grant the rights and licenses granted under this Agreement and to perform its obligations under this Agreement;

(d) it has not paid nor is it obligated to pay during the Term any brokerage commission in the United States in connection with this Agreement or its purchase of the Goods hereunder;

(e) the execution of this Agreement by its Representative whose signature is set out at the end hereof has been duly authorized by all necessary action of Distributor; and

(f) when executed and delivered by each of Seller and Distributor, this Agreement will constitute the legal, valid, and binding obligation of Distributor, enforceable against Distributor in accordance with its terms, except as may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws and equitable principles related to or affecting creditors' rights generally or the effect of general principles of equity.

Section 15.2 Warranties Disclaimer; Non-Reliance.

(a) NEITHER SELLER NOR ANY PERSON ON SELLER'S BEHALF HAS MADE OR MAKES ANY EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY WHATSOEVER, INCLUDING ANY WARRANTIES OF: (i) MERCHANTABILITY; (ii) FITNESS FOR A PARTICULAR PURPOSE; (iii) NON-INFRINGEMENT; OR (iv) PERFORMANCE OF GOODS TO STANDARDS SPECIFIC TO THE COUNTRY OF IMPORT, WHETHER ARISING BY LAW, COURSE OF DEALING, COURSE OF PERFORMANCE, USAGE OF TRADE OR OTHERWISE, ALL OF WHICH ARE EXPRESSLY DISCLAIMED.

(b) DISTRIBUTOR ACKNOWLEDGES THAT IT HAS NOT RELIED ON ANY REPRESENTATION OR WARRANTY MADE BY SELLER, OR ANY OTHER PERSON ON SELLER'S BEHALF.

**Article 16
Indemnification**

To the furthest extent permitted by Law, Distributor shall indemnify, hold harmless, and at Seller's option, defend Seller and its Affiliates, its and their respective officers, directors, shareholders, members, partners, and employees, and the successors and assigns of all of the foregoing (as applicable, the "**Indemnified Party**") from and against all losses, costs, expenses, liabilities, damages, fines, and penalties, including court costs, reasonable attorneys' and professionals' fees and expenses and other litigation or settlement expense ("**Losses**") sustained or incurred by the Indemnified Party, including as a result of a claim, demand, or action by a third party (a "**Claim**") against the Indemnified Party, to the extent the Losses arise out of (a) a negligent or more culpable act or omission (including recklessness or willful misconduct) of, or a breach of the representations, warranties, or covenants of the Agreement by, Distributor or its agents, employees, or subcontractors, (b) Distributor's marketing, sale, and disposition of the Goods, including any false advertising claims and the use of or sale of any Goods with any Trademark notices, packaging, labels, text, or images in violation of Law, (c) Distributor's use of Seller's Intellectual Property Rights or the Intellectual Property Rights of any third party, in each case in a manner not permitted under the Agreement, or (d) any violation of Law by Distributor. If a Claim is made against an Indemnified Party that could reasonably be expected to result in a Loss that is subject to the indemnification obligations of this Section, or if Seller discovers any inquiry or investigation that it believes may involve or expect to lead to such a Claim, Seller or the Indemnified Party shall notify Distributor, and Distributor and the Indemnified Party shall cooperate to defend or settle such Claim at Distributor's cost.

