

SCOTTS LIQUID GOLD INC  
Form 10-Q  
November 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-13458

SCOTT'S LIQUID GOLD-INC.

(Exact name of registrant as specified in its charter)

Colorado  
(State or other jurisdiction of  
incorporation or organization)

84-0920811  
(I.R.S.  
Employer  
Identification  
No.)  
80239

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

4880 Havana Street, Suite 400, Denver, CO

(Address of principal executive offices)

(Zip Code)

303-373-4860

(Registrant's telephone number, including area code)

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

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

Indicate by check mark 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 13, 2015, the Registrant had 11,667,345 of its common stock, \$0.10 par value per share, outstanding.

## CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (this “Report”) contains “forward-looking statements” within the meaning of U.S. federal securities laws. All statements, other than statements of historical fact, included in this Report that address activities, events, or developments with respect to our financial condition, results of operations, or economic performance that we expect, believe, or anticipate will or may occur in the future, or that address plans and objectives of management for future operations, are forward-looking statements. You can typically identify forward-looking statements by the use of words, such as “may,” “could,” “should,” “assume,” “project,” “believe,” “anticipate,” “expect,” “estimate,” “potential,” “plan,” and other similar words. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and our performance inherently involve risk and uncertainty that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to:

- changing consumer preferences and the continued acceptance of each of our significant products in the marketplace;
- the degree of success of any new product or product line introduction by us, including our Scott’s Liquid Gold® Floor Restore product, which we introduced late in the fourth quarter of 2013;
- competitive factors, including any decrease in distribution of (i.e., retail stores carrying) our significant products;
- continuation of our distributorship agreements for Montagne Jeunesse skin care products and Batiste Dry Shampoos;
- the need for effective advertising of our products and limited resources available for such advertising;
- new competitive products and/or technological changes;
- dependence upon third party vendors and upon sales to major customers;
- the availability of necessary raw materials and potential increases in the prices of these raw materials;
- changes in the regulation of our products, including applicable environmental and U.S. Food and Drug Administration (“FDA”) regulations;
- the continuing availability of financing on terms and conditions that are acceptable to us;
- future losses which could affect our liquidity;
- the loss of any executive officer; and
- other matters discussed in this Report, including the risks described in the Risk Factors section of this Report.

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

TABLE OF CONTENTS

	Page
 <u>PART I</u>	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
Item 4. <u>Controls and Procedures</u>	16
 <u>PART II</u>	
Item 1A. <u>Risk Factors</u>	17
Item 6. <u>Exhibits</u>	17

---

## PART I

## ITEM 1. FINANCIAL STATEMENTS.

## Consolidated Statements of Operations (Unaudited)

## Scott's Liquid Gold-Inc. &amp; Subsidiaries

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Net sales	\$7,548,100	\$6,211,100	\$21,755,700	\$17,428,900
Operating costs and expenses:				
Cost of sales	4,284,600	3,495,300	12,042,600	9,761,900
Advertising	528,600	61,100	1,087,900	460,300
Selling	1,336,600	1,198,100	4,043,600	3,513,300
General and administrative	733,200	770,200	2,433,900	2,182,600
Total operating costs and expenses	6,883,000	5,524,700	19,608,000	15,918,100
Income from operations	665,100	686,400	2,147,700	1,510,800
Other income	6,800	31,200	16,100	43,400
Interest expense	(7,400 )	(7,300 )	(22,000 )	(21,800 )
Income before income taxes	664,500	710,300	2,141,800	1,532,400
Income tax (expense) benefit	(191,500 )	(4,600 )	2,377,500	(20,400 )
Net income	\$473,000	\$705,700	\$4,519,300	\$1,512,000
Net income per common share				
Basic	\$0.04	\$0.06	\$0.39	\$0.13
Diluted	\$0.04	\$0.06	\$0.38	\$0.13
Weighted average shares outstanding:				
Basic	11,665,461	11,537,066	11,617,562	11,495,122
Diluted	11,927,877	11,840,758	11,907,486	11,785,515

See accompanying notes to these Consolidated Financial Statements (Unaudited).

## Consolidated Balance Sheets

## Scott's Liquid Gold-Inc. &amp; Subsidiaries

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,122,300	\$ 5,896,600
Trade receivables, net	1,635,600	1,041,100
Inventories, net	4,612,300	2,689,700
Income taxes receivable	1,500	3,700
Deferred tax asset	169,400	0
Prepaid expenses	190,100	346,000
Total current assets	13,731,200	9,977,100
Property and equipment, net	425,100	400,800
Deferred tax asset	2,249,900	0
Other assets	51,000	51,000
Total assets	\$ 16,457,200	\$ 10,428,900
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	1,941,400	616,300
Accrued payroll and benefits	721,400	665,900
Accrued property taxes	33,300	34,200
Total current liabilities	2,696,100	1,316,400
Total liabilities	2,696,100	1,316,400
Shareholders' equity:		
Common stock; \$0.10 par value, authorized 50,000,000 shares; issued and outstanding 11,668,845 shares (2015) and 11,549,789 shares (2014)	1,166,900	1,155,000
Capital in excess of par	5,831,200	5,713,800
Retained earnings	6,763,000	2,243,700
Total shareholders' equity	13,761,100	9,112,500
Total liabilities and shareholders' equity	\$ 16,457,200	\$ 10,428,900

See accompanying notes to these Consolidated Financial Statements (Unaudited).



