

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

SCOTTS LIQUID GOLD INC
Form 10-Q
November 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED

September 30, 2010

Commission File No. 001-13458

SCOTT'S LIQUID GOLD-INC.
4880 Havana Street
Denver, CO 80239
Phone: 303-373-4860

Colorado
State of Incorporation

84-0920811
I.R.S. Employer
Identification No.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large accelerated filer
Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company

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

As of November 10, 2010, the Registrant had 10,795,000 of its \$0.10 par value common stock outstanding.

PART I. FINANCIAL INFORMATION

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

Item 1. Financial Statements

SCOTT'S LIQUID GOLD-INC. & SUBSIDIARIES Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 3,494,000	\$ 3,423,000	\$10,544,200	\$10,819,700
Operating costs and expenses:				
Cost of sales	1,946,700	2,023,800	5,649,000	6,272,900
Advertising	78,600	94,900	321,500	245,500
Selling	1,017,700	1,016,200	3,076,800	3,043,900
General and administrative	609,200	615,200	1,827,100	1,858,200
	-----	-----	-----	-----
	3,652,200	3,750,100	10,874,400	11,420,500
	-----	-----	-----	-----
Loss from operations	(158,200)	(327,100)	(330,200)	(600,800)
Interest and other income	30,600	2,200	97,900	7,200
Interest expense	(68,900)	(70,300)	(207,900)	(227,900)
	-----	-----	-----	-----
	(196,500)	(395,200)	(440,200)	(821,500)
Income tax expense (benefit)	-	-	-	-
	-----	-----	-----	-----
Net loss	\$ (196,500)	\$ (395,200)	\$ (440,200)	\$ (821,500)
	=====	=====	=====	=====
Net loss per common share (Note 2):				
Basic & Diluted	\$ (0.02)	\$ (0.04)	\$ (0.04)	\$ (0.08)
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic & Diluted	10,795,000	10,795,000	10,795,000	10,774,100
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

SCOTT'S LIQUID GOLD-INC. & SUBSIDIARIES Consolidated Balance Sheets

September 30,	December 31,
2010	2009
-----	-----
(Unaudited)	

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

ASSETS

Current assets:

Cash and cash equivalents	\$ 626,000	\$ 654,100
Investment securities	-	4,300
Trade receivables, net of allowance of \$61,100 and \$59,800, respectively, for doubtful accounts	647,200	314,400
Inventories, net	2,247,400	1,984,600
Prepaid expenses	93,800	142,300

Total current assets	3,614,400	3,099,700
----------------------	-----------	-----------

Property, plant and equipment, net	11,185,800	11,554,100
------------------------------------	------------	------------

Other assets	94,400	110,000
--------------	--------	---------

TOTAL ASSETS	\$14,894,600	\$14,763,800
--------------	--------------	--------------

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Obligations collateralized by receivables	\$ 444,100	\$ -
Accounts payable	1,363,500	1,109,900
Accrued payroll and benefits	667,600	578,900
Other accrued expenses	327,500	370,000
Current maturities of long-term debt	327,600	319,600

Total current liabilities	3,130,300	2,378,400
---------------------------	-----------	-----------

Long-term debt, net of current maturities	3,787,700	4,034,300
---	-----------	-----------

Total liabilities	6,918,000	6,412,700
-------------------	-----------	-----------

Shareholders' equity:

Common stock; \$.10 par value, authorized 50,000,000 shares; issued and outstanding 10,795,000 shares, and 10,795,000 shares, respectively	1,079,500	1,079,500
Capital in excess of par	5,330,300	5,264,300
Accumulated comprehensive income	-	300
Retained earnings	1,566,800	2,007,000

Shareholders' equity	7,976,600	8,351,100
----------------------	-----------	-----------

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$14,894,600	\$14,763,800
---	--------------	--------------

See accompanying notes to consolidated financial statements.

SCOTT'S LIQUID GOLD-INC. & SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)

Nine Months Ended
September 30,

2010	2009
------	------

Cash flows from operating activities:

Net loss	\$ (440,200)	\$ (821,500)
----------	--------------	--------------

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	385,500	401,600
Provision for doubtful accounts	-	2,500
Stock issued to ESOP	-	17,000
Stock-based compensation	66,000	58,100
Gain on sale of securities	(300)	-
Loss on disposal of assets	-	900
Changes in assets and liabilities:		
Proceeds from sale of accounts receivable	-	3,838,600
Trade and other receivables, net	10,900	(3,533,100)
Inventories	(262,800)	12,600
Prepaid expenses and other assets	48,400	(72,600)
Accounts payable and accrued expenses	463,300	164,000
Total adjustments to net loss	711,000	889,600
Net Cash Provided by Operating Activities	270,800	68,100
Cash flows from investing activities:		
Proceeds from sale of securities	4,300	-
Purchase of plant and equipment	(1,500)	-
Real estate brokerage costs	(41,200)	-
Net Cash Used by Investing Activities	(38,400)	-
Cash flows from financing activities:		
Net payments on obligations collateralized by receivables	(21,900)	-
Principal payments on long-term borrowings	(238,600)	(212,700)
Net Cash Used by Financing Activities	(260,500)	(212,700)
Net Decrease in Cash and Cash Equivalents	(28,100)	(144,600)
Cash and Cash Equivalents, beginning of period	654,100	909,900
Cash and Cash Equivalents, end of period	\$ 626,000	\$ 765,300
Supplemental disclosures:		
Cash paid during period for:		
Interest	\$ 208,400	\$ 229,000

See accompanying notes to consolidated financial statements.

SCOTT'S LIQUID GOLD-INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

Note 1. Summary of Significant Accounting Policies

- (a) Company Background

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

Scott's Liquid Gold-Inc. (a Colorado corporation) was incorporated on February 15, 1954. Scott's Liquid Gold-Inc. and its wholly-owned subsidiaries (collectively, "we" or "our") manufacture and market quality household and skin care products, and we fill, package and market our Mold Control 500 product. Since the first quarter of 2001, we have acted as the distributor in the United States for beauty care products contained in individual sachets and manufactured by Montagne Jeunesse. In 2006 and 2007, we began the distribution of certain other products. Our business is comprised of two segments -- household products and skin care products.