Article 17
Limitation of Liability

Section 17.1 No Liability for Consequential or Indirect Damages. EXCEPT FOR OBLIGATIONS TO MAKE PAYMENT UNDER THIS AGREEMENT, LIABILITY FOR INDEMNIFICATION FOR THIRD-PARTY CLAIMS, LIABILITY FOR BREACH OF CONFIDENTIALITY, OR LIABILITY FOR INFRINGEMENT OR MISAPPROPRIATION OF INTELLECTUAL PROPERTY RIGHTS, IN NO EVENT IS EITHER PARTY OR ITS REPRESENTATIVES LIABLE FOR CONSEQUENTIAL, INDIRECT, INCIDENTAL, SPECIAL, EXEMPLARY, PUNITIVE OR ENHANCED DAMAGES, LOST PROFITS OR REVENUES, OR DIMINUTION IN VALUE, ARISING OUT OF OR RELATING TO ANY BREACH OF THIS AGREEMENT, REGARDLESS OF: (A) WHETHER THE DAMAGES WERE FORESEEABLE; (B) WHETHER OR NOT THE BREACHING PARTY WAS ADVISED OF THE POSSIBILITY OF THE DAMAGES AND (C) THE LEGAL OR EQUITABLE THEORY (CONTRACT, TORT OR OTHERWISE) ON WHICH THE CLAIM IS BASED, AND NOTWITHSTANDING THE FAILURE OF ANY AGREED OR OTHER REMEDY OF ITS ESSENTIAL PURPOSE.

Section 17.2 Maximum Liability for Damages. IN NO EVENT SHALL SELLER'S AGGREGATE LIABILITY ARISING OUT OF OR RELATED TO THIS AGREEMENT, WHETHER ARISING OUT OF OR RELATED TO BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE) OR OTHERWISE, EXCEED THE TOTAL OF THE AMOUNTS PAID TO SELLER UNDER THIS AGREEMENT IN THE YEAR PRECEDING THE EVENT GIVING RISE TO THE CLAIM. THE FOREGOING LIMITATIONS APPLY EVEN IF THE DISTRIBUTOR'S REMEDIES UNDER THIS AGREEMENT FAIL OF THEIR ESSENTIAL PURPOSE.

Article 18
Insurance

During the Term and for a period of six months thereafter, Distributor shall, at its own expense, maintain and carry in full force and effect insurance of the type and amount as is typically carried by distributors that distribute products that are similar to the Goods into the Territory with financially sound and reputable insurers. On Seller's request, Distributor shall provide Seller with a certificate of insurance from Distributor's insurer evidencing the insurance coverage specified in this Section. The certificate of insurance shall name Seller as an additional insured. Distributor shall provide Seller with 15 Business Days' advance notice in the event of a cancellation or material change in its insurance policy. Except where prohibited by Law, Distributor shall require its insurer to waive all rights of subrogation against Seller and its insurers.

Article 19
Miscellaneous

Section 19.1 Further Assurances. The Parties shall cooperate fully with each other and execute such further instruments, documents and agreements, and shall give such further assurances, as may be reasonably requested by the other party to better evidence and reflect the transactions described herein and contemplated hereby and to carry into effect the intent and purposes of the Agreement.

Section 19.2 Entire Agreement. This Agreement, including and together with any related exhibits, schedules, attachments, and appendices, together with the Purchase Order Transaction Terms, constitutes the sole and entire agreement of the Parties with respect to the subject matter contained herein and therein, and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, regarding such subject matter. The terms of this Agreement prevail over any terms or

conditions contained in any other documentation related to the subject matter of this Agreement and expressly exclude any of Distributor's general terms and conditions contained in any document issued by Distributor.

Section 19.3 Amendments; Severability; Survival. The Agreement may be altered, amended, or revoked only by an instrument in writing signed by both parties. If any term or provision of the Agreement shall be determined to be invalid or unenforceable by a court or body of competent jurisdiction, the remainder of the Agreement shall not be affected thereby, and each term and provision of the Agreement shall be valid and enforceable to the fullest extent permitted by Law. The terms and conditions of the Agreement shall survive the termination of the Agreement to the full extent necessary for their enforcement and for the protection of the party in whose favor they operate.

Section 19.4 Notices. All Purchase Orders, Forecasts, notices, and other communications that are required or permitted to be given to the parties under the Agreement shall be sufficient in all respects if given in writing and delivered in person, by email, by overnight courier, or by certified mail, postage prepaid, return receipt requested, to the receiving Party at the address shown below, or to such other address as such Party may have given to the other by notice pursuant to this Section. Notice shall be deemed given, delivered, and received on the earlier of the date of delivery, in the case of personal delivery or email, or on the delivery or refusal date, as specified on the return receipt in the case of certified mail or on the tracking report in the case of overnight courier.

