

Eaton Vance Enhanced Equity Income Fund
Form N-CSRS
May 27, 2008

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

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-21614

Eaton Vance Enhanced Equity Income Fund
(Exact name of registrant as specified in charter)

The Eaton Vance Building, 255 State Street, Boston, Massachusetts
(Address of principal executive offices)

02109
(Zip code)

Maureen A. Gemma
The Eaton Vance Building, 255 State Street, Boston, Massachusetts 02109
(Name and address of agent for service)

Registrant's telephone number, including area code: (617) 482-8260

Date of fiscal year end: September 30

Date of reporting period: March 31, 2008

Item 1. Reports to Stockholders

Semiannual Report March 31, 2008

EATON VANCE
ENHANCED
EQUITY
INCOME
FUND

**IMPORTANT NOTICES REGARDING PRIVACY,
DELIVERY OF SHAREHOLDER DOCUMENTS,
PORTFOLIO HOLDINGS AND PROXY VOTING**

Privacy. The Eaton Vance organization is committed to ensuring your financial privacy. Each of the financial institutions identified below has in effect the following policy ("Privacy Policy") with respect to nonpublic personal information about its customers:

Only such information received from you, through application forms or otherwise, and information about your Eaton Vance fund transactions will be collected. This may include information such as name, address, social security number, tax status, account balances and transactions.

None of such information about you (or former customers) will be disclosed to anyone, except as permitted by law (which includes disclosure to employees necessary to service your account). In the normal course of servicing a customer's account, Eaton Vance may share information with unaffiliated third parties that perform various required services such as transfer agents, custodians and broker/dealers.

Policies and procedures (including physical, electronic and procedural safeguards) are in place that are designed to protect the confidentiality of such information.

We reserve the right to change our Privacy Policy at any time upon proper notification to you. Customers may want to review our Policy periodically for changes by accessing the link on our homepage: www.eatonvance.com.

Our pledge of privacy applies to the following entities within the Eaton Vance organization: the Eaton Vance Family of Funds, Eaton Vance Management, Eaton Vance Investment Counsel, Boston Management and Research, and Eaton Vance Distributors, Inc.

In addition, our Privacy Policy only applies to those Eaton Vance customers who are individuals and who have a direct relationship with us. If a customer's account (i.e., fund shares) is held in the name of a third-party financial adviser/ broker-dealer, it is likely that only such adviser's privacy policies apply to the customer. This notice supersedes all previously issued privacy disclosures.

For more information about Eaton Vance's Privacy Policy, please call 1-800-262-1122.

Delivery of Shareholder Documents. The Securities and Exchange Commission (the "SEC") permits funds to deliver only one copy of shareholder documents, including prospectuses, proxy statements and shareholder reports, to fund investors with multiple accounts at the same residential or post office box address. This practice is often called "householding" and it helps eliminate duplicate mailings to shareholders.

Eaton Vance, or your financial adviser, may household the mailing of your documents indefinitely unless you instruct Eaton Vance, or your financial adviser, otherwise.

If you would prefer that your Eaton Vance documents not be househanded, please contact Eaton Vance at 1-800-262-1122, or contact your financial adviser.

Your instructions that householding not apply to delivery of your Eaton Vance documents will be effective within 30 days of receipt by Eaton Vance or your financial adviser.

Portfolio Holdings. Each Eaton Vance Fund and its underlying Portfolio (if applicable) will file a schedule of its portfolio holdings on Form N-Q with the SEC for the first and third quarters of each fiscal year. The Form N-Q will be available on the Eaton Vance website www.eatonvance.com, by calling Eaton Vance at 1-800-262-1122 or in the EDGAR database on the SEC's website at www.sec.gov. Form N-Q may also be reviewed and copied at the SEC's public reference room in Washington, D.C. (call 1-800-732-0330 for information on the operation of the public reference room).

Proxy Voting. From time to time, funds are required to vote proxies related to the securities held by the funds. The Eaton Vance Funds or their underlying Portfolios (if applicable) vote proxies according to a set of policies and procedures approved by the Funds' and Portfolios' Boards. You may obtain a description of these policies and procedures and information on how the Funds or Portfolios voted proxies relating to portfolio securities during the most recent 12 month period ended June 30, without charge, upon request, by calling 1-800-262-1122. This description is also available on the SEC's website at www.sec.gov.

Eaton Vance Enhanced Equity Income Fund as of March 31, 2008

INVESTMENT UPDATE

Walter A. Row, CFA
Eaton Vance Management
Co-Portfolio Manager

Lewis R. Piantedosi
Eaton Vance Management
Co-Portfolio Manager

Ronald M. Egalka
Rampart Investment
Management
Co-Portfolio Manager

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David R. Fraley
 Rampart Investment
 Management
 Co-Portfolio Manager

Economic and Market Conditions

- The U.S. stock markets posted sharp declines over the six months ended March 31, 2008, as fears about the economy and the crisis in the credit markets worsened. This was the first time since the 3rd quarter of 2002 that investors witnessed two consecutive quarterly declines in the S&P 500 Index (the Index). The consumer staples and materials sectors posted the best returns among the 10 economic sectors that make up the Index. Both sectors tend to benefit from a weak U.S. dollar, which set record lows on the world currency markets during March 2008. Consumer staples returned 1.3% for the six-month period, the only sector within the Index to post a positive return. The materials sector returned -2.9%. Not surprisingly, the worst return for the period was in the financials sector. The concerns about the housing industry that began in early 2007 spiraled into a financial crisis that was felt around the globe. The damage to the financials sector was substantial.

Management Discussion

- The Fund's primary investment objective is to provide current income, with a secondary objective of capital appreciation. The Fund pursues its investment objectives by investing primarily in a portfolio of mid- and large-capitalization common stocks, seeking to invest primarily in companies with above-average growth and financial strength. Under normal market conditions, the Fund seeks to generate current earnings from option premiums by selling covered call options with respect to a substantial portion of its portfolio securities. During the six months ended March 31, 2008, the Fund continued to provide shareholders with attractive monthly distributions.
- At net asset value (NAV), the Fund outperformed the S&P 500 Index and its Lipper peer group, but trailed the CBOE S&P 500 Buy-Write Index for the six months ended March 31, 2008. Market volatility created opportunities for the Fund to beat the returns of the broader market, as measured by the S&P 500. However, overall volatility and investor anxiety throughout the period led to negative returns both at NAV and at market price.

Eaton Vance Enhanced Equity Income Fund Total Return Performance 9/30/07 - 3/31/08

NYSE Symbol	EOI
At Net Asset Value (NAV)	-6.54%
At Market	-6.58%
S&P 500 Index(1)	-12.46%
CBOE S&P 500 Buy-Write Index(1)	-1.16%
Lipper Options Arbitrage/Options Strategies Classification (1)	-6.73%
Total Distributions per share	\$ 0.937
Distribution Rate(2)	<i>On NAV</i> 8.77% <i>On Market</i> 9.53%

(1) It is not possible to invest directly in an Index or a Lipper Classification. The Indices' total returns do not reflect commissions or expenses that would have been incurred if an investor individually purchased or sold the securities represented in an Index. The Lipper total return is the average total return, at net asset value, of the funds that are in the same Lipper Classification as the Fund.

(2) The Distribution Rate is based on the Fund's most recent monthly distribution per share (annualized) divided by the Fund's NAV or market price at the end of the period. The Fund's monthly distributions may be comprised of ordinary income, net realized capital gains and return of capital.

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Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value or share price (as applicable) with all distributions reinvested. The Fund's performance at market share price will differ from its results at NAV. Although share price performance generally reflects investment results over time, during shorter periods, returns at share price can also be affected by factors such as changing perceptions about the Fund, market conditions, fluctuations in supply and demand for the Fund's shares, or changes in Fund distributions. The Fund has no current intention to utilize leverage, but may do so in the future through the issuance of preferred shares and/or borrowings, including the issuance of debt securities. Investment return and principal value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Performance is for the stated time period only; due to market volatility, the Fund's current performance may be lower or higher than the quoted return. For performance as of the most recent month end, please refer to www.eatonvance.com.

Fund shares are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution. Shares are subject to investment risks, including possible loss of principal invested.

- Although the continuing credit crisis battered the financials sector during the period, the Fund's stock selection, particularly among capital markets and diversified financial services stocks, made the largest contribution to relative returns. The Fund also owned outperforming names in energy equipment and services, which further added to performance. Among consumer discretionary names, poor performance by multiline retailers was offset by positive stock selection in hotel and restaurant stocks, netting positive results for Fund returns. On the downside for Fund performance, consumer staples posted the poorest results, as stock selection in food and staples retailing underperformed on a relative basis.
- At March 31, 2008, the Fund had written call options on 47.74% of its equity holdings. The Fund seeks current earnings from option premiums. Option premiums available from writing call options vary with investors' expectation of the future volatility of the underlying asset. This expectation of volatility, or implied volatility, is the primary variable that drives the pricing of options and therefore the premiums available from option writing strategies. The implied volatility of equity based options continued to increase during the period, primarily in response to investor anxiety about subprime mortgages, the credit markets, and the possibility of recession. As a result, the Fund was able to monetize some of the increased volatility in the form of higher premiums for the six months ended March 31, 2008.

