SCOTTS LIQUID GOLD INC
Form 10-K
March 29, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

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.

(Name of small business as specified in its charter)

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

4880 Havana Street, Suite 400, Denver, CO 80239

(Address of principal executive offices and Zip Code)

(303) 373-4860

(Registrant s telephone number, including area code)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ¨ Yes x 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. x 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). x Yes ¨ No

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

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 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 ¨	Smaller reporting company x

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

The aggregate market value of the common stock held by non-affiliates of the issuer was $1,604,772 on June 29, 2012.

As of March 29, 2013, there were 11,201,622 shares of common stock, $0.10 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III is incorporated by reference to the Registrant s definitive Proxy Statement for the Annual Meeting of Shareholders to be filed within 120 days after December 31, 2012.

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CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION

This Report may contain forward-looking statements within the meaning of U.S. federal securities laws. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and our performance inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of each of our significant products in the marketplace; the degree of success of any new product or product line introduction by us; competitive factors; any decrease in distribution of (i.e., retail stores carrying) our significant products; continuation of our distributorship agreement for Montagne Jeunesse skin care products and Batiste Dry Shampoos; the need for effective advertising of our products; 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; continuing losses which could affect our liquidity; the loss of any executive officer; and other matters discussed in this Report. The forward-looking statements in this Report speak as of the filing date of 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.

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PART I

ITEM 1. BUSINESS
General

Scott s Liquid Gold-Inc., a Colorado corporation, was incorporated on February 15, 1954. Through our wholly-owned subsidiaries, we develop, manufacture, market and sell quality household and skin and hair care products. Our most well-recognized product, Scott s Liquid Gold® wood cleaner and preservative, has been sold in the United States for over 60 years. Our Alpha Hydrox® skin care brand was one of the first to use alpha hydroxy acids (AHAs). Our Neoteric Diabetic® products were developed to address the skin conditions of persons living with diabetes. We are the exclusive distributor in the United States of Montagne Jeunesse skin sachets and Batiste Dry Shampoo manufactured by two other companies.

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

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

Operating Segment	*Key Products*
Household	Scott s Liquid Gold® Wood Cleaner and Preservative
	Scott s Liquid Gold® Wood Wash
	Scott s Liquid Gold® Dust N Go Wipes
	Scott s Liquid Gold® Clean Screen
	Touch of Scent® Air Freshener

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

Operating Segment	*Key Products*
Skin and Hair Care	Alpha Hydrox® Skin Care Products
	Neoteric Diabetic® Healing Cream
	Neoteric Diabetic® Shampoo and Scalp Care
	Neoteric Massage Oils
	Montagne Jeunesse Face Masque Sachets
	Batiste Dry Shampoos

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

Subsequent Event

On February 1, 2013, we consummated the sale of our real estate assets located at 4880 Havana Street, Denver, Colorado, consisting of approximately 10.8 acres of land improved with four buildings containing approximately 241,684 square feet of office, warehouse and manufacturing space, with associated improvements and personal property, and adjacent vacant land of approximately 5.5 acres (together, the Property). We sold the Property for a purchase price of $9,500,000 and incurred selling expenses of $579,800, including $570,000 for real estate broker commissions.

In connection with the sale, we leased back from the purchaser approximately 16,078 square feet of office space (the Office Lease) and approximately 113,620 square feet of manufacturing and warehouse space (the Warehouse Lease) currently used by us. Each of the Office Lease and the

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Warehouse Lease has an initial term of three years, with options to extend the term for two additional terms of three years each. Rent for the Office Lease is $13.00 per square foot per annum, with annual 3% increases. Rent for the Warehouse Lease is $3.25 per square foot per annum, with annual 3% increases, and we will pay an additional $1.25 per square foot per annum as our share of the purchaser s operating expenses under the Warehouse Lease (including taxes, insurance and common area maintenance charges). If certain uncontrollable operating expenses increase by more than 5% per year, our share of operating expenses under the Warehouse Lease may be increased.