(b) Principles of Consolidation

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

(c) Basis of Preparation of Financial Statements

We have prepared these unaudited interim consolidated financial statements in accordance with the rules and regulations of the Securities and Exchange Commission. Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles as long as the statements are not misleading. In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal recurring nature. These interim financial statements should be read in conjunction with our financial statements included in our 2009 Annual Report on Form 10-K. The results of operations for the interim period may not be indicative of the results to be expected for the full fiscal year.

(d) Use of Estimates

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

(e) Cash Equivalents

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

(f) Investments in Marketable Securities

We follow FASB authoritative guidance as it relates to accounting for certain investments in debt and equity securities which requires that we classify investments in marketable securities according to management's intended use of such investments. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. We consider all investments as available for use in our current operations and, therefore, classify them as short-term, available-for-sale investments. Available-for-sale investments are stated at fair value, with unrealized gains and losses, if any, reported net of tax, as a separate component of shareholders' equity and comprehensive income (loss). The cost of the securities sold is based on the specific identification method. Investments in corporate and

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

government securities as of December 31, 2009, are scheduled to mature within one year.

(g) Sale of Accounts Receivable

On November 3, 2008, effective as of October 31, 2008, we established a \$1,200,000 factoring line with an asset-based lender, Summit Financial Resources ("Lender"), and secured by accounts receivable, inventory, any lease in which we are a lessor, all investment property and guarantees by our active subsidiaries. This facility enables us to sell selected accounts receivable invoices to the Lender with full recourse against us. During the first nine months of 2010, we sold approximately \$8,116,500 of our accounts receivable invoices to the Lender under a financing agreement for approximately \$5,681,500. The Company retains an interest equal to 30% of the total accounts receivable invoice sold to the Lender less a collateral management fee of 0.28% for each 10-day period that an accounts receivable invoice is uncollected plus a daily finance fee, based on Wall Street Journal prime (3.25% at September 30, 2010) plus 1%, imposed on (a) the net of the outstanding accounts receivable invoices less (b) retained amounts due to us. At September 30, 2010, approximately \$755,900 of this credit line was available for future factoring of accounts receivable invoices.

We have adopted the FASB's amended authoritative guidance which was issued in June 2009 and which became effective January 1, 2010 as it relates to distinguishing between transfers of financial assets that are sales from transfers that are secured borrowings. Under this new guidance as adopted by the Company effective January 1, 2010, the reporting of the sale of accounts receivable is treated as a secured borrowing rather than as a sale. As a result, affected accounts receivable are reported under Current Assets within the Company's balance sheet as "Trade receivables" subject to reserves for doubtful accounts, returns and other allowances. Similarly, the net liability owing to Summit Financial Resources appears as "Obligations collateralized by receivables" within the Current Liabilities section of the Company's balance sheet. Net proceeds received from the sale of accounts receivable appear as cash provided or used by financing activities within the Company's Consolidated Statements of Cash Flows. Early adoption of this amended guidance was not permitted. Under the authoritative guidance in effect prior to the amended guidance noted above, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

(h) Inventories

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

Inventories were comprised of the following at:

	September 30, 2010	December 31, 2009
	-----	-----
Finished goods	\$ 1,262,300	\$ 1,244,700
Raw materials	1,401,400	1,150,500
Inventory reserve for obsolescence	(416,300)	(410,600)
	-----	-----
	\$ 2,247,400	\$ 1,984,600

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

=====

=====

(i) Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost. Depreciation is provided using the straight-line method over estimated useful lives of the assets ranging from three to forty-five years. Building structures and building improvements are estimated to have useful lives of 35 to 45 years and 3 to 20 years, respectively. Production equipment and production support equipment are estimated to have useful lives of 15 to 20 years and 3 to 10 years, respectively. Office furniture and office machines are estimated to have useful lives of 10 to 20 and 3 to 5 years, respectively. Carpet, drapes and company vehicles are estimated to have useful lives of 5 to 10 years. Maintenance and repairs are expensed as incurred. Improvements that extend the useful lives of the assets or provide improved efficiency are capitalized.

(j) Financial Instruments

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

The recorded amounts for cash and cash equivalents, receivables, other current assets, and obligations collateralized by receivables, accounts payable and accrued expenses approximate fair value due to the short-term nature of these financial instruments. Our long-term debt bears interest at a fixed rate that adjusts annually on the anniversary date to a then prime rate. The carrying value of long-term debt approximates fair value as of September 30, 2010 and December 31, 2009.

(k) Long-Lived Assets

We follow FASB authoritative guidance as it relates to the proper accounting treatment for the impairment or disposal of long-lived assets. This guidance requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

As of December 31, 2009, due to changes in the real estate market in Denver, Colorado and the continuing economic downturn, we conducted an evaluation into fair value impairment as regards our property, plant and equipment with particular attention to our land and buildings ("facilities") which have an original cost of \$17,485,800 and a depreciated book value at December 31, 2009 of approximately \$10,792,700. For the facilities, we performed an evaluation utilizing an income capitalization model employing rental, vacancy and capitalization rates obtained from independent market data relative to our area of the Denver market as well as the actual rental rate in

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

effect in the current lease of a portion of our office space. This evaluation returned a range of fair value estimates in excess of (a) the carrying value of the facilities and (b) the current listing price for the facilities. We currently have the facilities listed for sale at the price of \$11,500,000 for the improved property plus an unstated amount for an unimproved, adjacent 5.5 acre parcel of land with a value estimated by us at \$1,200,000. Based upon our evaluation, we find there to be no impairment in the carrying values of our long-lived assets at December 31, 2009 and there have been no events or changes in circumstances that indicate the fair value of the facilities has declined in the nine months ended September 30, 2010; however, the valuation of our facilities can be affected by future events including the commercial real estate market in which our facilities are located.