## Consolidated Statements of Cash Flows (Unaudited)

## Scott's Liquid Gold-Inc. &amp; Subsidiaries

	Nine Months Ended	
	September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$4,519,300	\$1,512,000
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	118,800	132,900
Stock-based compensation	96,900	58,200
Deferred income taxes	(2,419,300)	0
Change in operating assets and liabilities:		
Trade receivables	(594,500 )	(570,400 )
Inventories	(1,922,600)	25,100
Prepaid expenses and other assets	155,900	46,500
Income taxes payable (receivable)	2,200	(14,200 )
Accounts payable and accrued expenses	1,379,700	63,100
Total adjustments to net income	(3,182,900)	(258,800 )
Net Cash Provided by Operating Activities	1,336,400	1,253,200
Cash flow from investing activities:		
Purchase of property and equipment	(143,100 )	(57,000 )
Net Cash Used by Investing Activities	(143,100 )	(57,000 )
Cash flow from financing activities:		
Proceeds from exercise of stock options	32,400	40,800
Net Cash Provided by Financing Activities	32,400	40,800
Net Increase in Cash and Cash Equivalents	1,225,700	1,237,000
Cash and Cash Equivalents, beginning of period	5,896,600	3,126,200
Cash and Cash Equivalents, end of period	\$7,122,300	\$4,363,200
Supplemental disclosures:		
Cash paid during the period for interest	\$22,000	\$21,800

See accompanying notes to these Consolidated Financial Statements (Unaudited).

Notes to Consolidated Financial Statements (Unaudited)

Scott's Liquid Gold-Inc. & Subsidiaries

Note 1. Organization and Summary of Significant Accounting Policies.

(a) Company Background

Scott's Liquid Gold-Inc. (a Colorado corporation) was incorporated on February 15, 1954. Scott's Liquid Gold-Inc. and its wholly-owned subsidiaries (collectively, the "Company," "we," "our," or "us") develop, manufacture, market and sell quality household and skin and hair care products. We are also a distributor in the United States of Montagne Jeunesse skin sachets and Batiste Dry Shampoo manufactured by two other companies. Our business is comprised of two segments, household products and skin and hair care products.

(b) Principles of Consolidation

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

(c) Basis of Presentation

The Consolidated Statements of Operations, Consolidated Balance Sheets, and the Consolidated Statements of Cash Flows included in this Report have been prepared by the Company. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at September 30, 2015 and results of operations and cash flows for all periods have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with our financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for the period ended September 30, 2015 are not necessarily indicative of the operating results for the full year.

(d) Use of Estimates

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

(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) Sale of Accounts Receivable

On November 3, 2008, effective as of October 31, 2008, we entered into a financing agreement with Summit Financial Resources, L.P. ("Summit") for the purpose of providing working capital. The financing agreement with Summit was amended on March 12, 2009, March 16, 2011 (effective March 1, 2011) and June 29, 2012 (effective July 1, 2012). The agreement has a term that expires on January 1, 2016, but it may be renewed for additional 12 month periods unless either party elects to cancel in writing at least 60 days prior to January 1, 2016 and thereafter on

the anniversary date of each 12 month period.

The agreement provides for a factoring line up to \$1.5 million and is secured primarily by accounts receivables, inventory, any lease in which we are a lessor and all investment property and guarantees by our active subsidiaries. Under the agreement, Summit will make loans at our request and in its discretion based on: (i) its purchases of our receivables, with recourse against us, at an advance rate of 85% (or such other percentage determined by Summit in its discretion) and (ii) our inventory not to exceed certain amounts, including an aggregate maximum of \$500,000. Advances under the agreement have an interest rate of 1.0% over the prime

4

---

rate (as published in The Wall Street Journal) for the accounts receivables portion of the advances and 2.5% over the prime rate for the inventory portion of the borrowings. At September 30, 2015, the prime rate was 3.25%.

There is also an administrative fee of 0.85% per month on the average monthly outstanding loan on the receivable portion of any advance if the average quarterly loan in the prior quarter was less than or equal to \$1,000,000, and 0.75% per month if the average quarterly loan in the prior quarter was greater than \$1,000,000 and of 1.0% per month on the average monthly outstanding loan on the inventory portion of any advance.

The agreement provides that neither we nor our active subsidiaries may engage in a change in control transaction without the prior written consent of Summit. Events of default include, but are not limited to, our failure to make a payment when due or a default occurring on any of our other indebtedness.

In 2015 and 2014, we did not sell any of our accounts receivables to Summit. At September 30, 2015 and December 31, 2014 the entire credit line of \$1.5 million was available for future factoring of accounts receivable invoices and borrowings secured by our inventory.

We report these transactions using the authoritative guidance of the Financial Accounting Standards Board (“FASB”) as a secured borrowing rather than as a sale. As a result, affected accounts receivable are reported under the “Current Assets” section within our Consolidated Balance Sheets as “Trade receivables, net.” Similarly, the net liability owing to Summit, if any, appears as “Obligations collateralized by receivables and inventory” within the “Current Liabilities” section of our Consolidated Balance Sheets. Net proceeds received on obligations collateralized by receivables and inventory appear as “net cash provided (used) by operating activities” within the “Adjustment to reconcile net income to net cash used by operating activities” section of our Consolidated Statements of Cash Flows.