As of the date of the closing, the principal and interest balance on our long-term debt secured by the Property with Citywide Banks (the Bank) was $3,373,961. This debt was repaid in full at closing. We also paid approximately $202,000 at closing for real estate property taxes for 2012. In addition, on February 4, 2013, we paid $909,778 to Summit Financial Resources, L.P. (Summit) to repay the outstanding balance on our credit line with Summit and we have maintained a zero loan balance since that time. We made this payment to reduce our interest costs. Please see Note 1(e) to our Consolidated Financial Statements in Item 8 for a discussion of our financing agreement with Summit. Also, in February 2013, we paid certain other financial obligations to suppliers and vendors in the amount of approximately $960,000 and incurred approximately $150,000 in capital expenditures as a result of the sale of our Property. We estimate that our remaining cash from the sale of the Property after the payment of all of the foregoing expenses was approximately $3.3 million.

Because the sale of our Property was consummated after the end of our fiscal year, its effects are not reflected in our financial statements. We believe the sale of our Property will allow us to carry less debt, reduce our interest and other borrowing expenses, satisfy certain outstanding financial obligations, allow us to negotiate better terms with suppliers and vendors, increase the amount we invest in advertising and allow us to pursue potential strategic transactions. We also believe having the Office Lease and Warehouse Lease in place will allow us to continue to reduce and better control our operating costs and expenses.

Strategy

We are focused on strategies that we believe will enhance our long-term financial health and deliver long-term shareholder value. In order to achieve these objectives, we plan to generate continued growth of our existing brands and products, as well as pursue new opportunities to develop, acquire or distribute new brands and products. For 2013, we continue to pursue the following primary goals that we established in 2012: (1) increase sales by strengthening and broadening consumer awareness of our products; (2) add additional products to the mix of products that one or more of our existing major customers already buy from us; (3) add at least one major retailer as a customer; and (4) reduce operating costs and expenses. As discussed below, we believe that we made substantial progress on these goals. One of our primary goals from 2012 was to deal with our Property. As discussed above, we sold the Property on February 1, 2013 and leased back certain portions of the Property.

Household Products

Scott s Liquid Gold® wood cleaner and preservative has been our core product since our inception. It has been sold in the United States for over 60 years. Unlike a furniture polish, our product contains natural oils that penetrate the wood s surface to clean, replace lost moisture, minimize the appearance of scratches and bring out the natural beauty of wood. We have also introduced an additional wood care product in a wipe form and a wood wash product. Our Dust N Go pre-moistened cloth wipes are quick, easy and convenient dusting wipes for wood and numerous other surfaces. Our wood wash product simply and safely cleans all types of wood surfaces.

During the second quarter of 2006, we introduced our mold remediation product Mold Control 500 . Due to declining sales and distribution, this product was discontinued at the end of 2012. We

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attribute this decline to the following three primary factors: (1) generally lower actual consumer demand than anticipated; (2) the product is effective, but expensive; and (3) the product involves a delivery system considered by many not to be consumer friendly.

During the first quarter of 2009, we introduced Clean Screen, an affordable, simple and easy way for cleaning electronic screens, especially today s new sensitive electronics. Clean Screen is a liquid formulated with a state-of-the-art water treatment technology that not only cleans away dirt, but also mineral deposits and other impurities. In 2010, we introduced Clean Screen in a wipe form and marketed the product as Little Clean Screen.

Since 1982, we have sold Touch of Scent® air fresheners. Our air fresheners offer a unique dispenser with aerosol refills. Touch of Scent® air fresheners are available in a wide assortment of beautiful fragrances, which are quick, easy to use and effective.

Household products accounted for 30.5% of our consolidated net sales in 2012 and 38.0% in 2011. We continually evaluate possible new household products to be developed, acquired, manufactured and/or distributed by us.

Skin and Hair Care Products

In early 1992, we began to develop, manufacture, market and sell skin care products under the trade name of Alpha Hydrox®. These products include facial care products, a body lotion, a body wash and a foot cream. Our Alpha Hydrox® skin care brand was one of the first to use AHAs. Products containing AHAs gently slough off dead skin cells to promote a healthier, more youthful appearance and help to diminish fine lines and wrinkles.

Our first Neoteric Diabetic® product was a healing cream introduced in 2001 and a subsequent product was a shampoo and scalp care product introduced in 2011. Both of these products were developed to address the skin conditions of persons living with diabetes, caused by poor blood circulation, and which contain a patented oxygenated oil technology. Our healing cream is a therapeutic moisturizer that provides a clinically proven treatment for dry skin by increasing blood circulation and helping to speed the healing of minor scrapes and cuts. Our shampoo and scalp care product helps to soothe the discomfort of dryness, flaking and itching of the scalp while gently cleaning the hair.