(l) Income Taxes

We follow FASB authoritative guidance for the accounting for income taxes which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which related temporary differences become deductible. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(m) Revenue Recognition

Revenue is recognized when an arrangement exists to sell our product, we have delivered such product in accordance with that arrangement, the sales price is determinable, and collectibility is probable. Reserves for estimated market development support, pricing allowances and returns are provided in the period of sale as a reduction of revenue. Reserves for returns and allowances are recorded as a reduction of revenue, and are maintained at a level that management believes is appropriate to account for amounts applicable to existing sales. Reserves for coupons and certain other promotional activities are recorded as a reduction of revenue at the later of the date at which the related revenue is recognized or the date at which the sales incentive is offered. At September 30, 2010 and December 31, 2009 approximately \$356,300 and \$403,000, respectively, had been reserved as a reduction of accounts receivable, and approximately \$27,000 and \$23,000, respectively, had been reserved as current liabilities. Co-op advertising, marketing funds, slotting fees and coupons are deducted from gross sales and totaled \$848,300 and \$881,600 in the nine months ended September 30, 2010 and 2009, respectively.

(n) Advertising Costs

Advertising costs are expensed as incurred.

(o) Stock-based Compensation

During the first nine months of 2010, we granted 699,000 options for shares of our common stock to four officers, four non-employee directors and twenty-one employees at \$0.22 to \$0.30 per share. The options, which vest ratably over forty-eight months, or upon a change in control, and which expire after five years, were granted at or above the market value as of the date of grant.

The weighted average fair market value of the options granted in

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

the first nine months of 2010 and 2009 were estimated on the date of grant, using a Black-Scholes option pricing model with the following assumptions:

	September 30, 2010	September 30, 2009
Expected life of options (using the "simplified" method)	4.5 years	4.5 years
Risk-free interest rate	1.5%	2.7%
Expected volatility of stock	87%-121%	88%
Expected dividend rate	None	None

Compensation cost related to stock options recognized in operating results (included in general and administrative expenses) under authoritative guidance issued by the FASB was \$66,000 in the nine months ended September 30, 2010. Approximately \$162,200 of total unrecognized compensation costs related to non-vested stock options is expected to be recognized over the next forty-four months. In accordance with this same authoritative guidance, there was no tax benefit from recording the non-cash expense as it relates to the options granted to employees, as these were qualified stock options which are not normally tax deductible. With respect to the non-cash expense associated with the options granted to the non-employee directors, no tax benefit was recognized due to the existence of as yet unutilized net operating losses. At such time as these operating losses have been utilized and a tax benefit is realized from the issuance of non-qualified stock options, a corresponding tax benefit may be recognized.

(p) **Comprehensive Income (Loss)**

We follow FASB authoritative guidance which establishes standards for reporting and displaying comprehensive income (loss) and its components. Comprehensive income (loss) includes all changes in equity during a period from non-owner sources.

The following table is a reconciliation of our net loss to our total comprehensive loss for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net loss	\$ (196,500)	\$ (395,200)	\$ (440,200)	\$ (821,500)
Unrealized loss on on investment securities	-	(100)	-	(200)
Comprehensive loss	\$ (196,500)	\$ (395,300)	\$ (440,200)	\$ (821,700)

(q) **Operating Costs and Expenses Classification**

Cost of sales includes costs associated with manufacturing and distribution including labor, materials, freight-in, purchasing and receiving, quality control, internal transfer costs, repairs, maintenance and other indirect costs, as well as warehousing and distribution costs. We classify shipping and handling costs comprised primarily of freight-out and nominal outside warehousing costs as a component of selling expense on the accompanying Consolidated Statement of Operations. Shipping and handling costs totaled \$947,600 and \$983,800, for the nine months ended September 30, 2010 and 2009, respectively.

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

Selling expenses consist primarily of shipping and handling costs, wages and benefits for sales and sales support personnel, travel, brokerage commissions, promotional costs, as well as other indirect costs.

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

Note 2. Earnings per Share

Per share data was determined by using the weighted average number of common shares outstanding. Potentially dilutive securities, including stock options, are considered only for diluted earnings per share, unless considered anti-dilutive. The potentially dilutive securities, which are comprised of outstanding stock options of 1,932,650 and 1,922,900 at September 30, 2010 and 2009, were excluded from the computation of weighted average shares outstanding due to their anti-dilutive effect.

A reconciliation of the weighted average number of common shares outstanding for the three and nine months ended September 30, 2010 and 2009, respectively, follows:

	2010	
	----- Three Months -----	----- Nine Months -----
Common shares outstanding beginning of period	10,795,000	10,795,000
Stock issued to ESOP (a)	-	-
Weighted average number of common shares outstanding	10,795,000	10,795,000
Dilutive effect of common share equivalents	-	-
Diluted weighted average number of common shares outstanding	10,795,000 =====	10,795,000 =====

	2009	
	----- Three Months -----	----- Nine Months -----
Common shares outstanding beginning of period	10,795,000	10,695,000
Stock issued to ESOP (a)	-	79,100
Weighted average number of common shares outstanding	10,795,000	10,774,100
Dilutive effect of common share equivalents	-	-

Edgar Filing: SCOTT'S LIQUID GOLD INC - Form 10-Q

Diluted weighted average number of common shares outstanding	10,795,000 =====	10,774,100 =====
--	---------------------	---------------------

(a) In February 2009, the Board of Directors authorized and the Company issued 100,000 shares of common stock to the Employee Stock Ownership Plan at a price of \$0.17 per share.

At September 30, 2010, there were authorized 50,000,000 shares of our \$0.10 par value common stock and 20,000,000 shares of preferred stock issuable in one or more series. None of the preferred stock was issued or outstanding at September 30, 2010.