On March 16, 2011, with the consent of Summit, we entered into a financing agreement with Wells Fargo Bank, National Association (“Wells Fargo”) for the purpose of further lowering the cost of borrowing associated with the financing of our accounts receivable. Pursuant to this agreement, we may sell accounts receivables from one of our largest customers, Wal-Mart Stores, Inc. (“Wal-Mart”), at a discount to Wells Fargo; provided, however, that Wells Fargo may reject offers to purchase such receivables in its discretion. These receivables may be purchased by Wells Fargo at a cost to us equal to LIBOR plus 1.15% per annum. The LIBOR rate used depends on the days to maturity of the receivable sold, typically ranging from 102 to 105 days. At September 30, 2015, Wells Fargo used the 105-day LIBOR rate of 0.39%.

The agreement has no fixed termination date, but continues unless terminated by either party giving 30 days prior written notice to the other party. During the nine months ended September 30, 2015 and 2014, we sold approximately \$3,219,600 and \$3,376,600, respectively, of our relevant accounts receivable to Wells Fargo for approximately \$3,205,900 and \$3,362,800, respectively. The difference between the invoiced amount of the receivable and the cash that we received from Wells Fargo is a cost to us. This cost is in lieu of any cash discount our customer would have been allowed and, thus, is treated in a manner consistent with standard trade discounts granted to our customers.

The reporting of the sale of accounts receivables to Wells Fargo is treated as a sale rather than as a secured borrowing. As a result, affected accounts receivables are relieved from the Company’s financial statements upon receipt of the cash proceeds.

#### (g) 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 this reserve based upon historical and anticipated sales.

Inventories were comprised of the following at:

	September 30, 2015	December 31, 2014
Finished goods	\$2,209,600	\$ 1,626,300
Raw materials	2,457,100	1,117,800
Inventory reserve for obsolescence	(54,400 )	(54,400 )
	\$4,612,300	\$ 2,689,700

(h) Property and Equipment

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

(i) Financial Instruments

Financial instruments which potentially subject us to concentrations of credit risk include cash and cash equivalents and trade receivables. We maintain our cash balances in the form of bank demand deposits with financial institutions that we believe are creditworthy. As of September 30, 2015, and periodically throughout the year, we have maintained balances in various operating accounts in excess of federally insured limits. We establish an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. We have no significant financial instruments with off-balance sheet risk of accounting loss, such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

The recorded amounts for cash and cash equivalents, receivables, other current assets, accounts payable and accrued expenses approximate fair value due to the short-term nature of these financial instruments. As of September 30, 2015 and December 31, 2014 we had no long-term debt.

(j) 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.

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

The effective tax rate for the nine months ended September 30, 2015, was (111.0%), which differs from the statutory income tax rate due to permanent book to tax differences and the net decrease in valuation allowance.

As of December 31, 2014, the Company had a deferred tax asset of \$0, net of a valuation allowance of \$3,379,100. As of that date and until the second quarter of 2015, a full valuation allowance had been provided against deferred tax assets, as it was more-likely-than-not that the Company's net deferred tax asset would not be realized in the foreseeable future due to the Company's cumulative book loss. Consequently, the Company was unable to recognize any income tax benefit in such prior periods. However, the Company has, as of June 30, 2015, reported positive income for nine consecutive quarters and the 36 month cumulative income before income taxes was approximately \$3.4 million. Accordingly, the Company as of June 30, 2015 released a portion of the valuation allowance related to the deferred tax asset of approximately \$3.1 million as well as an additional \$70,200 in the third quarter ended September 30,

2015. The analysis of the partial valuation allowance release was in accordance with accounting standards for interim period reporting. The remaining \$169,200 in valuation allowance is expected to be released during the fourth quarter of 2015.

(k) Revenue Recognition

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



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

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

We also establish reserves for coupons, rebates and certain other promotional programs for consumers. We estimate these reserves based upon, among other things, an assessment of historical trends and current sales activity. These reserves are recorded as a reduction of revenue at the later of the date at which the revenue is recognized or the date at which the sale incentive is offered.

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

At September 30, 2015 and December 31, 2014 approximately \$841,900 and \$795,300, respectively, had been reserved as a reduction of accounts receivable. Trade promotions to our customers and incentives such as coupons to our consumers are deducted from gross sales and totaled \$1,661,100 and \$1,706,600 for the nine months ended September 30, 2015 and 2014, respectively.

#### (l) Advertising Costs

Advertising costs are expensed as incurred.