The views expressed throughout this report are those of the portfolio managers and are current only through the end of the period of the report as stated on the cover. These views are subject to change at any time based upon market or other conditions, and the investment adviser disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a fund are based on many factors, may not be relied on as an indication of trading intent on behalf of any Eaton Vance fund. Portfolio information provided in the report may not be representative of the Fund's current or future investments and may change due to active management.

Eaton Vance Enhanced Equity Income Fund as of March 31, 2008**FUND PERFORMANCE****Fund Performance****NYSE Symbol:****EOI**

Average Annual Total Returns (by share price, New York Stock Exchange)	
Six Months	-6.58%
One Year	-9.85
Life of Fund (10/29/04)	5.32
Average Annual Total Returns (at net asset value)	
Six Months	-6.54%
One Year	0.53
Life of Fund (10/29/04)	7.90

Fund Composition**Top Ten Holdings(1)**

By total investments

General Electric Co.	2.7%
Exxon Mobil Corp.	2.6
Microsoft Corp.	1.7
AT&T, Inc.	1.7
Johnson & Johnson	1.6
Bank of New York Mellon Corp. (The)	1.5
Cisco Systems, Inc.	1.5
Thermo Fisher Scientific, Inc.	1.5
Anadarko Petroleum Corp.	1.4
Transocean, Inc.	1.3

(1) Top Ten Holdings represented 17.5% of the Fund's total investments as of 3/31/08. The Top Ten Holdings are presented without the offsetting effect of the Fund's written option positions at 3/31/08. Excludes cash equivalents.

Sector Weightings(2)

By total investments

(2) Reflects the Fund's total investments as of 3/31/08. The sector weightings are presented without the offsetting effect of the Fund's written option positions at 3/31/08. Excludes cash equivalents.

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value or share price (as applicable) with all distributions reinvested. The Fund's performance at market share price will differ from its results at NAV. Although share price performance generally reflects investment results over time, during shorter periods, returns at share price can also be affected by factors such as changing perceptions about the Fund, market conditions, fluctuations in supply and demand for the Fund's shares, or changes in Fund distributions. The Fund has no current intention to utilize leverage, but may do so in the future through the issuance of preferred shares and/or borrowings, including the issuance of debt securities. Investment return and principal value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Performance is for the stated time period only; due to market volatility, the Fund's current performance may be lower or higher than the quoted return. For performance as of the most recent month end, please refer to www.eatonvance.com.

Eaton Vance Enhanced Equity Income Fund as of March 31, 2008

PORTFOLIO OF INVESTMENTS (Unaudited)

Common Stocks ⁽¹⁾ 95.5%		
Security	Shares	Value
Aerospace & Defense 5.0%		
Alliant Techsystems, Inc. ⁽²⁾	15,056	\$ 1,558,748
Boeing Co. (The)	40,147	2,985,732
General Dynamics Corp.	83,860	6,991,408
Lockheed Martin Corp.	62,915	6,247,460
Precision Castparts Corp.	27,798	2,837,620
Raytheon Co.	79,917	5,163,437
Rockwell Collins, Inc.	50,431	2,882,132
United Technologies Corp.	124,228	8,549,371
		\$ 37,215,908
Auto Components 0.7%		
Johnson Controls, Inc.	142,952	\$ 4,831,778
		\$ 4,831,778
Beverages 2.1%		
Coca-Cola Co. (The)	95,492	\$ 5,812,598
PepsiCo, Inc.	139,710	10,087,062
		\$ 15,899,660
Biotechnology 2.6%		
Biogen Idec, Inc. ⁽²⁾	41,190	\$ 2,541,011
BioMarin Pharmaceutical, Inc. ⁽²⁾	45,322	1,603,039
Cephalon, Inc. ⁽²⁾	28,128	1,811,443
Genzyme Corp. ⁽²⁾	99,210	7,395,113
Gilead Sciences, Inc. ⁽²⁾	108,696	5,601,105
		\$ 18,951,711
Capital Markets 4.1%		
Affiliated Managers Group, Inc. ⁽²⁾	11,834	\$ 1,073,817
Bank of New York Mellon Corp. (The)	278,201	11,609,328
Goldman Sachs Group, Inc.	9,406	1,555,658
Invesco, Ltd.	168,614	4,107,437
Julius Baer Holding AG	32,268	2,391,603
State Street Corp.	37,610	2,971,190
T. Rowe Price Group, Inc.	134,109	6,705,450
		\$ 30,414,483
Chemicals 2.0%		
Airgas, Inc.	32,902	\$ 1,496,054
E.I. Du Pont de Nemours & Co.	132,153	6,179,474
Security		
	Shares	Value
Chemicals (continued)		
Monsanto Co.	36,773	\$ 4,100,190
PPG Industries, Inc.	48,163	2,914,343

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		\$ 14,690,061
Commercial Banks 0.9%		
East-West Bancorp, Inc.	49,696	\$ 882,104
M&T Bank Corp.	12,728	1,024,349
PNC Financial Services Group, Inc.	23,539	1,543,452
Toronto-Dominion Bank	12,547	769,755
U.S. Bancorp	82,519	2,670,315
		\$ 6,889,975
Commercial Services & Supplies 0.6%		
Republic Services Inc.	51,675	\$ 1,510,977
RR Donnelley & Sons Co.	89,845	2,723,202
		\$ 4,234,179
Communications Equipment 2.8%		
Cisco Systems, Inc. ⁽²⁾	474,309	\$ 11,426,104
QUALCOMM, Inc.	106,448	4,364,368
Research In Motion, Ltd. ⁽²⁾	47,484	5,329,129
		\$ 21,119,601
Computer Peripherals 3.8%		
Apple, Inc. ⁽²⁾	59,300	

Section 409A

Section 409A, a new section added to the Code in 2004, makes significant changes to the tax treatment of certain types of deferred compensation. Failure to comply with the requirements of Section 409A results in current income of amounts deferred, along with interest and a significant tax penalty. Certain types of equity-based compensation are exempt from Section 409A. The Company intends to operate the Plan so that all grants under the Plan are exempt from Section 409A.

New Plan Benefits

As of the date of this proxy statement, no executive officer, employee, director or consultant has been granted any award under the Plan. The benefits to be received by the eligible participants pursuant to the Plan are not determinable at this time.

Other Equity Compensation Plan Information

The following table provides, as of December 31, 2004, information regarding the Company's equity compensation plans, which consists of the 1993, 1997 and 1998 Stock Option Plans. The 1993 Plan expired in January of 2003, and accordingly no shares are available for option under that Plan. The Company also has an Employee Stock Ownership Plan which invests only in common stock of the Company, but which is not included in the table below.

Plan Category	Number of securities to be issued upon exercise of outstanding	Weighted-average price of future options,	Number of securities remaining available for future issuance
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	options, warrants and rights (a)	warrants and rights (b)	under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,115,500	\$.63	414,500
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	1,115,500	\$.63	414,500

The Board of Directors recommends a vote "FOR" approval and ratification of the 2005 Plan.

CERTAIN TRANSACTIONS

The Company has indemnification agreements with each of its directors and executive officers. These agreements provide for indemnification and advancement of expenses to the full extent permitted by law in connection with any proceeding in which the person is made a party because the person is a director or officer of the Company. They also state certain procedures, presumptions and terms relevant to indemnification and advancement of expenses.

The principal and controlling owner of Montagne Jeunesse, Gregory Butcher owned beneficially, to the knowledge of the Company, at March 15, 2005, approximately 10.0% of the Company's outstanding common stock. The Company has a distributorship agreement with Montagne Jeunesse, which was first established prior to Mr. Butcher's ownership of any shares in the Company and under which the Company purchases from Montagne Jeunesse, and sells in the United States, sachets of Montagne Jeunesse containing skin care and other beauty care products. During 2004, the Company's purchases of these sachets from Montagne Jeunesse were in the amount of \$4,979,200. The Company's sales of Montagne Jeunesse products accounted in 2004 for a significant portion of the Company's total net revenues.

SECTION 16 REPORTS

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and beneficial owners of more than 10% of the outstanding shares of the Company to file with the Securities and Exchange Commission reports regarding changes in their beneficial ownership of shares in the Company. To the Company's knowledge, there was full compliance with all Section 16(a) filing requirements applicable to those persons for reports filed in 2004, except that reports for the following transactions were not timely filed: The grants of stock options on December 4, 2000 and February 19, 2002, to each of Mr. Bellini and Mr. Field; and the receipt by the Company's Employee Stock Ownership Plan of contributions of shares by the Company on June 4, 2004, and on September 2, 2004.