Since 2001, we have been the exclusive distributor in the United States for face masque sachets manufactured by Montagne Jeunesse International Ltd. (Montagne Jeunesse). Montagne Jeunesse is based in the United Kingdom. Their sachet products are currently sold in over 70 countries. These masques are sold for single use in unique and attractive packages in a wide assortment of types and fragrances. A significant portion of our business consists of the sale of these sachet products. See Manufacturing and Suppliers in this Item 1 below for information on the terms of our agreement with Montagne Jeunesse.

In the fourth quarter of 2009, we became the exclusive distributor in the United States for Batiste Dry Shampoo with the exception of certain warehouse stores and governmental entities. Dry shampoo is a quick and convenient way to refresh hair between washes. Batiste was one of the innovators of dry shampoo. We believe that there is a large and fast-growing market for dry shampoo. In that regard, Church & Dwight Co. Inc. (Church & Dwight) acquired Batiste Dry Shampoo in 2011. We continue to be the exclusive distributor for the shampoo under the terms of our distribution agreement with Church & Dwight. The initial term of our agreement with Church & Dwight runs through December 31, 2014 and the agreement will be automatically renewed for additional one year terms, unless terminated. See Manufacturing and Suppliers in this Item 1 below for information on the terms of our agreement with Church & Dwight. Church & Dwight is a leading global consumer products company with such well-recognized brand names as Arm & Hammer, Oxiclean and Orajel.

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Skin and hair care products accounted for 69.5% of our consolidated net sales in 2012 and 62.0% in 2011. We continually evaluate possible new skin and hair care products as well as other beauty care products to be developed, acquired, manufactured and/or distributed by us.

Marketing and Distribution

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

Our products are sold nationally, directly through our sales force and indirectly through independent brokers, to mass marketers, drugstores, supermarkets, hardware stores and other retail outlets and to wholesale distributors. In 2012 and 2011, Wal-Mart Stores, Inc. (Wal-Mart) accounted for approximately 32% and 33% of our sales of household products, respectively. With regard to our skin and hair care products, Wal-Mart accounted for approximately 18% of sales in both 2012 and 2011. Wal-Mart accounted for approximately 22% and 24% of our aggregate net sales on a consolidated basis in 2012 and 2011, respectively.

In 2012 and 2011, Ulta Salon, Cosmetics & Fragrance, Inc. (Ulta) accounted for approximately 16% and 12%, respectively, of our skin and hair care products. During 2012 and 2011, we did not sell household products to Ulta. Ulta accounted for approximately 11% and 8% in 2012 and 2011, respectively, of our aggregate net sales on a consolidated basis.

In 2012 and 2011, Walgreens Co. (Walgreens) accounted for approximately 14% and 17%, respectively, of our sales of skin and hair care products. During 2012 and 2011, we did not sell household products to Walgreens. Walgreens accounted for approximately 7% and 11% in 2012 and 2011, respectively, of our aggregate net sales on a consolidated basis. As is typical in our industry, we do not have a long-term contract with Wal-Mart, Ulta, Walgreens or any other retail customer.

We also use our Scott s Liquid Gold and Neoteric Cosmetics websites for sales of our products directly to consumers. Such sales were approximately 9% and 8% of total sales in 2012 and 2011, respectively.

Our household and skin and hair care products are available in limited distribution in Canada and other foreign countries. Please see Note 8, Segment Information , to our Consolidated Financial Statements in Item 8 for information regarding our sales in foreign countries. Currently, foreign sales are made to distributors who are responsible for the marketing of the products, and we are paid for these products in United States currency.

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

Manufacturing and Suppliers

We owned all of our manufacturing facilities until February 1, 2013. Please see Note 12 to our Consolidated Financial Statements in Item 8 for information on the sale of our real estate assets and our leasing back certain of the manufacturing facilities that we sold. We own and operate all of our manufacturing equipment. We manufacture all of our products with the exception of the following products: (1) those products for which we act as a distributor; (2) our Scott s Liquid Gold® Dust N Go wipes; and (3) our Little Clean Screen product. For all of our products, we must maintain sufficient inventories to ship most orders as they are received.