Notice to Seller:

Neoteric Cosmetics, Inc.
Attn: Mark Goldstein, President and Chief Executive Officer
4880 Havana Street,
Suite 400
Denver, Colorado, USA 80239
Email: mgoldstein@slginc.com

with a copy of legal communications to:

Holland & Hart LLP
Attn: Amy Bowler
6380 South Fiddlers Green Circle
Ste. 500
Greenwood Village, CO 80111
Email: ABowler@hollandhart.com

Notice to Distributor:

HK NFS Limited
Attn: Guo Ping Ru/Jason Zhang
Prosper Commercial Building Suite 21-01
9 Yin Chong St, Mong Kok, Hong Kong
Email: ariel@nafanshan.com

Section 19.5 Interpretation. Unless a clear contrary intention appears, as used in the Agreement: (a) the singular includes the plural; vice versa; (b) reference to any law, code, rule, regulation, or order of any governmental authority (a "**Law**"), document, or standard means such Law, document, or standard as amended from time to time; (c) "include" or "including" means including without limiting the generality of any description preceding such term; (d) the term "or" is not exclusive; (e) the phrase "the Agreement" and the terms "hereof," "herein," "hereby," and derivatives or similar words refer to the entire Agreement and

the terms and conditions on the applicable Forecast, which are incorporated herein; (f) headings are for convenience only and do not constitute a part of the Agreement; (g) all references to money shall be in US dollars; and (h) defined terms include all tenses and derivatives of such terms.

Section 19.6 Waiver. No waiver under the Agreement is effective unless it is in writing and signed by the party waiving its right. Any waiver authorized on one occasion is effective only in that instance and only for the purpose stated, and does not operate as a waiver on any future occasion.

Section 19.7 Cumulative Remedies. Except as set forth in Section 7.4, all rights and remedies provided in the Agreement are cumulative and not exclusive, and the exercise by either party of any right or remedy does not preclude the exercise of any other rights or remedies available hereunder, at law, or in equity.

Section 19.8 Equitable Remedies. If a Party violates or threatens to violate its obligations under Section 2.2, Article 11, or Article 14, the other Party shall be entitled to immediate and permanent injunctive relief in addition to all other rights and remedies it may have under the Agreement, at law or in equity, and (a) such other Party shall be entitled to recover, as part of its damages, its reasonable legal costs and expenses for bringing and maintaining any such action; and (b) posting of a bond or cash shall not be required as a pre-condition to the issuance of the relief sought.

Section 19.9 Assignment and Delegation. Distributor shall not assign any of its rights or delegate any of its obligations under this Agreement without the prior written consent of Seller. Any purported assignment or delegation in violation of this Section is null and void. No assignment or delegation relieves the assigning or delegating Party of any of its obligations under this Agreement.

Section 19.10 Successors and Assigns. This Agreement is binding on and inures to the benefit of the Parties and their respective permitted successors and permitted assigns.

Section 19.11 No Third-Party Beneficiaries. Except as set forth in Article 16, this Agreement creates no third-party beneficiaries.

Section 19.12 Governing Law; Venue and Jurisdiction. This Agreement shall be governed by and construed according to the Laws of the State of Colorado, excluding any conflict of Laws principles. Any legal suit, action, or proceeding arising out of this Agreement or the transactions contemplated hereby shall be instituted in the United States federal courts or the state courts of the State of Colorado in each case located in Denver, and each Party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action, or proceeding. The U.N. Convention on the Sale of Goods is hereby disclaimed by the Parties.

Section 19.13 Counterparts. This Agreement may be executed in multiple counterparts, each of which will be deemed an original and of which, taken together, shall constitute one agreement. A signature in "PDF" format or an electronic signature to this Agreement shall be deemed an original and binding upon the party against whom enforcement is sought.