COMPANY ACCOUNTANTS

General

Ehrhardt, Keefe, Steiner & Hottman PC has been selected by the Audit Committee of the Board of Directors as the Company's independent auditors for the fiscal year ended December 31, 2005. Ehrhardt, Keefe, Steiner & Hottman PC has been the Company's independent auditors since June, 2003. A representative of Ehrhardt, Keefe, Steiner & Hottman PC is expected to be present at the Annual Meeting of Shareholders and to have the opportunity to make a statement if the representative so desires. Such representative also is expected to be available to respond to appropriate questions at that time.

Previous Accountants

KPMG LLP were the Company's independent auditors for the fiscal year ended December 31, 2002. On June 19, 2003, the Audit Committee of the Company's Board of Directors made the decision to change accountants. On June 20, 2003, the Company informed KPMG that the firm's appointment as principal auditors was terminated and Ehrhardt Keefe Steiner & Hottman PC ("EKS&H") was engaged as principal accountants.

KPMG's audit report on the Company's consolidated financial statements as of December 31, 2002 and for each of the years in the two-year period then ended, did not contain any adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles, except as follows: KPMG's audit report dated April 3, 2003 contained a separate paragraph stating that "the Company has restated the consolidated balance sheet as of December 31, 2001 and the related statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the two year period then ended, which consolidated financial statements were previously audited by other independent auditors who have ceased operations."

In connection with the audits of the two fiscal years ended December 31, 2002, and the subsequent interim period through June 20, 2003, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement. In addition, during the above period, KPMG did not advise us that any of the reportable events as defined in Item 304(a)(1)(v) of SEC Regulation S-K existed or was applicable.

During the two most recent fiscal years ended December 31, 2001 and December 31, 2002 and the period from January 1, 2003 to the date of engaging EKS&H as stated above, the Company did not consult with EKS&H with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the consolidated financial statements, or any other matters or reportable events described in Items 304(a)(2)(i) and (ii) of SEC Regulation S-K.

The Company provided KPMG with a copy of the foregoing statements. KPMG stated that it agreed with such statements, except that KPMG said that it was not in a position to agree or disagree with statements that the changes were made by the Audit Committee, that EKS&H was engaged on June 19, 2003 and that EKS&H was not consulted on any of the matters described above.

REPORT OF AUDIT COMMITTEE

February 22, 2005

To the Board of Directors of Scott's Liquid Gold-Inc.:

We have reviewed and discussed with management the Company's audited financial statements. We have discussed with Ehrhardt, Keefe, Steiner & Hottman PC, its independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants. We have received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and have discussed with the auditors the auditors' independence.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and filed with the Securities and Exchange Commission.

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The Audit Committee is composed of the three directors named below, all of whom are independent directors as defined in Rule 4200(a)(15) of the Nasdaq Stock Market listing standards.

The Board has adopted a written charter for the Audit Committee.

Submitted by the members of the Audit Committee of the Board of Directors.

Gerald J. Laber, Chairman
Carl A. Bellini
Dennis H. Field

Disclosure of Auditor Fees

The following is a description of the fees billed to the Company by its independent auditor during each of the years ended December 31, 2004 and December 31, 2003. Ehrhardt, Keefe, Steiner & Hottman PC billed for work commencing in June, 2003, and KPMG LLP billed for work prior to June, 2003.

Audit and Non-Audit Fees	KPMG LLP	Ehrhardt, Keefe, Steiner & Hottman PC	
	2003	2003	2004
Audit fees	\$ 9,000	\$ 32,571	\$ 68,623
Audit-related fees		12,500	23,867
Tax fees	6,500	3,884	8,211
All other fees			28,250
Total	\$ 15,500	\$ 48,955	\$ 128,951

Audit fees are for the audit of the Company's annual financial statements and the review of the Company's interim financial statements included in the Company's Quarterly Reports on Form 10-Q. Audit-related fees are for the audits of each of the three employee benefit plans. Tax fees primarily include tax compliance, tax advice and tax planning, including the review of, and assistance in the preparation of, federal and state tax returns, and tax advice and planning relating to such taxes.

Policy on Pre-Approval of Audit and Non-Audit Services

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by the independent public accountants. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services. The Audit Committee has delegated limited pre-approval authority to its chairperson. The chairperson is required to report any decisions to pre-approve such services to the full Audit Committee at its next meeting.

SHAREHOLDER PROPOSALS

Shareholder proposals for inclusion in the Company's proxy materials relating to the next annual meeting of shareholders must be received by the Company on or before December 7, 2005. Also, persons named in the proxy solicited by the Board of Directors of the Company for its year 2006 annual meeting of shareholders may exercise discretionary authority on any proposal presented by a shareholder of the Company at that meeting if the Company has not received notice of the proposal by February 20, 2006.

2004 ANNUAL REPORT ON FORM 10-K

Shareholders who wish to obtain, without charge, a copy of the Company's Form 10-K report for the year ended December 31, 2004 in the form filed with the Securities and Exchange Commission should address a written request to Dennis P. Passantino, Corporate Secretary, Scott's Liquid Gold-Inc., 4880 Havana Street, Denver, Colorado 80239. The Company's annual report to shareholders consists of such Form 10-K and accompanies this proxy statement.

SOLICITATION OF PROXIES

The Company will pay the cost of soliciting proxies in the accompanying form. In addition to solicitation by mail, proxies may be solicited by officers and other regular employees of the Company by telephone, telegraph or by personal interview for which employees will not receive additional compensation. Arrangements also may be made with brokerage houses and other custodians, nominees and fiduciaries to forward solicitation materials to beneficial owners of the shares held of record by such persons, and the Company may reimburse such persons for reasonable out-of-pocket expenses incurred by them in so doing.

OTHER BUSINESS

As of the date of this Proxy Statement, Management was not aware that any business not described above would be presented for consideration at the meeting. If any other business properly comes before the meeting, it is intended that the shares represented by proxies will be voted in respect thereto in accordance with the judgment of the persons voting them.

The above Notice and Proxy Statement are sent by order of the Board of Directors.

Dennis P. Passantino
Corporate Secretary

Denver, Colorado
April 6, 2005

**EXHIBIT A
TO
PROXY STATEMENT
DATED APRIL 6, 2005**

AUDIT COMMITTEE CHARTER

Purpose

The Audit Committee is appointed by the Board to assist the Board in monitoring (1) the integrity of the financial statements of the Company, (2) the independent auditor's qualifications and independence, (3) the performance of the Company's independent auditors, and (4) the compliance by the Company with legal and regulatory requirements.

The Audit Committee shall prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

Committee Membership

The Audit Committee shall consist of no fewer than two members. The members of the Audit Committee shall meet the independence requirements of the Securities and Exchange Commission.

The members of the Audit Committee shall be appointed by the Board. Audit Committee members may be replaced by the Board.

Committee Authority and Responsibilities

The Audit Committee shall have the sole authority to appoint or replace the independent auditor, and shall pre-approve all audit engagement fees and terms and all non-audit services with the independent auditors. The Audit Committee shall consult with management but shall not delegate these responsibilities.

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. The Audit Committee may form and delegate authority to subcommittees when appropriate.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting or other consultants to advise the Committee. The Company must provide appropriate funding, as determined by the Audit Committee, for payment for the services of such advisors. The Audit Committee may request any officer or employee of the

Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Audit Committee shall meet with management, any internal auditors and the independent auditor in separate executive sessions at least quarterly.

The Audit Committee shall make regular reports to the Board. The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

The Audit Committee, to the extent it deems necessary or appropriate, shall:

Financial Statement and Disclosure Matters

1. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
2. Review and discuss with management and the independent auditor the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent auditors' reviews of the quarterly financial statements.
3. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls, the development, selection and disclosure of critical accounting estimates, and analyses of the effect of alternative assumptions, estimates or GAAP methods on the Company's financial statements.
4. Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies.
5. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as any off-balance sheet structures on the Company's financial statements.
6. Discuss with management the Company's major financial risk exposures, if any, and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
7. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing

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Standards No. 61 as amended from time to time and any successor standards relating to the conduct of the audit. In particular, discuss:

(a) The adoption of, or changes to, the Company's significant auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.

(b) The management letter provided by the independent auditor and the Company's response to that letter.

(c) Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

Oversight of the Company's Relationship with the Independent Auditor

8. Review the experience and qualifications of the senior members of the independent auditor team.
9. Obtain and review a report from the independent auditor at least annually regarding (a) the auditor's internal quality-control procedures, (b) any material issues raised by the most recent quality-control review of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditor and the Company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and the internal auditor. The Audit Committee shall present its conclusions to the Board and, if so determined by the Audit Committee, recommend that the Board take additional action to satisfy itself of the qualifications, performance and independence of the auditor.
10. Review and approve any audit and non-audit services that management of the Company propose be rendered by the firm performing the Company's independent audit.
11. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the lead audit partner or even the independent auditing firm itself on a regular basis.
12. Make a recommendation to the Board as to the Company's hiring of any employees or former employees

of the independent auditor who were engaged on the Company's account.

13. Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

Compliance Oversight Responsibilities

14. Obtain from the independent auditor assurance that Section 10A of the Securities Exchange Act of 1934 has not been implicated.