Quality control is enforced at all stages of production, as well as upon the receipt of raw materials from suppliers. Raw materials are purchased from a number of suppliers and, at the present time, are readily available. However, we do not have long term contracts with our suppliers and any contracts we do have with suppliers may be terminated at any time. Our sole supply for the oxygenated oil used in our Neoteric Diabetic® skin care products is a French company with which we have a non-exclusive supply agreement. We believe that we have good relationships with all of our suppliers.

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

In 2001, we commenced purchases of skin care sachets from Montagne Jeunesse under a distributorship agreement covering the United States. On May 4, 2005, our wholly-owned subsidiary, Neoteric Cosmetics, Inc. (Neoteric), entered into a new distribution agreement with Montagne Jeunesse. Pursuant to this new agreement, Neoteric is the exclusive distributor to market and sell Montagne Jeunesse s skin care sachets in the United States. The initial term was for 18 months, but the agreement continues until it is terminated by either party giving to the other party no less than three or six months written notice of termination, depending on the reason for termination. To date, neither party has provided such notice. As a practical matter, we believe that the continuation of the distribution agreement is dependent on maintaining our good relationship with Montagne Jeunesse.

Under the terms of the agreement, Neoteric agreed, among other things: (1) not to distribute during the duration of the agreement and for 36 months thereafter any goods of the same description as and which compete with the Montagne Jeunesse products; (2) to use our best endeavors to develop, promote and sell the products in the United States and to expand the sale of the products to all potential purchasers by all reasonable and proper means; (3) to purchase certain core products; and (4) to maintain an inventory of the products for our own account for sale of these products throughout the United States. Montagne Jeunesse agreed to use all reasonable endeavors to meet all of our orders for the products to the extent that such orders do not exceed the forecast that we provide them periodically for each type of product. We purchase the products for the published list prices as established by Montagne Jeunesse from time to time with the provision that they are required to give us three months prior written notice of any changes in the published list prices. Neither party may assign or transfer any rights or obligations under the agreement or subcontract the performance of any obligation.

The agreement may be terminated for a material breach if the breaching party has failed to remedy the breach within 30 days after receipt of notice in writing and for certain other events. Montagne Jeunesse may terminate the agreement if: (1) Neoteric changes its organization or methods of business in a way viewed by Montagne Jeunesse as less effective or (2) there is a change in control of Neoteric.

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In January of 2012, we entered into a distribution agreement with Church & Dwight allowing us to act as the exclusive distributor of Batiste Dry Shampoo products in the United States. Church & Dwight still has the right to sell Batiste products to government agencies and departments, as well as warehouse clubs and multinational superstores or hypermarkets. The agreement requires us to satisfy certain annual sales objectives. If we fail to purchase a sufficient amount of Batiste Dry Shampoo products, Church & Dwight may terminate the agreement, or we may lose our exclusive distribution rights. This minimum amount will increase each year. We have also agreed to spend a minimum amount each year for advertising and sales promotion in support of Batiste Dry Shampoo products.

The agreement provides that we will not be permitted to manufacture, distribute or sell any products that are competitive with Batiste Dry Shampoo products. The initial pricing terms for the Batiste products were negotiated with Church & Dwight, but may be increased by Church & Dwight at any time upon 90 days prior written notice of any price increase. While the agreement may be terminated in the case of an uncured breach, upon a change in control, or upon our violation of export control laws, the initial term of the agreement will be three years and will automatically renew for successive one year terms upon written notice by either party.

Competition

Our business is highly competitive in both household and skin and hair care products. We compete in both categories primarily on the basis of quality and the distinguishing characteristics of our products.

The wood care, air freshener, and clean screen product categories are dominated by three to five companies significantly larger than us and each of these competitors produces several competing products. Irrespective of the foregoing, we maintain a visible position in the wood care category, but do not have sufficient information to make an accurate representation as to the market share of our products.

The skin and hair care category is also highly competitive. Several competitors are significantly larger than us and each of these competitors produces several competing products. Some of these companies also manufacture products with AHAs with which our Alpha Hydrox® products must compete. Because of the number of varied products produced by our competitors, we cannot make an accurate representation as to the market share of our skin and hair care products.