Note 3. Segment Information

We operate in two different segments: household products and skin care products. Our products are sold nationally and internationally (primarily Canada), directly and through independent brokers, to mass merchandisers, drug stores, supermarkets, wholesale distributors and other retail outlets. Management has chosen to organize our business around these segments based on differences in the products sold. The household products segment includes: "Scott's Liquid Gold" wood care products including a cleaner that preserves as it cleans and a wood wash product; Mold Control 500, a mold remediation product; "Clean Screen," a surface cleaner for sensitive electronic televisions and other devices; and "Touch of Scent" room air fresheners. The skin care segment includes: "Alpha Hydrox," alpha hydroxy acid cleansers and lotions; a retinol product; and "Diabetic Skin Care", a healing cream and moisturizer developed to address skin conditions of diabetics. In the skin care segment, we also distribute skin care and other sachets of Montagne Jeunesse and certain other products.

The following provides information on our segments for the three and nine months ended September 30:

	Three Months Ended September 30,			
	2010		2009	
	Household Products	Skin Care Products	Household Products	Skin Care Products
Net sales to external customers	\$ 1,672,600 =====	\$ 1,821,400 =====	\$ 1,873,000 =====	\$ 1,550,000 =====
Income (loss) before profit sharing, bonuses, and income taxes	\$ (22,700) =====	\$ (173,800) =====	\$ 15,700 =====	\$ (410,900) =====
Identifiable Assets	\$ 2,755,700 =====	\$ 3,989,600 =====	\$ 2,877,700 =====	\$ 4,181,600 =====

	Nine Months Ended September 30,			
	2010		2009	
	Household Products	Skin Care Products	Household Products	Skin Care Products
Net sales to				

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

external customers	\$ 5,415,400	\$ 5,128,800	\$ 5,377,300	\$ 5,442,400
	=====	=====	=====	=====
Income (loss) before profit sharing, bonuses and income taxes	\$ 100	\$ (440,300)	\$ (160,200)	\$ (661,300)
	=====	=====	=====	=====
Identifiable Assets	\$ 2,755,700	\$ 3,989,600	\$ 2,877,700	\$ 4,181,600
	=====	=====	=====	=====

The following is a reconciliation of segment information to consolidated information for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	-----	-----	-----	-----
Net sales to external customers	\$ 3,494,000	\$ 3,423,000	\$10,544,200	\$10,819,700
	=====	=====	=====	=====
Loss before profit sharing, bonuses and income taxes	\$ (196,500)	\$ (395,200)	\$ (440,200)	\$ (821,500)
	=====	=====	=====	=====
Identifiable assets	\$ 6,745,300	\$ 7,059,300	\$ 6,745,300	\$ 7,059,300
Corporate assets	8,149,300	8,638,300	8,149,300	8,638,300
	-----	-----	-----	-----
Consolidated total assets	\$14,894,600	\$15,697,600	\$14,894,600	\$15,697,600
	=====	=====	=====	=====

Corporate assets noted above are comprised primarily of our cash and investments, and property and equipment not directly associated with the manufacturing, warehousing, shipping and receiving activities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

During the first nine months of 2010, we experienced an overall decrease in net sales of \$275,500 as compared to the first nine months of 2009. Our net loss for the first nine of 2010 was \$440,200 versus a net loss of \$821,500 in the first nine months of 2009. The decrease in our net loss for the first nine months of 2010 compared to the first nine months of 2009 results primarily from improved gross margins as the 2009 margins reflected a greater volume of discounted products associated with the discontinuation of a line of air fresheners plus two lines of distributed products. The 2010 margins were also negatively impacted by increases in both co-op advertising and selling expenses which are reflected as a reduction to net sales. Favorably impacting the net loss in the first nine months of 2010 is the net rental income received from the leasing of office space as more fully discussed below.

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

Summary of Results as a Percentage of Net Sales

	Year Ended December 31, ----- 2009 -----	Nine Months Ended September 30, ----- 2010 2009 -----	
Net sales			
Scott's Liquid Gold			
household products	50.6%	51.4%	49.7%
Neoteric Cosmetics	49.4%	48.6%	50.3%
	-----	-----	-----
Total Net Sales	100.0%	100.0%	100.0%
Cost of Sales	58.0%	53.6%	58.0%
	-----	-----	-----
Gross profit	42.0%	46.4%	42.0%
Other revenue	0.2%	.9%	0.1%
	-----	-----	-----
	42.2%	47.3%	42.1%
	-----	-----	-----
Operating expenses	48.5%	49.5%	47.6%
Interest	2.1%	2.0%	2.1%
	-----	-----	-----
	50.6%	51.5%	49.7%
	-----	-----	-----
Loss before income taxes	(8.4%)	(4.2%)	(7.6%)
	=====	=====	=====

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

Nine Months Ended September 30, 2010
Compared to Nine Months Ended September 30, 2009

Comparative Net Sales

	Nine Months Ended September 30, 2010 2009 -----		Percentage Increase (Decrease) -----
Scott's Liquid Gold and other household products	\$ 5,050,200	\$ 4,876,300	3.6%
Touch of Scent	365,200	501,000	(27.1%)
	-----	-----	-----
Total household products	5,415,400	5,377,300	0.7%
	-----	-----	-----
Alpha Hydrox and other skin care	2,627,000	2,922,300	(10.1%)
Montagne Jeunesse and other distributed skin care	2,501,800	2,520,100	(0.7%)
	-----	-----	-----

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

Total skin care products	5,128,800	5,442,400	(5.8%)
	-----	-----	-----
 Total net sales	 \$10,544,200	 \$10,819,700	 (2.5%)
	=====	=====	=====

Consolidated net sales for the first nine months of the current year were \$10,544,200 versus \$10,819,700 for the first nine months of 2009, a decrease of \$275,500. Average selling prices for the first nine months of 2010 were up by \$30,500 over the first nine months of 2009. Average selling prices of household products were down by \$35,600, while average selling prices of skin care products were up by \$66,100. This overall increase in selling prices reflects a decrease in co-op advertising, marketing funds, slotting fees, and coupons paid to retailers which are deducted from gross sales, and totaled \$848,300 in the first nine months of 2010 versus \$881,600 in the same period in 2009, a decrease of \$33,300 or 3.8%. This decrease consisted of an increase in coupon expense of \$32,600, an increase in slotting fee expenses of \$32,800, and a decrease in co-op advertising funds of \$98,700.