15. Obtain reports from management and the independent auditor that the Company and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and any code of business conduct of the Company. Review reports and disclosures of insider and affiliated party transactions. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with any code of business conduct.

16. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.

17. Discuss with the Company's counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.

18. Approve or reject all related party transactions.

Oversight of the Company's Anonymous Complaint Policy

19. Establish and oversee any anonymous complaint policy, which may be contained within any code of business conduct of the Company, regarding:

(a) The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and

(b) The confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Limitation of Audit Committee's Role

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of

management and the independent auditor. It is not the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any between management and the independent auditor or to assure compliance with laws and regulations and the Company's Code of Business Conduct and Ethics.

**EXHIBIT B
TO
PROXY STATEMENT
DATED APRIL 6, 2005**

**Scott's Liquid Gold-Inc.
2005 Stock Incentive Plan**

Effective Date: March 31, 2005
Approved by Stockholders: _____, 2005
Termination Date: March 31, 2015

INTRODUCTION

The purpose of the Scott's Liquid Gold-Inc. 2005 Stock Incentive Plan (the "Plan") is to further the growth and development of Scott's Liquid Gold-Inc., a Colorado corporation (the "Company"), by affording an opportunity for stock ownership to selected Employees, Directors and Consultants of the Company and its Subsidiaries who are responsible for the conduct and management of its business or who are involved in endeavors significant to its success. The Plan is also intended to assist the Company in attracting new Employees and Consultants and retaining existing Employees and Consultants; to encourage growth of the Company through incentives that are consistent with the Company's goals; to provide incentives for individual performance; and to promote teamwork.

**ARTICLE 1.
DEFINITIONS**

When used in this Plan, the following capitalized terms shall have the meanings set forth below unless a different meaning is plainly required by the context:

1.1 **Award** means the grant of Options, Restricted Stock or other stock-based grant under the Plan.

1.2 **Board of Directors** means the Board of Directors of the Company.

1.3 **Cause** means "Cause," as defined in the Participant's employment agreement, if applicable, or if the Participant has not entered into an employment agreement with the Company, as determined in the sole and absolute discretion of the Company, a termination on account of dishonesty, fraud, misconduct, unauthorized use or disclosure of confidential information or trade secrets or conviction or confession of a crime punishable by law

(except minor violations), in each such case as determined by the Plan Administrator, and its determination shall be conclusive and binding. Such actions constituting "Cause" shall include, without limitation, a violation of the Company's Code of Business Conduct and Ethics. A Participant who agrees to resign from his or her affiliation with the Company in lieu of being terminated for Cause shall be deemed to have been terminated for Cause for purposes of the Plan.

1.4 ***Change in Control*** means as may be further limited by Code Section 409A, the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following:

(a) Any third person, including a "group" as defined in Section 13(d) or 14(d) of the Exchange Act, becomes the beneficial owner of shares of the Company having 50% or more of the total number of votes that may be cast for the election of Directors of the Company.

(b) The stockholder(s) of the Company approve: (i) any agreement for a merger or consolidation of the Company with another entity, provided that there shall be no change of control if the persons and entities who were the stockholders of the Company immediately before such merger or consolidation continue to own, directly or indirectly, more than two-thirds of the outstanding voting securities of the corporation resulting from such merger or consolidation in substantially the same proportion as their ownership of the voting securities of the Company outstanding immediately before such merger or consolidation; (ii) any sale, exchange or other disposition of all or substantially all of the Company's assets; or (iii) a plan of complete dissolution or liquidation of the Company (or a complete dissolution or liquidation of the Company shall otherwise occur).

(c) There is a consummated sale, exchange or other disposition of greater than 50% in fair market value of the Company's assets, other than in the ordinary course of business, whether in a single transaction or a series of related transactions.

In determining whether subsection (a) has been satisfied, the third person owning shares must be someone other than a person or an Affiliate of a person that, as of the Effective Date, was the beneficial owner of shares of the Company having 20% or more of the total number of votes that may be cast for the election of Directors of the Company.

The Plan Administrator's reasonable determination as to whether such an event has occurred shall be final and conclusive.

1.5 **Code** means the Internal Revenue Code of 1986, as amended from time to time.

1.6 **Common Stock or Stock** means the Company's Common Stock and any share or shares of the Company's capital stock hereafter issued or issuable in substitution for such shares.

1.7 **Consultant** means a consultant, agent, advisor or independent contractor who provides service to the Company and who does not receive wages subject to income tax federal withholding under Code Section 3401; provided, however, that such person is a natural person, renders bona fide services that are not in connection with the offer and sale of the Company's securities in a capital raising transaction and does not directly or indirectly promote or maintain a market for the Company's securities.

Consultant does not include Directors who are not compensated by the Company for services as Directors, and the payment of a Director's fee by the Company for services as a Director shall not cause a Director to be considered a Consultant for purposes of the Plan.

1.8 **Continuous Service** means that the Participant's service with the Company, its Parent or Subsidiary, whether as an Employee, Consultant or Director, is not interrupted or terminated. The Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company, its Parent or Subsidiary as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of a Subsidiary or a Director will not constitute an interruption of Continuous Service. The Plan Administrator, in its sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence, including sick leave, military leave or any other personal leave.

1.9 **Director** means a member of the board of directors of the Company, its Parent or Subsidiary.

1.10 **Disability** means disability within the meaning of the long-term disability policy maintained by the Company, or if none, within the meaning of Code Section 22(e)(3).

1.11 **Effective Date** means the effective date of the Plan, as first set forth above.

1.12 **Employee** means a common law employee of the Company or its Subsidiary and any person who has accepted a binding offer of employment from the Company or its Subsidiary, but excludes any individual classified by the Company or its Subsidiary as an independent contractor or leased employee.

1.13 **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time.

1.14 **Fair Market Value** means the value of the Common Stock, determined in accordance with the following: If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market, the Nasdaq SmallCap Market, the OTC Bulletin Board or otherwise over the counter, then the Fair Market Value per share shall be deemed to be the average of the closing sales prices (or, if closing sales prices are not available for the trading market, the average of closing bid and asked prices) for the Common Stock or security for the five preceding trading days as reported in the Wall Street Journal or another publication or source for market prices selected by the Board of Directors. If there has not been trading of the Common Stock on a specific date, then a trading day is the next preceding day on which there was such trading. If none of these conditions apply, the Fair Market Value per share shall be deemed to be an amount as determined in good faith by the Plan Administrator by applying any reasonable valuation method.

1.15 **Incentive Stock Option** means any option granted to an eligible Employee under the Plan, which the Company intends at the time the option is granted to be an Incentive Stock Option within the meaning of Code Section 422.

1.16 **Nonqualified Stock Option** means any option granted to an eligible Employee, Director or Consultant under the Plan that is not an Incentive Stock Option.

1.17 **Option** means and refers collectively to Incentive Stock Options and Nonqualified Stock Options.

1.18 **Option Agreement** means the agreement specified in Section 6.2.

1.19 **Parent** means a parent corporation of the Company as defined in Code Section 424(e).

1.20 **Participant** means any Employee, Director or Consultant who is granted an Award under the Plan. **Participant** also means the personal representative of a Participant and any other person who acquires the right to exercise or receive payment pursuant to an Award by bequest or inheritance.

1.21 **Plan Administrator** means the body that is responsible for the administration of the Plan, as determined pursuant to Section 3.1.

1.22 **Repriced** means any amendment or adjustment of the exercise price or the purchase price of an Award through amendment, cancellation, replacement grants or any other means.

1.23 **Restricted Stock** means shares of Common Stock granted to a Participant that are subject to the

restrictions set forth in Article 8 of the Plan and the Restricted Stock Award Agreement. **Restricted Stock** also means any shares of the Company's capital stock issued as the result of a dividend on or split of Restricted Stock. Upon termination of the restrictions, such Common Stock or other capital stock shall no longer be Restricted Stock.

1.24 **Restricted Stock Award Agreement** means the agreement specified in Section 8.2 between the Company and a Participant pursuant to which Restricted Stock is granted to the Participant.

1.25 **Restricted Stock Unit** or **RSU** means a contingent obligation of the Company to deliver shares of Common Stock to the Participant who is a party to a Restricted Stock Unit Award Agreement pursuant to Article 8 of the Plan. Each RSU represents the unfunded, unsecured right of the Participant to receive a share of Common Stock on the date(s) specified herein. RSUs do not constitute issued and outstanding shares of Common Stock for any corporate purposes and do not confer on the Participant any right to vote on matters that are submitted to a vote of shareholders.

1.26 **Restricted Stock Unit Award Agreement** means the agreement specified in Section 8.2 between the Company and a Participant pursuant to which a contingent right to shares of Common Stock is granted to the Participant.

1.27 **Restriction Period** means the period set forth in the Restricted Stock Award Agreement that is the period beginning on the date of grant of the Award and ending on the final vesting date of the Restricted Stock.