Regulation

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

Many of our skin care products, most of which contain AHAs, are considered cosmetics within the definition of the Federal Food Drug and Cosmetic Act (the FFDCA). The FFDCA defines cosmetics as products intended for cleansing, beautifying, promoting attractiveness or altering the appearance without affecting the body s structure or functions. Our cosmetic products are subject to the regulations under the FFDCA and the Fair Packaging and Labeling Act (the FPLA). The relevant laws and regulations are enforced by the U.S. Food and Drug Administration (the FDA). Such laws and regulations govern the ingredients and labeling of cosmetic products and set forth good manufacturing practices for companies to follow. Although FDA regulations require that the safety of a cosmetic ingredient be substantiated prior to marketing, there is no requirement that a company submit the results of any testing performed or any other data or information with respect to any ingredient to the FDA.

The FDA s National Center for Toxicological Research has periodically been investigating the effect of long term exposure to AHAs since 2003. On December 31, 2003, the FDA published a call for data on certain ingredients in various products, including AHAs that are part of wrinkle remover products. Manufacturers were asked to submit any data supporting the reclassification of these cosmetic products as over-the-counter drugs. In January 2005, the FDA issued final guidance to the effect that products containing AHAs should alert users that those products may increase skin sensitivity to sun and possible sunburn and the steps to avoid such consequences. On October 27, 2008, FDA published a set of Q&A s that dealt with both long term exposure and drug/cosmetic issues.

With respect to the drug/cosmetic issue, the FDA restated its traditional position that certain AHA products intended for therapeutic use, such as acne treatments or skin lighteners, are considered drugs. Other AHA products, including those marketed by us, are considered cosmetics. The Q&A also reported on the results of two studies on the issue of skin damage caused by UV rays, and the potential photocarcinogenicity of AHA products. The studies concluded that applying AHA products to the skin resulted in increasing UV sensitivity, but that the effect was completely reversible. In addition another study on potential photocarcinogenesis found that AHA products had no effect on the process. Accordingly, we lawfully market our products as cosmetics, and our labeling fully complies with the FDA s guidance.

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

Employees

We employ 67 persons of which 29 work in plant and production related functions and 38 work in administrative, sales and advertising functions. No contracts exist between us and any union. We monitor wage and salary rates in the Rocky Mountain area and pursue a policy of providing competitive compensation to our employees. The compensation of our executive officers is under the review of the Compensation Committee of our Board of Directors. Fringe benefits for our employees include medical, vision and dental plans, short-term disability, life insurance, a 401(k) plan with matching contributions for employees earning $35,000 or less per annum and an employee stock ownership (ESOP) plan. We consider our employee relations to be satisfactory with the average tenure of our employees to be approximately 15 years.

Patents and Trademarks

At present, we own one patent covering an ingredient used in some of our skin care products. Additionally, we actively use our registered trademarks for Scott s Liquid Gold®, Touch of Scent®, Alpha Hydrox® and Neoteric® in the United States and have registered trademarks in a number of additional countries. Our registered trademarks concern names and logos relating to our products as well as the design of boxes for certain of our products.

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Available Information and Code of Ethics

We will make available free of charge through the website http://www.businesswire.com/cnn/slgd.htm, this annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and amendments to such reports, as soon as reasonably practicable after we electronically file or furnish such material with the Securities and Exchange Commission (the SEC). These reports are also available through a link on our website (www.scottsliquidgold.com). Information on our website is not incorporated by reference into this Report and should not be considered part of this document. We will provide upon request (see below for instructions) and at no charge electronic or paper copies of these filings with the SEC (excluding exhibits).

We will also provide to any person without charge, upon request (see below for instructions), a copy of our code of business conduct and ethics.

A request for our reports filed with the SEC or our code of business conduct and ethics may be made to: Corporate Secretary, Scott s Liquid Gold-Inc., 4880 Havana Street, Suite 400, Denver, Colorado 80239.

ITEM 1A. RISK FACTORS.

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

We need to increase our revenues and/or further reduce our costs in order to become profitable.

We have experienced significant losses over an extended number of years. These losses result primarily from declining sales of our skin care products and our primary household products. Maintaining or increasing our revenues is uncertain and involves a number of factors including consumer acceptance of our products, distribution of our products and other matters described below.