From time to time, our customers return product to us. For our household products, we permit returns only for a limited time, and generally only if there is a manufacturing defect. With regard to our skin care products, returns are more frequent under an unwritten industry standard that permits returns for a variety of reasons. In the event a skin care customer requests a return of product, the Company will consider the request, and may grant such request in order to maintain or enhance relationships with customers, even in the absence of an enforceable right of the customer to do so. Some retailers have not returned products to us. Return price credit (used in exchanges typically, or rarely, refunded in cash) when authorized is based on the original sale price plus a handling charge of the retailer that ranges from 8-10%. The handling charge covers costs associated with the return and shipping of the product. Additions to our reserves for estimated returns are subtracted from gross sales.

From January 1, 2007 through September 30, 2010, our product returns (as a percentage of gross revenue) have averaged as follows: household products 0.5%, Montagne Jeunesse products 2.7%, and our Alpha Hydrox and other skin care products 3.5%. The level of returns as a percentage of gross revenue for the household products and Montagne Jeunesse products have remained fairly constant as a percentage of sales over that period while the Alpha Hydrox and other skin care products return levels have fluctuated. More recently, as our sales of the Alpha Hydrox skin care products have declined we have seen a decrease in returns of these products as a percentage of gross revenues. The products returned in the first nine months of 2010 (indicated as a percentage of gross revenues) were: household products 1.2%, Montagne Jeunesse products 0.6%, and our Alpha Hydrox and other skin care products 0.3%. We are not aware of any industry trends, competitive product introductions or advertising campaigns at this time which would cause returns as a percentage of gross sales to be materially different for the current fiscal year than for the above averages. Furthermore, our management is not currently aware of any changes in customer relationships that we believe would adversely impact anticipated returns. However, we review our reserve for returns quarterly and we regularly face the risk that the existing conditions related to product returns will change.

During the first nine months of 2010, net sales of skin care products accounted for 48.6% of consolidated net sales compared to 50.3% for the same period of 2009. Net sales of these products for

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

that period were \$5,128,800 in 2010 compared to \$5,442,400 in 2009, a decrease of \$313,600 or 5.8%. Our decrease in net sales of skin care was comprised of a decrease of \$18,300 in sales of products for which we act as a distributor and a decrease of \$295,300 in our manufactured skin care product lines.

Overall, net sales of our line-up of distributed products, including Montagne Jeunesse, totaled \$2,501,800 in the nine months of 2010 as compared to net sales of \$2,520,100 in the same period of 2009, a decrease of \$18,300 or 0.7%.

Similarly, net sales of our Alpha Hydrox and other manufactured skin care products declined \$295,300 or 10.1%, from \$2,922,300 in the nine months of 2009 to \$2,627,000 for the same period of 2010. This sales decrease was attributable to the discontinued sale of our Massage Oils by our largest retail customer.

Sales of household products for the first nine months of 2010 accounted for 51.4% of consolidated net sales compared to 49.7% for the same period in 2009. These products are comprised of Scott's Liquid Gold wood care products, Mold Control 500, Clean Screen, and Touch of Scent. During the nine months ended September 30, 2010 sales of household products were \$5,415,400 as compared to \$5,377,300 for the same period in 2009, an increase of \$38,100 or 0.7%. Sales of Scott's Liquid Gold products increased by \$371,800 or 8.1%, in 2010 versus 2009, while Mold Control 500 sales decreased by \$197,900 or 64.1%, and sales of Touch of Scent products decreased \$135,800 or 27.1%, in the same comparative periods. The increase in sales of Scott's Liquid Gold products is primarily attributable to the introduction of "Clean Screen," a surface cleaner for sensitive electronics including HDTV screens, computer monitors and other such devices, coupled with an increase in sales of wood care products. The decrease in sales of Mold Control 500 is attributable to the loss of distribution at a national hardware chain. The decrease in sales of Touch of Scent products is attributable to the discontinuation of the air freshener products Cube Scents and Odor Extinguisher in 2008 and 2009 along with a reduction in sales through our online store.

As sales of a consumer product decline, there is the risk that retail stores will stop carrying the product. The loss of any significant customer for any skin care products, "Scott's Liquid Gold" wood care or mold remediation products could have a significant adverse impact on our revenues and operating results.

We also believe that the introduction of successful new products, including line extensions of existing products, such as the wood wash and our mold remediation product, using the name "Scott's Liquid Gold", are important in our efforts to maintain or grow our revenue. In the second quarter of 2009, we introduced, with limited sales to date, "Clean Screen", a new household product under the Scott's Liquid Gold brand. Additionally, in the fourth quarter of 2009 we introduced Batiste dry shampoo for distribution in the United States. Additionally, we regularly review possible additional products to sell through distribution agreements or to manufacture ourselves. To the extent that we manufacture a new product rather than purchase it from external parties, we are also benefited by the use of existing capacity in our facilities. The actual introduction of additional products, the timing of any additional introductions and any revenues realized from new products is uncertain.