1.28 **Rule 16b-3** means Rule 16b-3 promulgated by the Securities Exchange Commission under the Exchange Act, together with any successor rule, as in effect from time to time.

1.29 **Stock Appreciation Right** or **SAR** means a standalone stock appreciation right that has been granted pursuant to Article 7 of the Plan.

1.30 **Stock Appreciation Right Award Agreement** means the agreement specified in Section 7.2 between the Company and a Participant pursuant to which a contingent right to shares of Common Stock is granted to the Participant.

1.31 **Subsidiary** means a subsidiary corporation of the Company as defined in Code Section 424(f).

1.32 **Termination Date** means the termination date of the Plan, as first set forth above.

**ARTICLE 2.
EFFECTIVE DATE**

The Effective Date of the Plan shall be the date on which the Plan is approved by the stockholders of the Company.

**ARTICLE 3.
ADMINISTRATION**

3.1 **Plan Administrator.** The Plan shall be administered by the Board of Directors, unless and until such time as the Board of Directors delegates the administration of the Plan to a committee, which shall be appointed by and shall serve at the pleasure of the Board of Directors. Any committee member shall be deemed to have resigned automatically from the committee upon his or her termination of service with the Company. To the extent the Board considers it desirable for transactions relating to an Award to be eligible to qualify for an exemption under Rule 16b-3, the Plan Administrator shall consist of a committee of two or more Directors of the Company, all of whom qualify as "non-employee directors" within the meaning of Rule 16b-3. To the extent the Board considers it desirable for compensation delivered pursuant to an Award to be eligible to qualify for an exemption under Code Section 162(m), the Plan Administrator shall consist of a committee of two or more Directors of the Company, all of whom qualify as "outside directors" within the meaning of Code Section 162(m). The Board may from time to time remove members from or add members to any such committee; fill vacancies on the committee, howsoever caused; and otherwise increase or decrease the number of members of such committee, in each case as the Board deems appropriate to permit transactions in Common Stock pursuant to the Plan and to satisfy such conditions of Rule 16b-3 or Code Section 162(m) as then in effect.

3.2 **Meetings and Actions.** The Plan Administrator shall hold meetings at such times and places as it may determine. A majority of the members of the Plan Administrator shall constitute a quorum, and the acts of the majority of the members present at a meeting or a consent in writing signed by all members of the Plan Administrator shall be the acts of the Plan Administrator and shall be final, binding and conclusive upon all persons, including the Company, its Subsidiaries, its stockholders, and all persons having any interest in Awards that may be or have been granted pursuant to the Plan.

3.3 **Powers of Plan Administrator.** The Plan Administrator shall have the full and exclusive right to grant and determine terms and conditions of all Awards granted under the Plan and to prescribe, amend and rescind rules and regulations for administration of the Plan. In selecting Participants and granting Awards, the Plan Administrator shall take into consideration the contribution the Participant has made or may make to the success of the Company or its Subsidiaries and such other factors as the Plan Administrator shall determine.

3.4 **Interpretation of Plan.** The Plan Administrator may correct any defect, supply any omission, or reconcile

any inconsistency in the Plan or in any agreement entered into hereunder. The determination of the Plan Administrator as to any disputed question arising under the Plan, including questions of construction and interpretation, shall be final, binding and conclusive upon all persons, including the Company, its Subsidiaries, its stockholders, and all persons having any interest in Awards that may be or have been granted pursuant to the Plan.

ARTICLE 4.
STOCK SUBJECT TO THE PLAN

4.1 *Plan Limit.* Subject to the provisions of Section 4.4, the aggregate number of shares of Common Stock that may be issued under Awards granted pursuant to the Plan shall not exceed 600,000 shares. Shares that may be issued under Awards may consist, in whole or in part, of authorized but unissued stock or treasury stock of the Company not reserved for any other purpose.

4.2 *Individual Limit.* During any single calendar year, no Participant shall be eligible to be granted Awards exceeding 10% of the limits set forth in Section 4.1. From the Effective Date to the date on which the Plan terminates, no Participant shall be eligible to be granted Awards exceeding 20% of the limits set forth in Section 4.1.

4.3 *Unused Stock.* If any outstanding Award under the Plan expires or for any other reason ceases to be exercisable, is forfeited or repurchased by the Company, in whole or in part (other than upon exercise of an Award), the shares that were subject to such Award (and as to which the Award had not been exercised) shall continue to be available under the Plan or revert to the Plan to again be available for issuance under the Plan; provided, however, that subject to the provisions of Section 4.4 relating to adjustments, the aggregate maximum number of shares of Common Stock that may be issued as Incentive Stock Options shall be the number of shares of Common Stock as may be approved by the stockholders of the Company from time to time for issuance as Incentive Stock Options under Section 4.1.

4.4 *Adjustment for Change in Outstanding Shares.*

(a) *In General.* If there is any change, increase or decrease, in the outstanding shares of Common Stock that is effected without receipt of additional consideration by the Company, by reason of a stock dividend, subdivision, reclassification, recapitalization, merger, consolidation, stock split, combination or exchange of stock, or other similar circumstances not involving the receipt of consideration by the Company (each a Capitalization Event), then in each such event, the Plan Administrator shall make an appropriate adjustment in the aggregate number of shares of Common Stock available under the Plan, the

number of shares of Common Stock subject to each outstanding Award and the exercise prices in order to prevent the dilution or enlargement of any Participant's rights. In the event of any adjustment in the number of shares of Common Stock covered by any Award, including those provided in subsection (b) below, each such Award shall cover only the number of full shares resulting from such adjustment. The Plan Administrator's determinations in making any adjustment shall be final and conclusive.

(b) *Adjustments for Certain Distributions of Property.* If the Company at any time distributes with respect to its Common Stock securities or other property (except cash or Common Stock), a proportionate part of those securities or other property shall be set aside and delivered to the Participant when he exercises an Option or the restrictions on Restricted Stock lapse. The securities or other property shall be in the same ratio to the total securities and property set aside for the Participant as the number of shares of Common Stock with respect to which the Option is then exercised or the Restricted Stock then vests is to the total shares of Common Stock subject to the Award.

(c) *Exceptions to Adjustment.* Except as expressly provided herein, the issue by the Company of shares of Common Stock of any class, or securities convertible into or exchangeable for shares of Common Stock of any class, for cash or property or for labor or services, or upon sale or upon exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into or exchangeable for shares of Common Stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to any Award granted under the Plan.

4.5 Retention of Rights. The existence of this Plan and any Award granted pursuant to the Plan shall not affect the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other change in the Company's capital structure or its business, or a merger or consolidation of the Company, or any issue of bonds, debentures, or preferred or preference stock ranking before or affecting the Common Stock, or the dissolution of the Company or any sale or transfer of all or any part of the Company's assets or business, or any other corporate act or proceeding, whether similar or not.

4.6 Cancellation of Award. The Plan Administrator may at any time cancel an Award, whether vested or unvested, if the Participant engages in conduct that the Plan Administrator in its sole discretion determines to be

detrimental to the best interest of the Company. Without limiting the foregoing, the Plan Administrator may cancel all or any portion of an Award, whether vested or unvested, if the Plan Administrator determines that the Participant has failed at an time during the Participant's employment or other affiliation with the Company to comply with any policies or procedures of the Company, including the Company's Code of Business Conduct and Ethics.

**ARTICLE 5.
ELIGIBILITY**

All full-time and part-time Employees shall be eligible to receive any Award under the Plan. Directors and Consultants who are not Employees shall be eligible to receive any Award, other than Incentive Stock Options, under the Plan. Any Director who is otherwise eligible to participate, who makes an election in writing not to receive any grants under the Plan, shall not be eligible to receive any such grants during the period set forth in such election.

**ARTICLE 6.
STOCK OPTIONS**

6.1 *Grant of Options.* The Plan Administrator may from time to time in its discretion determine which of the eligible Employees, Directors and Consultants of the Company or its Subsidiaries should receive Options, the type of Options to be granted (whether Incentive Stock Options or Nonqualified Stock Options), the number of shares subject to such Options, and the dates on which such Options are to be granted. No Employee may be granted Incentive Stock Options to the extent that the aggregate Fair Market Value (determined as of the time each Option is granted) of the Common Stock with respect to which any of the Employee's Options are exercisable for the first time during a calendar year (under all incentive stock option plans of the Company and its Parent and Subsidiaries) would exceed \$100,000. To the extent that the limitation set forth in the preceding sentence has been exceeded, the Options that exceed the annual limitation shall be deemed to be Nonqualified Stock Options rather than Incentive Stock Options.

6.2 *Option Agreement.* Each Option granted under the Plan shall be evidenced by a written Option Agreement setting forth the terms upon which the Option is granted.

Each Option Agreement shall designate the type of Options being granted (whether Incentive Stock Options or Nonqualified Stock Options), and shall state the number of shares of Common Stock, as designated by the Plan Administrator, to which that Option pertains. More than one Option, and any combination of Options, SARs and Restricted Stock Awards, may be granted to an eligible person.