#### (m) Stock-based Compensation

During the nine months ended September 30, 2015, we granted options to acquire: (1) 326,500 shares of our common stock to 40 of our management and administrative personnel at a price of \$1.25 per share, which vest ratably over 48 months, or upon a change in control under certain circumstances, and which expire after 10 years; (2) 200,000 shares of our common stock to one of our executive officers at a price of \$1.25 per share, which vest ratably over 60 months, or upon a change in control under certain circumstances, and which expire after 10 years; and (3) 90,000 shares of our common stock to our three non-employee board members at a price of \$1.25 per share, half of which vested on the date of grant and the other half of which will vest on the first anniversary of the date of grant, or upon a change in control under certain circumstances, and which expire after five years. All of the foregoing options were granted at the market value as of the date of grant. We also granted options to acquire 100,000 shares of our common stock to one of our executive officers at a price of \$1.375 per share, which vest ratably over 48 months, or upon a change in control under certain circumstances, and which expire after five years. Such options were granted at 110% of the market value as of the date of grant.

During the nine months ended September 30, 2014, we granted options to acquire: (1) 250,000 shares of our common stock to one of our executive officers at a price of \$0.864 per share, which vest ratably over 60 months, or upon a change in control, and which expire after 10 years; (2) 35,000 shares of our common stock to our vice president of marketing at a price of \$0.78 per share, which vest ratably over 48 months, or upon a change in control, and which expire after five years; (3) 2,500 shares of our common stock to an administrative employee at a price of \$0.78 per

share, which vest ratably over 48 months, or upon a change in control, and which expire after five years; and (4) 60,000 shares of our common stock to two of our board members at a price of \$0.792 per share, which vest ratably over 48 months, or upon a change in control, and which expire after five years. Such options were granted at 120% of the market value as of the date of grant. We also granted options to acquire 30,000 shares of our common stock to one of our board members at a price of \$0.792 per share, which vested upon the date of grant, and expire after five years. Such options were also granted at 120% of the market value as of the date of grant.

7

---

The weighted average fair market value of the options granted in the first nine months of 2015 and 2014 was estimated on the date of grant, using a Black-Scholes option pricing model with the following assumptions:

	September 30, 2015	September 30, 2014
Expected life of options (using the “simplified” method)	5.3 years	4.5 - 5.5 years
Average risk-free interest rate	1.4%	1.6% -1.7%
Average expected volatility of stock	133%	121% - 128%
Expected dividend rate	None	None
Fair value of options granted	\$755,105	\$210,523

Compensation cost related to stock options recognized in operating results (included in general and administrative expenses) under authoritative guidance issued by the FASB was \$96,900 and \$58,200 in the nine months ended September 30, 2015 and 2014, respectively. Approximately \$900,700 of total unrecognized compensation costs related to non-vested stock options is expected to be recognized over the next 12 – 60 months, depending on the vesting provisions of the options. 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 options granted to the non-employee directors, no tax benefit is 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.

#### (n) Operating Costs and Expenses Classification

Cost of sales includes costs associated with manufacturing and distribution including labor, materials, freight-in, purchasing and receiving, quality control, internal transfer costs, repairs, maintenance and other indirect costs, as well as warehousing and distribution costs. We classify shipping and handling costs comprised primarily of freight-out as selling expenses. Other selling expenses consist primarily of wages and benefits for sales and sales support personnel, travel, brokerage commissions and promotional costs, as well as certain other indirect costs. Shipping and handling costs totaled \$1,081,400 and \$1,090,400 for the nine months ended September 30, 2015 and 2014, respectively.

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.

#### (o) Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 amends the guidance for revenue recognition to replace numerous industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts and customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in this ASU are effective for reporting periods beginning after December 15, 2017, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of the adoption. We are currently assessing the impact, if any, that the adoption of ASU 2014-09 will have on our financial statements.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which is intended to simplify the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method. Application of the standard, which should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

## Note 2. Earnings per Share.

We present basic and diluted earnings or loss per share in accordance with authoritative guidance which establishes standards for computing and presenting basic and diluted earnings per share. Per share data is determined by using the weighted average number of common shares outstanding. Common equivalent shares are considered only for diluted earnings per share, unless considered anti-dilutive. Common equivalent shares, determined using the treasury stock method, result from stock options with exercise prices that are below the average market price of the common stock.

Basic earnings per share include no dilution and are computed by dividing income available to common shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect the potential of securities that could share in our earnings. There were common stock equivalents of 1,114,000 and 397,500 shares outstanding at September 30, 2015 and 2014, respectively, consisting of stock options that were not included in the calculation of earnings per share because they would have been anti-dilutive.

A reconciliation of the weighted average number of common shares outstanding for the three and nine months ended September 30, 2015 and 2014 is as follows:

	2015	
	Three Months	Nine Months
Common shares outstanding, beginning of the period	11,665,220	11,549,789
Weighted average common shares issued	241	67,773
Weighted average number of common shares outstanding	11,665,461	11,617,562
Dilutive effect of common share equivalents	262,416	289,924
Diluted weighted average number of common shares outstanding	11,927,877	11,907,486
	2014	
	Three Months	Nine Months
Common shares outstanding, beginning of the period	11,532,258	11,446,800
Weighted average common shares issued	4,808	48,322
Weighted average number of common shares outstanding	11,537,066	11,495,122
Dilutive effect of common share equivalents	303,692	290,393
Diluted weighted average number of common shares outstanding	11,840,758	11,785,515

We have authorized 20,000,000 shares of preferred stock issuable in one or more series, none of which is issued or outstanding as of September 30, 2015.