On a consolidated basis, cost of goods sold was \$5,649,000 during the first nine months of 2010 compared to \$6,272,900 for the same

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

period of 2009, a decrease of \$623,900 or 9.9%, against a sales decrease of 2.5%. As a percentage of consolidated net sales, cost of goods sold was 53.6% in 2010 versus 58.0% in 2009, a decrease of about 7.6%. With respect to our skin care products, the cost of goods sold dropped to 56.2% in first nine months of 2010 as compared to 61.5% in the first nine months of 2009 as a result of our decision in 2009 to discontinue our business relationship with a retail chain where excessive retail support in the form of product returns, marketing co-op funds, coupons and promotion programs and damage claims had made such business unprofitable. Likewise, household products experienced a decline in cost of goods sold from 54.4% in 2009 compared to 51.0% for the same period in 2010. In 2009, cost of goods sold reflected the sale of discontinued products at below our cost of approximately \$300,000 as well as higher steel can costs which were subsequently negotiated down in mid-2009 and again in early 2010.

Operating Expenses, Interest Expense and Other Income

	Nine Months Ended September 30,		Percentage Increase (Decrease)
	2010	2009	
Operating Expenses			
Advertising	\$ 321,500	\$ 245,500	31.0%
Selling	3,076,800	3,043,900	1.1%
General & Administrative	1,827,100	1,858,200	(1.7%)
Total operating expenses	\$ 5,225,400	\$ 5,147,600	1.5%
Interest and Other Income	\$ 97,900	\$ 7,200	1,259.7%
Interest Expense	\$ 207,900	\$ 227,900	(8.8%)

Operating expenses comprised primarily of advertising, selling and general and administrative expenses increased \$77,800 in the first nine months of 2010 when compared to the first nine months of 2009. The various components of operating expenses are discussed below.

Advertising expenses for the first nine months of 2010 were \$321,500 compared to \$245,500 for the comparable period of 2009, an increase of \$76,000 or 31.0%. This increase reflects coupon campaigns for our household products directed nationwide as well as retailer-specific programs.

Selling expenses for the first nine months of 2010 were \$3,076,800 compared to \$3,043,900 for the comparable period of 2009, an increase of \$32,900 or 1.1%. This increase was comprised of a decrease in freight expenses of \$40,500 largely resulting from declining fuel prices and the utilization of a third-party logistics firm as well as the overall reduction in sales in the first nine months of 2010 compared to 2009, offset by an increase in promotional selling expenses of \$48,000 related to efforts to support our diabetic products and a net increase in other selling expenses, none of which by itself is significant, of \$25,400.

General and administrative expenses for the first nine months of 2010 were \$1,827,100 compared to \$1,858,200 for the comparable period of 2009, a decrease of \$31,100 or 1.7%. That decrease resulted from a decrease in salaries, fringe benefits and related travel expense of

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

\$63,600 associated with a reduction in personnel and fees paid to outside directors, partially offset by an increase in professional fees and reporting costs of \$22,700 and a net increase in various other expense items, none of which by itself is significant, of \$9,800.

Interest expense for the first nine months of 2010 was \$207,900 and included \$75,600 in collateral management fees incurred relative to the sale of accounts receivable invoices to Summit Financial Resources. Interest expense for the first nine months of 2009 was \$227,900 and included \$53,300 in collateral management fees. The decrease in interest expense reflects the combined effect of a decrease in the outstanding mortgage liability from 2009 to 2010 and the reduction in the interest rate in effect on that mortgage from 5.0% prior to June 28, 2009 to 3.25% effective after that date.

Interest and other income for the first nine months of 2010 of \$97,900 and included \$91,600 of net rental receipts from the rental of a portion of our headquarters building, which we own, and \$6,300 in interest earned on our cash reserves as compared to \$7,200 in interest earned on our cash reserves in the first nine months of 2009. There were no rental receipts in the first nine months of 2009.

Three Months Ended September 30, 2010
Compared to Three Months Ended September 30, 2009

Comparative Net Sales

	Three Months Ended September 30,		
	2010	2009	Percentage Increase (Decrease)
Scott's Liquid Gold and other household products	\$ 1,565,500	\$ 1,736,400	(9.8%)
Touch of Scent	107,100	136,600	(21.6%)
Total household products	1,672,600	1,873,000	(10.7%)
Alpha Hydrox and other skin care	800,100	1,022,100	(21.7%)
Montagne Jeunesse and other distributed skin care	1,021,300	527,900	93.5%
Total skin care products	1,821,400	1,550,000	17.5%
Total net sales	\$ 3,494,000	\$ 3,423,000	2.1%

Consolidated net sales for the third quarter of the current year were \$3,494,000 versus \$3,423,000 for the comparable quarter of 2009, an increase of \$71,000 or 2.1%. Average selling prices for the third quarter of 2010 were up by \$109,000 over those of the comparable period of 2009, with prices of household products being up by \$55,100 and average selling prices of skin care products were up by \$53,900. Co-op advertising, marketing funds, slotting fees and coupon expenses paid to retailers were subtracted from gross sales in accordance with current accounting policies totaling \$309,300 in the third quarter of 2010 versus \$207,500 in the comparable period in 2009, an increase of

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

\$101,800 or 49.1%. This increase consisted of an increase in coupon expenses of \$33,000, an increase in slotting of \$91,900, and partially offset by a decrease in co-op advertising of \$23,100.

During the third quarter of 2010, net sales of skin care products accounted for 52.1% of consolidated net sales compared to 45.3% for the third quarter of 2009. Net sales of these products for that period were \$1,821,400 in 2010 compared to \$1,550,000 for the comparable period in 2009, an increase of \$271,400 or 17.5%. Our increase in net sales of skin care products was comprised of an increase of \$493,400 in sales of products for which we act as a distributor partially offset by a decrease of \$222,000 in our manufactured skin care product lines.

Overall, net sales of our line-up of distributed products, including Montagne Jeunesse, totaled \$1,021,300 in the third quarter of 2010 as compared to net sales of \$527,900 in the comparable period of 2009, an increase of \$493,400 or 93.5%. This sales increase is primarily the result of re-engagement of the Montagne Jeunesse products with a few of our largest retail customers as well as the growing distribution of Batiste dry shampoo, which was first introduced in November 2009. Net sales of other distributed skin care products were nominal in the third quarter of both 2010 and 2009.