(a) *Option Price.* The Option price (i.e., exercise price) per share of Common Stock under each Option shall be determined by the Plan Administrator and stated in the Option

Agreement. The Option price for any Options granted under the Plan shall not be less than 100% of the Fair Market Value (determined as of the day the Option is granted) of the shares subject to the Option. The exercise price of the Common Stock under each Option may not be Repriced.

(b) *Duration of Options.* Each Option shall be of a duration as specified in the Option Agreement; provided, however, that the term of any Option shall be no more than ten years from the date on which the Option is granted and shall be subject to early termination as provided herein.

(c) *Vesting.* Unless otherwise stated in the Option Agreement, Options shall be fully vested. Any vesting schedule may be waived or accelerated by the Plan Administrator at any time.

(d) *Additional Limitations on Grant for 10% Stockholders.* No Incentive Stock Option shall be granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock (as determined in accordance with Code Section 424(d)) representing more than 10% of the total combined voting power of all classes of stock of the Company or of any Parent or Subsidiary, unless the option price of such Incentive Stock Option is at least 110% of the Fair Market Value (determined as of the day the Incentive Stock Option is granted) of the stock subject to the Incentive Stock Option and the Incentive Stock Option by its terms is not exercisable more than five years from the date it is granted.

(e) *Rights as Stockholder.* A Participant shall have no rights as a stockholder of the Company with respect to any shares of Common Stock covered by an Option until the date of the issuance of the stock certificate for such shares.

(f) *Other Terms and Conditions.* The Option Agreement may contain such other provisions, which shall not be inconsistent with the Plan, as the Plan Administrator shall deem appropriate, including, without limitation, provisions that relate to the Participant's ability to exercise an Option in whole or in part to the passage of time or the achievement of specific goals or the occurrence of certain events, as specified by the Plan Administrator.

6.3 *Manner of Exercise.* Subject to the limitations and conditions of the Plan or the Option Agreement, an Option shall be exercisable, in whole or in part, from time to time, by giving written notice of exercise to the Chief Financial Officer of the Company, which notice shall

specify the number of whole shares of Common Stock to be purchased and shall be accompanied by (a) payment in full to the Company of the exercise price of the whole number of shares to be purchased; plus (b) payment in full of such amount as the Company shall determine to be sufficient to satisfy any liability it may have for any withholding of federal, state or local income or other taxes incurred by reason of the exercise of the Option; and (c) representations meeting the requirements of Section 11.4 if requested by the Company. The conditions of this section shall be satisfied at the time that the Option or any part thereof is exercised, and no shares of Common Stock shall be issued or delivered until such conditions have been satisfied by the Participant.

6.4 **Payment of Option Price.** Payment for shares and withholding taxes shall be in the form of either (a) cash, (b) a certified or bank cashier's check to the order of the Company, or (c) shares of the Common Stock, properly endorsed to the Company, in an amount the Fair Market Value of which on the date of receipt by the Company equals or exceeds the aggregate option price of the shares with respect to which the Option is being exercised, provided that such shares have been held outright by the Participant for at least six months, (d) any other form of legal consideration that may be acceptable to the Plan Administrator, or (e) in any combination thereof; provided, however, that no payment may be made in shares of Common Stock unless the Plan Administrator has approved of payment in such form by such Participant with respect to the Option exercise in question. If the Common Stock is registered under Section 12 of the Exchange Act at the time an Option is exercised and if the procedure stated in this sentence is expressly permitted by the Plan Administrator, and to the extent the option is exercised for vested shares, then payment may also be made through a special sale and remittance procedure pursuant to which the Participant shall concurrently provide irrevocable written instructions (1) to a brokerage firm designated by the Company to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable withholding taxes, and (2) to the Company to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

ARTICLE 7. STOCK APPRECIATION RIGHTS

7.1 **Grant of SARs.** The Plan Administrator may from time to time in its discretion determine which of the eligible Employees, Directors and Consultants should receive SARs, the number of shares subject to such SARs, and the dates on which such SARs are to be granted. The grant of the SAR shall be evidenced in a written Stock Appreciation Rights Award Agreement. The Stock Appreciation Rights Award Agreement shall state the number of shares of SARs being granted, as designated by the Plan Administrator, the exercise price per share of each

SAR, and the duration of the SAR.

7.2 **Award Agreement.** Each SAR granted under the Plan shall be evidenced by a written Stock Appreciation Right Award Agreement setting forth the terms upon which the SAR is granted. Each Stock Appreciation Right Award Agreement shall state the number of shares of Common Stock, as designated by the Plan Administrator, to which that SAR pertains. More than one SAR, and any combination of Options, SARs and Restricted Stock Awards, may be granted to an eligible person.

(a) *SAR Exercise Price.* The exercise price per share of Common Stock under each SAR shall be determined by the Plan Administrator shall not be less than 100% of the Fair Market Value (determined as the day the SAR is granted) of the Common Stock subject to the SAR, and shall be stated in the Stock Appreciation Right Award Agreement. The exercise price of the Common Stock under each SAR may not be Repriced.

(b) *Duration of SARs.* Each SAR shall be of a duration as specified in the Stock Appreciation Right Award Agreement; provided, however, that the term of any SAR shall be no more than ten years from the date on which the SAR is granted and shall be subject to early termination as provided herein.

(c) *Vesting.* Unless otherwise stated in the Stock Appreciation Right Award Agreement, SARs shall be fully vested. Any vesting schedule may be waived or accelerated by the Plan Administrator at any time.

(d) *Rights as Stockholder.* A Participant shall have no rights as a stockholder of the Company with respect to any shares of Common Stock covered by a SAR until the date of the issuance of the stock certificate for such shares.

(e) *Other Terms and Conditions.* The Stock Appreciation Right Award Agreement may contain such other provisions, which shall not be inconsistent with the Plan, as the Plan Administrator shall deem appropriate, including, without limitation, provisions that relate to the Participant's ability to exercise an SAR in whole or in part to the passage of time or the achievement of specific goals or the occurrence of certain events, as specified by the Plan Administrator.

7.3 **Manner of Exercise.** Subject to the limitations and conditions of the Plan or the Stock Appreciation Right Award Agreement, a SAR shall be exercisable, in whole or in part, from time to time, by giving written notice of exercise to the Chief Financial Officer of the Company, which notice shall specify the number of whole shares of

Common Stock to be purchased and shall be accompanied by (a) payment in full of such amount as the Company shall determine to be sufficient to satisfy any liability it may have for any withholding of federal, state or local income or other taxes incurred by reason of the exercise of the SAR; and (b) representations meeting the requirements of Section 11.4 if requested by the Company. The conditions of this section shall be satisfied at the time that the SAR or any part thereof is exercised, and no shares of Common Stock shall be issued or delivered until such conditions have been satisfied by the Participant. The effective date of exercise of a SAR shall be the date on which the Company shall have received notice from the Participant of the exercise thereof. Upon the exercise of SARs, the Participant shall receive a number of shares of Common Stock having a Fair Market Value equal to the Fair Market Value on the date of exercise of such SAR of the number of shares of Common Stock with respect to which such SAR shall have been exercised over the aggregate exercise price of the SAR or portion thereof exercised.

ARTICLE 8.
RESTRICTED STOCK AND RESTRICTED STOCK
UNITS

8.1 *Grant of Restricted Stock and Restricted Stock Units.* The Plan Administrator may from time to time in its sole discretion determine which of the eligible Employees, Directors, or Consultants should receive grants of Restricted Stock and/or Restricted Stock Units, the number of shares with respect to which Restricted Stock or RSUs are to be granted to each such eligible Employee, Director, and Consultant, the dates on which such Awards are to be granted, and the restrictions applicable to each Award grant.

8.2 *Award Agreement.* Each Restricted Stock Award or RSU granted under the Plan shall be evidenced by a written Award Agreement setting forth the terms upon which the Award is granted. Each Award Agreement shall state the number of shares of Common Stock, as designated by the Plan Administrator, to which that Award pertains; the price, if any, to be paid by the Participant for the shares; and the restrictions applicable to each grant. More than one Award may be granted to an eligible person. The terms of any Award Agreement need not be identical to the terms of any other Award Agreement applicable to other grants under the Plan to the same or other Participants. No Restricted Stock or RSU shall be issued under the Plan until the Participant provides the Company with a signed Restricted Stock or RSU Award Agreement in the form specified by the Plan Administrator with respect to the grant of such Restricted Stock or RSU to that Participant. No shares of Common Stock shall be issued under the Plan with respect to a Restricted Stock Unit Award until the Participant provides the Company with a signed Award Agreement and satisfies the conditions described in that Award Agreement.