## Note 3. Segment Information.

We operate in two different segments: household products and skin and hair care products. Our products are sold nationally and internationally (primarily Canada), directly through our sales force and indirectly through independent brokers and manufacturer's representatives, to mass merchandisers, drugstores, supermarkets, hardware stores and

other retail outlets and to wholesale distributors. We have chosen to organize our business around these segments based on differences in the products sold.

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

9

---

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

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

	Three Months Ended September 30,			
	2015		2014	
	Household Products	Skin and Hair Care Products	Household Products	Skin and Hair Care Products
Net sales to external customers	\$1,485,300	\$6,062,800	\$1,427,600	\$4,783,500
Cost of sales	679,400	3,605,200	793,000	2,702,300
Advertising expenses	401,000	127,600	47,100	14,000
Selling expenses	412,700	923,900	360,100	838,000
General and administrative expenses	318,200	415,000	315,600	454,600
Total operating costs and expenses	1,811,300	5,071,700	1,515,800	4,008,900
(Loss) income from operations	(326,000 )	991,100	(88,200 )	774,600
Other income	1,700	5,100	28,100	3,100
Interest expense	(1,700 )	(5,700 )	(1,100 )	(6,200 )
(Loss) income before income taxes	\$(326,000 )	\$990,500	\$(61,200 )	\$771,500
Identifiable assets	\$7,414,900	\$5,676,000	\$3,997,800	\$4,734,700

	Nine Months Ended September 30,			
	2015		2014	
	Household Products	Skin and Hair Care Products	Household Products	Skin and Hair Care Products
Net sales to external customers	\$4,661,700	\$17,094,000	\$4,366,300	\$13,062,600
Cost of sales	2,196,300	9,846,300	2,301,600	7,460,300
Advertising expenses	661,000	426,900	417,500	42,800
Selling expenses	1,261,800	2,781,800	1,146,800	2,366,500
General and administrative expenses	1,083,500	1,350,400	971,500	1,211,100
Total operating costs and expenses	5,202,600	14,405,400	4,837,400	11,080,700
(Loss) income from operations	(540,900 )	2,688,600	(471,100 )	1,981,900
Other income	3,900	12,200	35,100	8,300
Interest expense	(5,100 )	(16,900 )	(5,000 )	(16,800 )
(Loss) income before income taxes	\$(542,100 )	\$2,683,900	\$(441,000 )	\$1,973,400
Identifiable assets	\$7,414,900	\$5,676,000	\$3,997,800	\$4,734,700

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,
-------------------------------------	------------------------------------

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

	2015	2014	2015	2014
Net sales to external customers	\$7,548,100	\$6,211,100	\$21,755,700	\$17,428,900
Consolidated income before income taxes	\$664,500	\$710,300	\$2,141,800	\$1,532,400
Identifiable assets	\$13,090,900	\$8,732,500	\$13,090,900	\$8,732,500
Corporate assets	3,366,300	1,299,700	3,366,300	1,299,700
Consolidated total assets	\$16,457,200	\$10,032,200	\$16,457,200	\$10,032,200

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



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Results of Operations

Our consolidated net sales for the first nine months of 2015 were \$21,755,700 versus \$17,428,900 for the first nine months of 2014, an increase of \$4,326,800 or 24.8%. We saw a 35.0% increase in net sales of the skin and hair care products that we distribute for other companies and a 14.2% increase in net sales of our own line of skin care products. We saw a 6.8% increase in net sales of our household products. The reasons for the foregoing changes in net sales of our products are described below.

Our consolidated net sales for the third quarter of 2015 were \$7,548,100 versus \$6,211,100 for the third quarter of 2014, an increase of \$1,337,000 or 21.5%. We saw a 20.8% increase in net sales of the skin and hair care products that we distribute for other companies and a 63.2% increase in net sales of our own line of skin care products. We saw a 4% increase in net sales of our household products. The reasons for the foregoing changes in net sales of our products are described below.

Our net income for the first nine months of 2015 was \$4,519,300 versus net income of \$1,512,000 in the first nine months of 2014. Our net income for the third quarter of 2015 was \$473,000 versus net income of \$705,700 in the third quarter of 2014. The increase in net income for the first nine months of 2015 compared to the net income for the same period in 2014 resulted primarily from: (1) increased sales; (2) changes in our trade promotions to our customers; (3) changes in costs of sales; (4) changes in operating expenses; and (5) to the release of our deferred tax asset valuation in the second and third quarters of 2015, as discussed below. See Note 1(j), "Income Taxes," to our Consolidated Financial Statements (Unaudited) in Item 1. The decrease in net income for the third quarter of 2015 compared to the same period in 2014 resulted primarily from an income tax expense in the third quarter of 2015 of \$191,500.