Conversely, net sales of our Alpha Hydrox and other manufactured skin care products declined \$222,000, or 21.7%, from \$1,022,100 in the third quarter of 2009 to \$800,100 for the same period of 2010. This sales decrease was attributable primarily to the loss of a single distribution point for our diabetic products related to a change in health care benefits formerly available to a group of mine workers, a close-out sale in 2009 not replicated in 2010 and to the loss of distribution for our massage oils at a major retailer.

Sales of household products for the third quarter of 2010 accounted for 47.9% of consolidated net sales compared to 54.7% for the same period in 2009. These products are comprised of Scott's Liquid Gold wood care products, Mold Control 500, Clean Screen, and Touch of Scent. During the quarter ended September 30, 2010, sales of household products were \$1,672,600 as compared to \$1,873,000 for the same period in 2009, a decrease of \$200,400, or 10.7%. Sales of Scott's Liquid Gold products decreased by \$82,700, or 5.1%, in the third quarter of 2010 versus the comparable period in 2009, Mold Control 500 sales were down by \$88,200, or 69.2%, and sales of Touch of Scent products declined \$29,500, or 21.6%, in the same comparative periods. The decrease in sales of Scott's Liquid Gold products in the third quarter of 2010 is attributable to promotional efforts involving coupons in the prior quarters of 2010 for which retailers responded with greater purchases in the earlier periods.

On a consolidated basis, cost of goods sold was \$1,946,700 during the third quarter of 2010 compared to \$2,023,800 for the same period of 2009, a decrease of \$77,100 or 3.8%, against a sales increase of 2.1%. As a percentage of consolidated net sales, cost of goods sold was 55.7% in the third quarter of 2010 versus 59.1% in 2009, a decrease of about 5.8%. With respect to our skin care products, the cost of goods declined to 58.4% in third quarter of 2010 as compared to 70.2% in the third quarter of 2009 as a result of our decision in 2009 to discontinue our business relationship with a retail chain where excessive retail support in the form of product returns, marketing co-op funds, coupons and promotion programs and damage claims had made such business unprofitable. With respect to household products, the cost of goods sold rose nominally during the third quarter of 2010 to 52.8% as compared to 50.0% for the third quarter

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

of 2009 due in part to changing oil prices which were trending down in 2009 but have reversed course in 2010.

Operating Expenses, Interest Expense and Other Income

	Three Months Ended September 30,		
	2010	2009	Percentage Increase (Decrease)
Operating Expenses			
Advertising	\$ 78,600	\$ 94,900	(17.2%)
Selling	1,017,700	1,016,200	0.1%
General & Administrative	609,200	615,200	(1.0%)
Total operating expenses	\$ 1,705,500	\$ 1,726,300	(1.2%)
Interest and Other Income	\$ 30,600	\$ 2,200	1,290.9%
Interest Expense	\$ 68,900	\$ 70,300	(2.0%)

Operating expenses comprised primarily of advertising, selling and general and administrative expenses decreased \$20,800 in the third quarter of 2010 when compared to the same period during 2009. The various components of operating expenses are discussed below.

Advertising expenses for the third quarter of 2010 were \$78,600 compared to \$94,900 for the comparable quarter of 2009, a decrease of \$16,300 or 17.2%, resulting primarily from reduced television media placements.

Selling expenses for the third quarter of 2010 were \$1,017,700 compared to \$1,016,200 for the comparable quarter of 2009, an increase of \$1,500 or 0.1%.

General and administrative expenses for the third quarter of 2010 were \$609,200 compared to \$615,200 for the comparable quarter of 2009, a decrease of \$6,000 or 1.0%.

Interest expense for the third quarter of 2010 was \$68,900 and included \$25,400 in collateral management fees incurred relative to the sale of accounts receivable invoices to Summit Financial Resources. Interest expense for the third quarter of 2009 was \$70,300 including \$24,000 in collateral management fees. The resulting decrease in interest expense reflects the combined effect of a decrease in the outstanding mortgage liability from 2009 to 2010 and the reduction in the interest rate in effect on that mortgage from 5.0% prior to June 28, 2009 to 3.25% effective after that date.

Interest and other income for the third quarter of 2010 of \$30,600 included \$28,900 of net rental receipts from the rental of a portion of our headquarters building, which we own, and \$1,700 in interest earned on our cash reserves as compared to \$2,200 in interest earned on our cash reserves in the same period of 2009. There were no rental receipts in the first nine months of 2009.

Liquidity and Capital Resources

Citywide Loan

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

On June 28, 2006, we entered into a loan with a fifteen year amortization with Citywide Banks (the "Bank") for \$5,156,600 secured by the land, building and fixtures at our Denver, Colorado facilities. Interest on the bank loan (3.25% at September 30, 2010) is at the prime rate as published in The Wall Street Journal, adjusted annually each June. This loan requires 180 monthly payments of approximately \$38,200. Monthly payments commenced on July 28, 2006. The loan agreement contains a number of covenants, including the requirement for maintaining a current ratio of at least 1:1 and a ratio of consolidated long-term debt to consolidated net worth of not more than 1:1, the aforementioned ratios to be calculated in accordance with U.S. generally accepted accounting principles. We may not declare any dividends that would result in a violation of either of these covenants. Affirmative covenants in the loan agreement concern, among other things, compliance in all material respects with applicable laws and regulations and compliance with our agreements with other parties which materially affect our financial condition. Negative covenants require that we not do any of the following, among other things, without the consent of the Bank: Sell, lease or grant a security interest in assets; engage in any business activity substantially different than those in which we are presently engaged; sell assets out of the ordinary course of business; or purchase another entity or an interest in another entity. The foregoing requirements were met at the end of quarter ending September 30, 2010.