(a) *Issuance of Restricted Stock.* The right to receive Restricted Stock shall be conditioned upon the delivery of the purchase price, if any, by the Participant by (i) payment in full, in cash, check, or by certified or bank cashier's check to the Company (or payment by such other consideration as shall be permitted by the Plan Administrator) or, upon approval of the Plan Administrator, shares of the Common Stock, properly endorsed to the Company, in an amount the Fair Market Value of which on the date of receipt by the Company equals or exceeds the aggregate purchase price of the shares; (ii) payment in similar form equal to such amount as the Company shall determine to be sufficient to satisfy any liability it may have for any withholding of federal, state or local income or other taxes incurred by reason of the vesting of the Restricted Stock or the Participant's election under Code Section 83(b); (iii) a representation meeting the requirements of Section 11.4 if requested by the Plan Administrator; and (iv) a copy of the executed Restricted Stock Award Agreement in the form specified by the Plan Administrator with respect to the grant of Restricted Stock to that Participant.

(b) *Purchase Price.* Restricted Stock may be granted under the Plan without the payment of a purchase price. If a grant is made with a purchase price, the purchase price of the Restricted Stock may not be Repriced.

(c) *Vesting.* Unless otherwise stated in the Restricted Stock Award Agreement or Restricted Stock Unit Award Agreement, as applicable, the Award shall be fully vested. Any vesting schedule may be waived or accelerated by the Plan Administrator at any time.

(d) *Redemption of RSUs.* Subject to the limitations and conditions of the Plan or the Restricted Stock Unit Award Agreement, RSUs shall be redeemed, in whole or in part, from time to time, according to the terms of the applicable Restricted Stock Unit Award Agreement, which notice shall specify the number of whole shares of Common Stock to be issued; provided that the Participant provides the Company (a) payment in full of such amount as the Company shall determine to be sufficient to satisfy any liability it may have for any withholding of federal, state or local income or other taxes incurred by reason of the redemption of the RSU; and (b) representations meeting the requirements of Section 11.4 if requested by the Company. The conditions of this section shall be satisfied at the time that the RSU or any part thereof is redeemed, and no shares of Common Stock shall be issued or delivered until such conditions have

been satisfied by the Participant.

(e) *Stock Certificates.* The stock certificate or certificates representing the Restricted Stock shall be registered in the name of the Participant to whom such Restricted Stock shall have been granted. Such certificates shall remain in the custody of the Company and the Participant shall deposit with the Company stock powers or other instruments of assignment, each endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Restricted Stock that shall be forfeited or otherwise not become vested in accordance with the Plan and the applicable Restricted Stock Award Agreement.

(f) *Restrictions and Rights.* Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes. The Participant shall have the right to vote such Restricted Stock, to receive and retain all regular cash dividends and such other distributions, as the Board of Directors may, in its discretion, designate, pay or distribute on such Restricted Stock, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Restricted Stock, except as set forth in this Article 8. The Restricted Stock Award Agreement or Restricted Stock Unit Award Agreement, as applicable, may contain such other provisions, which shall not be inconsistent with the Plan, as the Plan Administrator shall deem appropriate.

(g) *Forfeiture.* If the Participant fails to satisfy any applicable restrictions (including without limitation any vesting requirements), terms and conditions set forth in this Plan or in the Restricted Stock Award Agreement or Restricted Stock Unit Award Agreement, as applicable, for any reason, any Restricted Stock or RSUs held by such Participant and affected by such conditions shall be forfeited to the Company in return for such consideration as shall be specified in the applicable Award Agreement. The Company and its officers are authorized to reflect such forfeiture of Restricted Stock on the Company's stock ledger.

ARTICLE 9. TERMINATION OF CONTINUOUS SERVICE

9.1 *Termination of Continuous Service for Options and SARs.* This Section 9.1 applies only to Options and SARs. Any vesting of any Award shall cease upon termination of the Participant's Continuous Service, and any Award shall be exercisable only to the extent that it was exercisable on the date of such termination of Continuous Service. Any Award not exercisable as of the date of termination, and any Award or portions thereof not exercised within the period specified herein, shall

terminate.

(a) *Termination Other than for Cause.*

Subject to any limitations set forth in the agreement for an Award, and provided that the notice of exercise is provided as required by the Plan prior to the expiration of the Award, the Participant shall be entitled to exercise the Award (i) during the Participant's Continuous Service, and (ii) for a period of three months after the date of termination of the Participant's Continuous Service for reason other than Cause, or such longer period as may be set forth in the Award Agreement.

(b) *Termination by Death.*

Notwithstanding subsection (a), if a Participant's Continuous Service should terminate as a result of the Participant's death, or if a Participant should die within a period of three months after termination of the Participant's Continuous Service under circumstances in which subsection (a) would permit the exercise of the Award following termination, the personal representatives of the Participant's estate or the person or persons who shall have acquired the Award from the Participant by bequest or inheritance may exercise the Award at any time within one year after the date of death, but not later than the expiration date of the Award.

(c) *Termination by Disability.*

Notwithstanding subsection (a), if a Participant's Continuous Service should terminate by reason of the Participant's Disability, the Participant may exercise the Award at any time within one year after the date of termination but not later than the expiration date of the Award.

(d) *Termination for Cause; Breach of Covenant Not to Compete or Nondisclosure Agreement.* Notwithstanding anything herein to the contrary, and unless otherwise provided by the Award Agreement, all unexercised Awards granted to the Participant shall terminate immediately if the Participant is terminated for Cause, breaches any obligation under a covenant not to compete with the Company or any of its Subsidiaries, or breaches any obligation under an agreement not to use or disclose proprietary information obtained from or through the Company or any of its Subsidiaries, upon such occurrence.

(e) *Extension of Option Termination Date.*

The Plan Administrator, in its sole discretion, may extend the termination date of an Award granted under the Plan without regard to the preceding provisions of this section. Such extension may be made in the Award Agreement as originally executed or by amendment to the

Award Agreement, either prior to or following termination of a Participant's Continuous Service. The Plan Administrator shall have no power to extend the termination date of an Incentive Stock Option beyond the periods provided in subsections (a), (b) and (c) prior to the termination of the Participant's Continuous Service or without the approval of the Participant, which may be granted or withheld in the Participant's sole discretion. Any extension of the termination date of an Incentive Stock Option may be deemed to be the grant of a new Option for purposes of the Code.

9.2 Termination of Continuous Service for Restricted Stock and RSUs. The event that a Participant terminates Continuous Service with the Company for any reason, including Disability of the Participant, any unvested Restricted Stock or RSUs held by such Participant as of the date of such termination of Continuous Service shall be forfeited to the Company as of the date of termination of Continuous Service unless otherwise provided in the applicable Award Agreement.

ARTICLE 10. CHANGE IN CONTROL

10.1 Substitution of Awards. In the event of a Change in Control Event, any surviving corporation or acquiring corporation may assume any outstanding Award under the Plan or may substitute similar stock awards on an equitable basis of appropriate stock of the Company, or of the surviving corporation or acquiring corporation, which will be issuable in respect of the Common Stock (including an award to acquire the same consideration paid to the stockholders in the Change in Control Event) for those outstanding under the Plan.

10.2 Acceleration of Vesting. In the event of a Change in Control Event, then the vesting of Awards held by Participants whose Continuous Service has not terminated (and, if applicable, the time during which such Awards may be exercised) shall be accelerated in full. In anticipation of a Change in Control Event, the Plan Administrator may, upon written notice to all Participants holding Awards, provide that all unexercised Awards must be exercised upon the Change in Control Event or within a specified number of days of the date of such change in Control Event or such Awards will terminate. In response to such notice, a Participant may make an irrevocable election to exercise the Participant's Award contingent upon and effective as of the effective date stated in such notice. Any Award shall terminate if not exercised upon the time frame stated in the notice. The Plan Administrator may, in its sole discretion, accelerate the vesting of any outstanding Award in connection with any proposed or completed Change in Control Event. Prior to such a Change in Control Event, the Plan Administrator may, in its sole discretion, terminate any or all unexercised Awards (after acceleration of vesting) in exchange for consideration similar to that received by stockholders of

Common Stock of the Company in the Change in Control Event, less the exercise price required under such Awards.

**ARTICLE 11.
ISSUANCE OF SHARES**

11.1 *Transfer of Shares to Participant.* As soon as practicable after (a) a Participant has given the Company written notice of exercise of an Option and has otherwise met the requirements of Section 6.3, with respect to an Option, or (b) a Participant has satisfied any applicable restrictions, terms and conditions set forth in this Plan or in the Stock Appreciation Award Agreement with respect to a SAR, or (c) a Participant has satisfied any applicable restrictions, terms and conditions set forth in this Plan or in the Restricted Stock Award Agreement with respect to a Restricted Stock Award, or (d) a Participant has satisfied any applicable restrictions, terms and conditions set forth in this Plan or in the Restricted Stock Unit Award Agreement with respect to an RSU, the Company shall register a certificate in such Participant's name for the number of shares of Common Stock as to which the Award has been exercised or satisfied and shall, upon the Participant's request, deliver such certificate to the Participant. In no event shall the Company be required to transfer fractional shares to the Participant, and in lieu thereof, the Company may pay an amount in cash equal to the Fair Market Value of such fractional shares on the date of exercise or vesting, as applicable.