Our cash flow is dependent upon operating cash flow, available cash and available funds under our financing agreements with Summit and Wells Fargo Bank, National Associations (Wells Fargo).

Because we are dependent on our operating cash flow, any loss of a significant customer, any further decreases in the distribution of our skin and hair care or household products, new competitive products affecting sales levels of our products or any significant expense not included in our internal budget could result in the need to raise cash. Our financing agreement with Summit was amended on March 16, 2011 (effective March 1, 2011) and then again on June 29, 2012 (effective July 1, 2012). The agreement has a term that expires on January 1, 2014, 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, 2014 and thereafter on the anniversary date of each 12 month period. On March 16, 2011, under a consent agreement from Summit, we entered into an agreement that enables us to sell the receivables of our largest customer to Wells Fargo. Except for these agreements, we have no arrangements for any external financing of debt or equity, and we are not certain any such financing would be available on acceptable terms. In order to improve our operating cash flow, we need to achieve profitability, and/or further reduce our costs.

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Current economic conditions may materially and adversely impact our business.

The turmoil in the investment market of the United States, the tightening of credit and relatively high level of unemployment in the United States have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and possibly a reduction in business activity generally. A continuation of these conditions could have, among other things, the following potential negative effects: (1) a reduction in spending of consumers in general including in the area of household products and skin and hair care products, which could reduce our sales; (2) the potential increase in bad debts or reserve for bad debts affecting our financial condition or cash flow; and (3) exposure to any increased interest expense to the extent that any financing or refinancing could be at costs higher than our existing debt.

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

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

In both skin and hair care and household products, we compete every day against the largest consumer product companies in the United States.

Our large competitors regularly introduce new products and spend considerably more than we can on advertising. The distribution of our products and sales can be adversely impacted by the actions of our competitors.

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

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

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

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

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

For more than a majority of our sales, we are dependent upon sales to major customers, including Wal-Mart, which is our largest customer, Ulta, which is our second largest customer and Walgreens, which is our third largest customer. The easy access of consumers to our products is dependent upon major retail stores and other retail stores carrying our products. The willingness of these customers (i.e.,

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retail stores) to carry any of our products depends on various matters, including the level of sales of the product at their stores. Any declines in sales of a product to consumers can result in the loss of retail stores as our customers and the corresponding decreases in the distribution of the product. It is uncertain whether the consumer base served by these stores would purchase our products at other retail stores. In the past, sales of our products have been affected by retail stores which discontinue a product or carry the product in a lesser number of stores.

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

Our distributorship agreement with Montagne Jeunesse does not have a fixed term, but continues until it is terminated by either party giving the other party no less than three or six months written notice of termination, depending on the reason for termination. To date, neither party has provided such notice. As a practical matter, we believe that the continuation of our agreement with Montagne Jeunesse is dependent upon maintaining our good relationship with them. Our distribution agreement with Church & Dwight, the manufacturer of Batiste Dry Shampoo products, has an initial term of three years and, following this term, may be automatically renewed. If our agreements with Montagne Jeunesse or Church & Dwight are terminated, we may no longer be able to distribute Montagne Jeunesse or Batiste Dry Shampoo products on an exclusive basis, or at all, and sales in our skin and hair care segment would be adversely affected.

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

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

Our sales are affected adversely by returns.

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

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

Regulations affecting our products include requirements of the FDA for cosmetic products and environmental regulations affecting emissions from our products. In the past, the FDA has mentioned the treatment of products with AHAs as drugs, which could make our production and sale of certain Alpha Hydrox® products more expensive or prohibitive. Also, in the past, we were required to change the formulation of our household products to comply with environmental regulations and will continue to do so as required.