Summary of Results as a Percentage of Net Sales

	Year Ended December 31, 2014		Nine Months Ended September 30, 2015		2014	
Net sales						
Household products	24.2	%	21.4	%	25.1	%
Skin and hair care products	75.8	%	78.6	%	74.9	%
Total net sales	100.0	%	100.0	%	100.0	%
Cost of sales	56.2	%	55.4	%	56.0	%
Gross profit	43.8	%	44.6	%	44.0	%
Other revenue	0.2	%	0.1	%	0.2	%
	44.0	%	44.7	%	44.2	%
Operating expenses	35.1	%	34.8	%	35.3	%
Interest expense	0.1	%	0.1	%	0.1	%
	35.2	%	34.9	%	35.4	%
Income before income taxes	8.8	%	9.8	%	8.8	%

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

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Comparative Net Sales

	Nine Months Ended		Percentage	
	September 30,		Increase	
	2015	2014	(Decrease)	
Total household products	\$4,661,700	\$4,366,300	6.8	%
Alpha Hydrox <sup>®</sup> , Diabetic cream and other skin care products	2,978,700	2,607,400	14.2	%
Montagne Jeunesse and Batiste Dry Shampoo	14,115,300	10,455,200	35.0	%
Total skin and hair care products	17,094,000	13,062,600	30.9	%
Total net sales	\$21,755,700	\$17,428,900	24.8	%

During the first nine months of 2015, net sales of skin and hair care products accounted for 78.6% of consolidated net sales compared to 74.9% for the same period in 2014. The net sales of these products for that period were \$17,094,000 in 2015 compared to \$13,062,600 for the same period in 2014, an increase of \$4,031,400 or 30.9%, primarily as a result of an increase in net sales of Batiste Dry Shampoo.

The net sales of our Alpha Hydrox<sup>®</sup> and other manufactured skin care products were \$2,978,700 in the first nine months of 2015 compared to \$2,607,400 for the same period in 2014, an increase of \$371,300 or 14.2%. This increase is primarily attributable to an increase in net sales of our Alpha Hydrox products on our website and to certain other online retailers.

The net sales of Montagne Jeunesse and Batiste Dry Shampoo were \$14,115,300 in the first nine months of 2015 compared to \$10,455,200 for the same period in 2014, an increase of \$3,660,100 or 30.9%. This increase is primarily attributable to increased sales of Batiste Dry Shampoo to our existing customers.

Net sales of household products for the first nine months of 2015 accounted for 21.4% of net sales compared to 25.1% for the same period in 2014. During the first nine months of 2015, the sales of our household products were \$4,661,700 as compared to \$4,366,300 for the same period in 2014, an increase of \$295,400 or 6.8%. The increase is attributable primarily to sales of our Scott's Liquid Gold<sup>®</sup> Floor Restore product, which we introduced late in the fourth quarter of 2013.

We paid our customers a total of \$1,661,100 in the first nine months of 2015 for trade promotions to support price features, displays, slotting fees and other merchandising of our products compared to \$1,706,600 for the same period in 2014, a decrease of \$45,500 or 2.7%. This decrease is primarily attributable to lower cost and more efficient trade promotion programs for our skin and hair care products offset, in part, by more trade promotions to support new distribution of our household products.

From time to time, our customers return products to us. For our household products, we permit returns only for a limited time. With regard to our skin and hair care products, returns are more frequent under an unwritten industry standard that permits returns for a variety of reasons. In the event a skin and hair care customer requests a return of a product, we will consider the request, and may grant such request in order to maintain or enhance our relationship with the customer, even in the absence of an enforceable right of the customer to do so. Typically, customers that return products to us take a credit on our invoice equal to the original sale price plus a handling charge ranging from 8-10% of the original sale price. Our product returns (as a percentage of net sales) were 0.4% percent for both the first

nine months of 2015 and 2014.

On a consolidated basis, cost of sales was \$12,042,600 during the first nine months of 2015 compared to \$9,761,900 for the same period in 2014, an increase of \$2,280,700 or 23.4%, on a net sales increase of 24.8%. As a percentage of consolidated net sales, cost of sales was 55.4% in the first nine months of 2015 compared to 56.0% for the same period in 2014.

As a percentage of net sales of our skin and hair care products, the cost of sales for our skin and hair care products increased to 57.6% in the first nine months of 2015 compared to 57.1% for the same period in 2014. This increase is primarily attributable to a higher percentage of net sales of the skin and hair care products that we distribute for other companies, which have a higher cost than the skin care products that we manufacture.

As a percentage of net sales of our household products, the costs of sales for our household products decreased to 47.1% in the first nine months of 2015 compared to 52.7% for the same period in 2014. This decrease is primarily attributable to a reduction in our costs for certain raw materials.

## Operating Expenses, Interest Expense and Other Income

	Nine Months Ended September 30,		Percentage Increase (Decrease)	
	2015	2014		
Operating Expenses				
Advertising	\$ 1,087,900	\$ 460,300	136.3	%
Selling	4,043,600	3,513,300	15.1	%
General and administrative	2,433,900	2,182,600	11.5	%
Total operating expenses	\$ 7,565,400	\$ 6,156,200	22.9	%
Other Income	\$ 16,100	\$ 43,400	(62.9	%)
Interest Expense	\$ 22,000	\$ 21,800	0.9	%

Our operating expenses for the first nine months of 2015 were \$7,565,400 compared to \$6,156,200 for the same period in 2014, an increase of \$1,409,200 or 22.9%. These expenses consist primarily of advertising, selling, and general and administrative expenses, which are discussed below.