11.2 *Legend.* All certificates evidencing shares of Common Stock originally issued pursuant to this Plan or subsequently transferred to any person or entity, and any shares of capital stock received in respect thereof, may bear such legends and transfer restrictions as the Company shall deem reasonably necessary or desirable, including, without limitation, legends restricting transfer of the Common Stock until there has been compliance with federal and state securities laws and until the Participant or any other holder of the Common Stock has paid the Company such amounts as may be necessary in order to satisfy any withholding tax liability of the Company.

11.3 *Compliance with Laws.* If the issuance or transfer of shares by the Company would for any reason, in the opinion of counsel for the Company, violate any applicable federal or state laws or regulations, the Company may delay issuance or transfer of such shares to the Participant until compliance with such laws can reasonably be obtained. In no event shall the Company be obligated to effect or obtain any listing, registration, qualification, consent or approval under any applicable federal or state laws or regulations or any contract or agreement to which the Company is a party with respect to the issuance of any such shares. If, after reasonable efforts, the Company is unable to obtain the authority that counsel for the Company deems necessary for the lawful issuance and sale of shares upon exercise of Options or vesting of an Award under the Plan, the Company shall be relieved from any liability for failure to issue and sell shares upon exercise of such Options or vesting of an Award unless

and until such authority is obtained.

11.4 **Investment Representation.** The Company may require any Participant, as a condition precedent to exercising any Option or acquiring or exercising any SAR, Restricted Stock, or RSU, to provide a written representation providing assurances satisfactory to the Company (a) as to the Participant's knowledge and experience in financial and business matters and/or that the Participant has engaged a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters, (b) that the Participant is capable of evaluating, alone or together with the purchaser representative, the merits and risks of acquiring the Common Stock or other security; and (c) that the Participant is acquiring the stock subject to the Option, SAR, Restricted Stock or RSU for such person's own account and not with any present intention of selling or otherwise distributing the stock. Such a representation shall not be required if (1) the issuance of the shares pursuant to an Award has been registered under a then currently effective registration statement under the Securities Act, or (2) as to any particular requirement, a determination is made by counsel for the Company that such representation is not required.

ARTICLE 12. AMENDMENT AND TERMINATION

12.1 **Amendment of the Plan.** The Board of Directors may at any time and from time to time alter, amend, suspend or terminate the Plan or any part thereof as it may deem proper, except that no such action shall diminish or impair the rights under an Award previously granted. Unless the shareholders of the Company shall have given their approval, the total number of shares which may be issued under the Plan shall not be increased, except as provided in Section 4.4, and no amendment shall be made which reduces exercise price for the grant of any Option, SAR or RSU or purchase price for the grant of any Restricted Stock as required by the Plan, except as provided in Section 4.4, or which materially modifies the requirements as to eligibility under the Plan to receive any Award. Subject to the terms and conditions of the Plan, the Plan Administrator may modify, extend or renew outstanding Awards granted under the Plan, except that no such action shall diminish or impair the rights under an Award previously granted without the consent of the Participant.

12.2 **Termination of the Plan.** This Plan shall not have any fixed Termination Date. The Board of Directors may at any time suspend or terminate the Plan. No such suspension or termination shall diminish or impair the rights under an Award previously granted without the consent of the Participant. Notwithstanding the foregoing, no Award under the Plan may be granted any time after ten years after the Effective Date of the Plan.

ARTICLE 13. GENERAL PROVISIONS

13.1 *Tax Obligations.*

(a) **General.** To the extent provided by the terms of an Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the right to withhold from any compensation paid to the Participant by the Company, its Parent or Subsidiary) or by a combination of such means: (i) tendering a cash payment; (ii) if and only if permitted by the Plan Administrator, authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Award; provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lower amount as may be necessary to avoid variable award accounting); or (iii) if and only if permitted by the Plan Administrator, delivering to the Company owned and unencumbered shares of Common Stock.

(b) **Code Section 409A.** To the extent required to avoid penalties under Code Section 409A, the Plan Administrator intends any Award issued under the Plan to comply in all respects with Code Section 409A and related regulations and intends to interpret and administer any Award issued under the Plan in accordance with Code Section 409A. Notwithstanding any provision to the contrary, all taxes associated with participation in the Plan, including any liability imposed under Code Section 409A, shall be borne by the Participant.

13.2 **No Employment Rights.** Nothing contained in this Plan or in any Award granted under the Plan shall confer upon any Participant any right with respect to the continuation of such Participant's Continuous Service by the Company or any Subsidiary or interfere in any way with the right of the Company or any Subsidiary, subject to the terms of any separate employment agreement to the contrary, at any time to terminate such Continuous Service or to increase or decrease the compensation of the Participant from the rate in existence at the time of the grant of the Award.

13.3 **Nontransferability of Awards.** Awards granted pursuant to the Plan are not transferable by the Participant other than by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by the Participant. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of the Awards contrary to the provisions hereof, or upon the levy of any attachment or similar process upon the Award, the Award shall immediately become null and void.

Notwithstanding the foregoing, to the extent specified in an Award Agreement, an Award may be transferred by a Participant solely to (1) the Participant's immediate family (children, grandchildren, or spouse) or trusts or other entities established for the benefit of the Participant's immediate family; or (2) the trust underlying a nonqualified deferred compensation plan established and maintained by the Company, to the extent specifically permitted in the trust agreement. Any such transfer of an Incentive Stock Option shall result in the conversion of the Option to a Nonqualified Stock Option.

13.4 *Participants in Foreign Countries.* The Plan Administrator shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company may operate to assure the viability of the benefits from Awards granted to Participants employed in such countries and to meet the objectives of the Plan.

13.5 *Other Employee Benefits.* Unless so provided by the applicable plan, the amount of compensation deemed to be received by a Participant as a result of the exercise of an Award shall not constitute earnings with respect to which any other employee benefits of the person are determined, including without limitation benefits under any pension, profit sharing, life insurance, or disability or other salary continuation plan.

13.6 *Confidentiality of Information.* Information regarding the grant of Awards under this Plan is confidential and may not be shared with anyone other than the Participant's immediate family and personal financial advisor and other person(s) designated by Participant by power of attorney or assignment.

13.7 *Severability.* If any provision of this Plan is held by any court or governmental authority to be illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions. Instead, each provision held to be illegal or invalid shall, if possible, be construed and enforced in a manner that will give effect to the terms of such provision to the fullest extent possible while remaining legal and valid.

13.8 *Governing Law and Venue.* This Plan, and all Awards granted under this Plan, shall be construed and shall take effect in accordance with the laws of the State of Colorado without regard to conflicts of laws principles. Resolution of any disputes under the Plan or any Award under the Plan shall only be held in courts in Denver County, Colorado.

13.9 *Use of Proceeds.* Any cash proceeds received by the Company from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

Adopted as of the Effective Date as first set forth above.

SCOTT'S LIQUID GOLD-INC.

ANNUAL MEETING OF STOCKHOLDERS

**Wednesday, May 4, 2005
9:00 A.M. Mountain Time**

**4880 HAVANA STREET
DENVER, COLORADO 80239**

[SCOTT'S LIQUID GOLD-INC. LOGO] **Scott's Liquid Gold-Inc. 4880 Havana Street Denver, Colorado 80239** **proxy**

This proxy is solicited by the Board of Directors for use at the Annual Meeting on May 4, 2005, at 9:00 A.M. Mountain Time.

The shares of stock you hold in your account will be voted as you specify on the reverse side.

If no choice is specified, the proxy will be voted "FOR" Item 1 and Item 2.

By signing the proxy, you revoke all prior proxies and appoint Mark E. Goldstein, Jeffrey R. Hinkle, Jeffry B. Johnson and Dennis P. Passantino, and each of them acting in the absence of the others, with full power of substitution, as your proxies to vote all your shares on the matters shown on the reverse side and any other matters which may come before the annual Meeting and all adjournments.

See reverse for voting instructions.

Please detach here

The Board of Directors Recommends a Vote FOR Items 1 and 2.

- | | | | | |
|---------------------------|-------------------------|--------------------|--------------------|---------------------|
| 1. Election of directors: | 01 Mark E. Goldstein | 05 Carl A. Bellini | Vote FOR | Vote WITHHELD |
| | 02 Jeffrey R. Hinkle | 06 Dennis H. Field | o all nominees | o from all nominees |
| | 03 Jeffry B. Johnson | 07 Gerald J. Laber | (except as marked) | |
| | 04 Dennis P. Passantino | | | |

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

2. Approval of the Scott's Liquid Gold-Inc. 2005 Stock Incentive Plan. For Against Abstain

3. In their discretion, the Proxies are authorized to vote upon such other business as properly may come before the meeting.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR EACH PROPOSAL.

Address Change? Mark Box Indicate changes below: Date _____

Signature(s) in Box
Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the proxy.

QuickLinks

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OTHER BUSINESS

EXHIBIT A TO PROXY STATEMENT DATED APRIL

6, 2005 AUDIT COMMITTEE CHARTER

EXHIBIT B TO PROXY STATEMENT DATED APRIL

6, 2005