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

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

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

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

Our stock price can be volatile and can decline substantially.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Our facilities, located in Denver, Colorado, which we owned until February 1, 2013, consisted of four connected buildings and a parking garage (approximately 241,684 square feet in total) and about 16.3 acres of land. These buildings range in age from approximately 16 to 39 years (126,600 square feet having been added in 1995 and 1996). As described above under Item 1, Business, we sold the Property on February 1, 2013 and leased a portion of our facilities back from the purchaser. Our facilities house our corporate headquarters and all of our manufacturing and warehouse operations, which are used by both of our operating segments. Until the sale of the Property on February 1, 2013, our facilities served as as collateral for a $5.2 million bank loan with a principal balance at December 31, 2012 of $3.4 million. Please see Note 12 to our Consolidated Financial Statements in Item 8 for information on the sale of our facilities, the leasing back of certain of the facilities that we sold and the repayment of our bank loan. We believe that our current leased space will provide capacity for growth for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

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

Market Information

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

2012			2011		
Three Months Ended	High	Low	Three Months Ended	High	Low
March 31	$ 0.28	$ 0.17	March 31	$ 0.51	$ 0.20
June 30	$ 0.21	$ 0.20	June 30	$ 0.52	$ 0.30
September 30	$ 0.32	$ 0.13	September 30	$ 0.35	$ 0.31
December 31	$ 0.39	$ 0.14	December 31	$ 0.35	$ 0.16

Shareholders

As of March 29, 2013, based on inquiry, we had approximately 772 shareholders of record.

Dividends

We did not pay any cash dividends during the two most recent fiscal years. No decision has been made as to future dividends. See Results of Operations Liquidity and Capital Resources for information concerning restrictions on our ability to pay dividends.

Equity Plans

The following table provides, as of December 31, 2012, information regarding our 1998 and 2005 Stock Option Plans. The 1998 plan has expired, but options under that plan remain outstanding. We also have an employee stock ownership plan which invests only in our common stock, but which is not included in the table below.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,387,350	$ 0.25	1,570,650
Equity compensation plans not approved by security holders	0	0	0
Total	1,387,350	$ 0.25	1,570,650

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ITEM 6. SELECTED FINANCIAL DATA.
Not applicable.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.
Critical Accounting Policies

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

Revenue Recognition

Our revenue recognition policy is significant because the amount and timing of revenue is a key component of our results of operations. We follow guidance issued by the Financial Accounting Standards Board (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 and allowances related to current sales activity. These reserves are established in the period of sale and reduce our revenue in that period.

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

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

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

Income Taxes

As of December 31, 2012, we have net deferred income tax assets of approximately $4,212,000 which primarily relate to net operating loss carryforwards, expenses that are not yet deductible for tax purposes and tax credit carryforwards. These assets are offset by deferred income tax liabilities for

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differences in the book and tax bases of property and equipment. The net deferred tax asset is fully reserved by a valuation allowance. The valuation allowance represents our determination that, more likely than not, we will be unable to realize the value of such assets at this time due to the uncertainty of future profitability.

Inventory Valuation and Reserves

Our inventory is valued at the lower of cost or market, cost being determined under the first-in, first-out method. We estimate an inventory reserve for slow moving and obsolete products and raw materials based upon, among other things, an assessment of historical and anticipated sales of our products. In the event that actual results differ from our estimates, the results of future periods may be impacted.

Long-Lived Assets and Assets Held for Sale

Please refer to Note 1(i) of our Consolidated Financial Statements in Item 8 as to our determination that there has been no impairment in the carrying values of our long-lived assets at December 31, 2012. However, please refer to the same note as to our determination to reclassify our long-lived assets as held for sale .

Recently Issued Accounting Pronouncements

We have considered recently issued accounting pronouncements and do not believe that such pronouncements are of significance or potential significance to us.

Results of Operations

Our consolidated net sales for 2012 were $16,041,400 versus $15,616,300 for 2011, an increase of $425,100 or 2.7%. We saw a 14.9% increase in net sales of our own line of skin care products and a 15.4% increase in net sales of the skin and hair care products that we distribute for other companies. These increases were offset in part by a 17.6% decrease in net sales of our household products. The reasons for the decrease in the sales of our household products are described below.

Our net loss for 2012 was $1,371,800 versus a net loss $633,800 for 2011. The increased loss for 2012 compared to 2011 resulted primarily from: (1) an impairment to the carrying value of our facilities as detailed below; (2) a reclassification of our facilities to assets held for sale and related impairment as detailed below; (3) increases in trade promotions to our customers; (4) increases in costs of sales as detailed below; and (5) increases in operating expenses as detailed below.

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Summary of Results as a Percentage of Net Sales