Advertising expenses for the first nine months of 2015 were \$1,087,900 compared to \$460,300 for the same period in 2014, an increase of \$627,600 or 136.3%. This increase is primarily due to the investment we are making in 2015 to reposition our Alpha Hydrox® skin care products and our Scott's Liquid Gold® Wood Cleaner and Preservative in the marketplace. As we previously publicly disclosed, we planned to make significant investments in 2015 to reposition these products in the marketplace. We do not expect to recognize in 2015 the full benefits of the investments that we are making in 2015. Instead, we anticipate seeing the positive benefits over future periods.

Selling expenses for the first nine months of 2015 were \$4,043,600 compared to \$3,513,300 for the same period in 2014, an increase of \$530,300 or 15.1%. This increase is primarily attributable to: (1) an increase in the commissions that we paid our sales brokers in the first nine months of 2015 compared to the same period in 2014 due to higher sales in 2015; (2) adding personnel within our marketing organization starting in the third quarter of 2014; (3) the accrual in the first nine months of 2015 of potential performance bonus payments to personnel within our sales and marketing organizations for 2015 compared to a smaller accrual in the first nine months of 2014; and (4) an increase in salaries, payroll taxes and health benefits for our sales and marketing organizations starting in the third quarter of 2014.

General and administrative expenses for the first nine months of 2015 were \$2,433,900 compared to \$2,182,600 for the same period of 2014, an increase of \$251,300 or 11.5%. This increase is due primarily to the accrual in the first nine months of 2015 of potential performance bonus payments to our management and administrative support personnel for 2015 compared to a smaller accrual in the first nine months of 2014 and an increase in salaries, payroll taxes and health benefits for our management and administrative support personnel starting in the third quarter of 2014.

Other income for the first nine months of 2015 of \$16,100 was from interest earned on our cash reserves. This compares to other income for the first nine months of 2014 of \$43,400 that included a \$27,600 refund on an old and previously written off deposit and \$10,700 in interest earned on our cash reserves.

Interest expense for the first nine months of 2015 and 2014 for administrative fees paid to Summit was \$22,000 and \$21,800, respectively.



Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Comparative Net Sales

	Three Months Ended		Percentage	
	September 30, 2015	September 30, 2014	Increase (Decrease)	
Total household products	\$1,485,300	\$1,427,600	4.0	%
Alpha Hydrox <sup>®</sup> , Diabetic cream and other skin care products	1,094,400	670,600	63.2	%
Montagne Jeunesse and Batiste Dry Shampoo	4,968,400	4,112,900	20.8	%
Total skin and hair care products	6,062,800	4,783,500	26.7	%
Total net sales	\$7,548,100	\$6,211,100	21.5	%

During the third quarter of 2015, net sales of skin and hair care products accounted for 80.3% of consolidated net sales compared to 77.0% for the same period in 2014. The net sales of these products for that period were \$6,062,800 in 2015 compared to \$4,783,500 for the same period in 2014, an increase of \$1,279,300 or 26.7%, primarily as a result of an increase in net sales of Batiste Dry Shampoo.

The net sales of our Alpha Hydrox<sup>®</sup> and other manufactured skin care products were \$1,094,400 in the third quarter of 2015 compared to \$670,600 for the same period in 2014, an increase of \$423,800 or 63.2%. This increase is primarily attributable to an increase in net sales of our Alpha Hydrox products on our website and to certain other online retailers.

The net sales of Montagne Jeunesse and Batiste Dry Shampoo were \$4,968,400 in the third quarter of 2015 compared to \$4,112,900 for the same period in 2014, an increase of \$855,500 or 20.8%. This increase is primarily attributable to increased sales of Batiste Dry Shampoo to our existing customers.

Net sales of household products for the third quarter of 2015 accounted for 19.7% of net sales compared to 23.0% for the same period in 2014. During the third quarter of 2015, the sales of our household products were \$1,485,300 as compared to \$1,427,600 for the same period in 2014, an increase of \$57,700 or 4.0%. The increase is attributable primarily to sales of our Scott's Liquid Gold<sup>®</sup> Floor Restore product, which we introduced late in the fourth quarter of 2013.

We paid our customers a total of \$538,200 in the third quarter of 2015 for trade promotions to support price features, displays, slotting fees and other merchandising of our products compared to \$616,400 for the same period in 2014, a decrease of \$78,200 or 12.7%. This decrease is primarily attributable to lower cost and more efficient trade promotion programs for our skin and hair care products offset, in part, by more trade promotions to support new distribution of our household products.

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

third quarters of 2015 and 2014.

On a consolidated basis, cost of sales was \$4,284,600 during the third quarter of 2015 compared to \$3,495,300 for the same period in 2014, an increase of \$789,300 or 22.6%, on a net sales increase of 21.5%. As a percentage of consolidated net sales, cost of sales was 56.8% in the third quarter of 2015 compared to 56.3% for the same period in 2014.

As a percentage of net sales of our skin and hair care products, the cost of sales for our skin and hair care products increased to 59.5% in the third quarter of 2015 compared to 56.5% for the same period in 2014. This increase is primarily attributable to a higher percentage of net sales of the skin and hair care products that we distribute for other companies, which have a higher cost than the skin care products that we manufacture.