Financing Agreement

On November 3, 2008, effective as of October 31, 2008, we entered into a financing agreement with an "asset-based" lender for the purpose of improving working capital. An amendment to this agreement was executed March 12, 2009 extending the initial anniversary date to March 12, 2010. The term of the agreement is one year and is automatically renewed for 12 months unless either party elects to cancel in writing at least 60 days prior to the anniversary date. Neither party sent such a notice of non-renewal, and therefore the term of the financing agreement has automatically been extended to March 12, 2011. The agreement provides for up to \$1,200,000 and is secured primarily by accounts receivable, inventory, any lease in which we are a lessor, all investment property and guarantees by our active subsidiaries. Under the financing agreement, the lender will make loans at our request and in the lender's discretion (a) based on purchases of our Accounts by the lender, with recourse against us and an advance rate of 70% (or such other percentage determined by the lender in its discretion), and (b) based on Acceptable Inventory not to exceed certain amounts, including an aggregate maximum of \$250,000. Advances under the agreement bear interest at a rate of 1% over the prime rate (as published in the Wall Street Journal) for the accounts receivable portion of the advances and 3% over the prime rate for the inventory portion of the borrowings. The prime rate (3.25% as of September 30, 2010) adjusts with changes to the rate. In addition there are collateral management fees of 0.28% for each 10-day period that an advance on an accounts receivable invoice remains outstanding and a 1.35% collateral management fee on the average monthly loan outstanding on the inventory portion of any advance. The agreement provides that no change in control concerning us or any of our active subsidiaries shall occur except with the prior written consent of the lender. Events of default include, but are not limited to, the failure to make a payment when due or a default occurring on any indebtedness of ours.

Liquidity

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

During the first nine months of 2010, our working capital decreased by \$237,200 resulting in a current ratio (current assets divided by current liabilities) of 1.2:1 at September 30, 2010, compared to 1.3:1 at December 31, 2009. The decrease in working capital is attributable primarily to the principal reduction in our long-term debt of \$238,600.

At September 30, 2010, trade and other receivables were \$647,200 versus \$314,400 at the end of 2009. As discussed in Note 1(g), on January 1, 2010 the Company adopted new authoritative guidance which prospectively modified the presentation of transferred trade receivables and the related securitized obligation. Had early adoption been permitted then trade and other receivables at December 31, 2009 would have increased \$343,700 to \$658,100 along with a corresponding increase in current liabilities. Accounts payable, accrued payroll and other accrued expenses increased by \$299,800 from the end of 2009 through September of 2010 corresponding with the increase and timing of purchases of inventory and rise in receivables over that period. At September 30, 2010 inventories were \$262,800 more than at December 31, 2009, due primarily to an increase in anticipated sales of distributed products. Prepaid expenses decreased from the end of 2009 by \$48,500.

We have no significant capital expenditures planned for 2010.

The Summit Financial Resources line of credit is expected to provide working capital which may be necessary to meet the needs of the Company over the next 12 months. The Company, in general, has high quality accounts receivable that may be sold pursuant to the line of credit. The Summit Financial Resources agreement has a term of one year which expires March 12, 2011, and is automatically renewed for 12 months unless either party elects to cancel in writing at least 60 days prior to the anniversary date.

As a result of the foregoing, we expect that our available cash, projected cash flows from operating activities, and borrowing available under the Summit Financial Resources agreement (assuming no cancellation of the agreement) will fund the cash requirements for the twelve months ending September 30, 2011.

In order to improve our liquidity and our operating results, we will also continue to pursue the following steps: the sale or lease of all or a portion of our real estate which we have listed with a real estate firm, efforts to improve revenues, a further reduction in our fixed operating expense if needed, and potentially the addition of external financing. In October 2009, we entered into a long-term lease of the second floor of our five-story office building to an established subsidiary of an international company. In September 2010 we entered into a two-year lease of just less than half of the first floor of our office building. Our officers and employees now occupy three other floors of the office building.

Our dependence on operating cash flow means that risks involved in our business can significantly affect our liquidity. Any loss of a significant customer, any further decreases in distribution of our skin care or household products, any new competitive products affecting sales levels of our products, or any significant expense not included in our internal budget could result in the need to raise cash. We have no arrangements for any additional external financing of debt or equity, and we are not certain whether any such financing would be available on acceptable terms. Any external debt financing could require the cooperation and approval of existing lenders. In order to improve our operating cash flow, we need to achieve profitability.

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-Q

Forward-Looking Statements

This report may contain "forward-looking statements" within the meaning of U.S. federal securities laws. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Our performance inherently involves risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: continued acceptance of each of our significant products in the marketplace; the degree of success of any new product or product line introduction by us; limited consumer acceptance of the Alpha Hydrox products introduced in 2005 and 2007; uncertainty of consumer acceptance of Mold Control 500, wood wash products and products recently introduced or being introduced in 2010; competitive factors; any decrease in distribution of (i.e., retail stores carrying) our significant products; continuation of our distributorship agreement with Montagne Jeunesse; the need for effective advertising of our products; limited resources available for such advertising; new competitive products and/or technological changes; dependence upon third party vendors and upon sales to major customers; changes in the regulation of our products, including applicable environmental regulations; additional net losses which could affect our liquidity; the loss of any executive officer; and other matters discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 and this Report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

Not Applicable

Item 4T. Controls and Procedures

Disclosure Controls and Procedures

As of September 30, 2010, we conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2010.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Not Applicable

Item 2. Not Applicable

Item 3. Not Applicable

Item 4. Not Applicable

Edgar Filing: SCOTT'S LIQUID GOLD INC - Form 10-Q

Item 5. Not Applicable

Item 6. Exhibits

- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer
- 32.1 Section 1350 Certification

SIGNATURES

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

SCOTT'S LIQUID GOLD-INC.

November 11, 2010
Date

BY: /s/ Mark E. Goldstein

Mark E. Goldstein
President and Chief Executive Officer

November 11, 2010
Date

BY: /s/ Brian L. Boberick

Brian L. Boberick
Treasurer and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Document
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer
32.1	Section 1350 Certification