Section 19.14 Force Majeure. No Party shall be liable to the other Party, nor be deemed to have breached this Agreement, for any failure or delay in performing its obligations hereunder (except for any obligations to make payments hereunder), when and to the extent the failure or delay results from acts beyond the impacted Party's ("**Impacted Party**") reasonable control ("**Force Majeure Events**"). The Impacted Party shall give notice to the other party within 10 Business Days after the Impacted Party becomes aware of the Force Majeure Event, stating the period of time the occurrence is expected to continue. The Impacted Party shall use diligent efforts to end the failure or delay and ensure the effects of the Force Majeure Event are minimized.

(signature page follows)

The Parties hereto have executed this Agreement as of the Effective Date.

NEOTERIC COSMETICS, INC.,

HK NFS LIMITED

By: /s/ Mark Goldstein
Name: Mark Goldstein
Title: President and CEO

By: /s/ Guo Ping Ru
Name: Guo Ping Ru
Title: President

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-48213, 333-67141, 333-51710, 333-126028, 333-156191, 333-176400, and 333-205354) of Scott's Liquid Gold-Inc. and subsidiaries of our report dated April 2, 2018, with respect to the consolidated financial statements of Scott's Liquid Gold-Inc. and subsidiaries, which appears in the December 31, 2017 annual report on Form 10-K of Scott's Liquid Gold-Inc. and subsidiaries.

/s/ EKS&H LLLP

April 2, 2018
Denver, Colorado

Powers of Attorney

Each of the undersigned Directors and/or Executive Officers of Scott's Liquid Gold-Inc. (the "Company") hereby authorize Mark E. Goldstein and Barry J. Levine as their true and lawful attorneys-in-fact and agents (1) to sign in the name of the undersigned, and file with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and any amendments to such Annual Report; and (2) to take any and all actions necessary or required in connection with such Annual Report to comply with the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Securities and Exchange Commission promulgated there under.

Signature	Title	Date
<u>/s/ Mark E. Goldstein</u> Mark E. Goldstein	Director, Chairman of the Board, Chief Executive Officer and President	April 2, 2018
<u>/s/ Barry J. Levine</u> Barry J. Levine	Director, Treasurer, Chief Financial Officer, Chief Operating Officer and Corporate Secretary	April 2, 2018
<u>/s/ Gerald J. Laber</u> Gerald J. Laber	Director	April 2, 2018
<u>/s/ Philip A. Neri</u> Philip A. Neri	Director	April 2, 2018
<u>/s/ Leah S. Bailey</u> Leah S. Bailey	Director	April 2, 2018

CERTIFICATION

I, Mark E. Goldstein, certify that:

1. I have reviewed this Annual Report on Form 10-K of Scott's Liquid Gold-Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 2, 2018

/s/ Mark E. Goldstein

Mark E. Goldstein
President and Chief Executive Officer

CERTIFICATION

I, Barry J. Levine, certify that:

1. I have reviewed this Annual Report on Form 10-K of Scott's Liquid Gold-Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 2, 2018

/s/ Barry J. Levine

Barry J. Levine
Treasurer, Chief Financial Officer,
Chief Operating Officer and Corporate Secretary

CERTIFICATION OF ANNUAL REPORT ON FORM 10-K OF
SCOTT'S LIQUID GOLD-INC.
FOR THE YEAR ENDED DECEMBER 31, 2017

Each of the undersigned hereby certifies, for the purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Scott's Liquid Gold-Inc. ("Scott's Liquid Gold"), that to his knowledge:

1. This Annual Report on Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Scott's Liquid Gold.

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Annual Report on Form 10-K. A signed original of this statement has been provided to Scott's Liquid Gold and will be retained by Scott's Liquid Gold and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification is executed as of April 2, 2018.

/s/ Mark E. Goldstein

Mark E. Goldstein
President and Chief Executive Officer

/s/ Barry J. Levine

Barry J. Levine
Treasurer, Chief Financial Officer,
Chief Operating Officer and Corporate Secretary