As a percentage of net sales of our household products, the costs of sales for our household products decreased to 45.7% in the third quarter of 2015 compared to 55.5% for the same period in 2014. This decrease is primarily attributable to a reduction in our costs for certain raw materials.



## Operating Expenses, Interest Expense and Other Income

	Three Months Ended September 30,		Percentage Increase (Decrease)	
	2015	2014		
Operating Expenses				
Advertising	\$528,600	\$61,100	765.1	%
Selling	1,336,600	1,198,100	11.6	%
General and administrative	733,200	770,200	(4.8	%)
Total operating expenses	\$2,598,400	\$2,029,400	28.0	%
Other Income	\$6,800	\$31,200	(78.2	%)
Interest Expense	\$7,400	\$7,300	1.4	%

Our operating expenses for the third quarter of 2015 were \$2,598,400 compared to \$2,029,400 for the same period in 2014, an increase of \$569,000 or 28.0%. These expenses consist primarily of advertising, selling, and general and administrative expenses, which are discussed below.

Advertising expenses for the third quarter of 2015 were \$528,600 compared to \$61,100 for the same period in 2014, an increase of \$467,500 or 765.1%. This increase is primarily due to the investment we are making in 2015 to reposition our Alpha Hydrox® skin care products and our Scott's Liquid Gold® Wood Cleaner and Preservative in the marketplace. As we previously publicly disclosed, we planned to make significant investments in 2015 to reposition these products in the marketplace. We do not expect to recognize in 2015 the full benefits of the investments that we are making in 2015. Instead, we anticipate seeing the positive benefits over future periods.

Selling expenses for the third quarter of 2015 were \$1,336,600 compared to \$1,198,100 for the same period in 2014, an increase of \$138,500 or 11.6%. This increase is primarily attributable to: (1) an increase in the commissions that we paid our sales brokers in the third quarter of 2015 compared to the same period in 2014 due to higher sales in 2015; (2) adding personnel within our marketing organization starting in the third quarter of 2014; and (3) an increase in salaries, payroll taxes and health benefits for our sales and marketing organizations starting in the third quarter of 2015.

General and administrative expenses for the third quarter of 2015 were \$733,200 compared to \$770,200 for the same period of 2014, a decrease of \$37,000 or 4.8%. This decrease is due primarily to a smaller accrual in the third quarter of 2015 of potential performance bonus payments to our management and administrative support personnel for 2015 compared to the accrual in the third quarter of 2014 offset, in part, by an increase in salaries, payroll taxes and health benefits for our management and administrative support personnel starting in the third quarter of 2015.

Other income for the third quarter of 2015 of \$6,800 was from interest earned on our cash reserves. This compares to other income for the third quarter of 2014 that included a \$27,600 refund on an old and previously written off deposit and \$3,600 in interest earned on our cash reserves.

Interest expense for the third quarter of 2015 and 2014 for administrative fees paid to Summit was \$7,400 and \$7,300, respectively.

## Liquidity and Capital Resources

## Financing Agreements

Please see Note 1(f) to our Consolidated Financial Statements (Unaudited) for information on our financing agreements with Summit and Wells Fargo.

## Liquidity

At September 30, 2015, we had approximately \$7.1 million in cash on hand and the full \$1.5 million of capacity under our credit line with Summit was available for future borrowing. For the first nine months of 2015, the primary components of working capital (exclusive of cash that was \$1,225,700 more at September 30, 2015 compared to December 31, 2014) that significantly affected operating cash flows are the following: (1) net trade receivables were \$594,500 more at September 30, 2015 than at December 31, 2014 due primarily to increased gross sales activity and the timing of receiving payment; (2) inventory at September 30, 2015 was \$1,922,600 more than at December 31, 2014 due primarily to increased gross sales activity and the timing of receiving certain

inventory from our vendors and shipping our products to our customers; and (3) accounts payable and other accrued expenses at September 30, 2015 were \$1,379,700 more than at December 31, 2014 due primarily to increased inventory and the timing of payments on our inventory.

We believe that our cash on hand at any time during 2015 could be significantly less than at September 30, 2015 due primarily to the following: (1) the timing of receiving and paying for the significant amounts of Batiste Dry Shampoo that we purchase every month from Church & Dwight; and (2) making a significant investment in 2015 in the brands and products that we own.

We anticipate that our existing cash and our cash from operations, together with our current financing arrangements with Summit and Wells Fargo, will be sufficient to meet our cash requirements for the next 12 months. We expect to make approximately \$175,000 in capital expenditures in the fourth quarter of 2015 to purchase production equipment that will improve our manufacturing capabilities and efficiencies. During the first nine months of 2014, we did not make any significant capital expenditures.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

#### ITEM 4. CONTROLS AND PROCEDURES.

##### Disclosure Controls and Procedures

As of September 30, 2015, we conducted an evaluation, under the supervision and with the participation of our 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, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2015.

##### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the nine months ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and subsequent quarterly reports on Form 10-Q, which could materially affect our business, financial condition or future results.

ITEM 6. EXHIBITS.

Exhibit Number	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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

\*Furnished, not filed.



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.

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

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

Date: November 13, 2015

EXHIBIT INDEX

Exhibit Number	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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

\*Furnished, not filed.