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SCOTTS LIQUID GOLD INC  
Form 10QSB  
November 14, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED

September 30, 2007

Commission File No. 001-13458

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

Colorado  
State of Incorporation

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

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes  No

As of September 30, 2007, the Registrant had 10,560,000 of its \$0.10 par value common stock outstanding.

PART I. FINANCIAL INFORMATION

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### Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 4,644,100	\$ 3,842,400	\$12,810,100	\$12,131,500
Operating costs and expenses:				
Cost of sales	2,609,300	2,069,300	7,296,400	6,880,200
Advertising	66,700	360,900	267,800	1,062,200
Selling	1,406,900	1,353,400	4,041,300	4,189,100
General and administrative	735,800	791,400	2,318,700	2,566,700
	4,818,700	4,575,000	13,924,200	14,698,200
Loss from operations	(174,600)	(732,600)	(1,114,100)	(2,566,700)
Gain on disposal of assets	-	67,100	-	67,100
Interest income	16,700	35,300	60,600	62,200
Interest expense	(107,600)	(110,800)	(315,700)	(211,200)
Loss before income taxes	(265,500)	(741,000)	(1,369,300)	(2,648,600)
Income tax expense (benefit)	-	-	-	-
Net loss	\$ (265,500)	\$ (741,000)	\$ (1,369,300)	\$ (2,648,600)
Net loss per common share (Note 3):				
Basic	\$ (0.03)	\$ (0.07)	\$ (0.13)	\$ (0.25)
Diluted	\$ (0.03)	\$ (0.07)	\$ (0.13)	\$ (0.25)
Weighted average shares outstanding:				
Basic	10,545,000	10,503,000	10,537,000	10,503,000
Diluted	10,545,000	10,503,000	10,537,000	10,503,000

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

September 30	December 31,
2007	2006
-----	-----

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	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,248,100	\$ 2,804,100
Investment securities	50,400	51,100
Trade receivables, net of allowance for doubtful accounts of \$62,800 and \$62,000, respectively	1,218,600	743,700
Other receivables	55,100	55,500
Inventories, net	3,523,500	3,291,400
Prepaid expenses	273,400	161,600
	-----	-----
Total current assets	6,369,100	7,107,400
Property, plant and equipment, net	12,739,300	13,159,700
Other assets	56,500	59,700
	-----	-----
TOTAL ASSETS	\$19,164,900	\$20,326,800
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,343,900	\$ 1,893,600
Accrued payroll and benefits	775,500	866,400
Other accrued expenses	353,500	417,100
Current maturities of long-term debt	200,700	191,600
	-----	-----
Total current liabilities	3,673,600	3,368,700
Long-term debt, net of current maturities	4,724,900	4,875,500
	-----	-----
	8,398,500	8,244,200
Commitments and contingencies		
Shareholders' equity:		
Common stock; \$.10 par value, authorized 50,000,000 shares; issued and outstanding 10,560,000 shares	1,056,000	1,053,300
Capital in excess of par	5,066,900	5,015,800
Accumulated comprehensive income	400	1,100
Retained earnings	4,643,100	6,012,400
	-----	-----
Shareholders' equity	10,766,400	12,082,600
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$19,164,900	\$20,326,800
	=====	=====

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

	Nine Months Ended September 30,	
	----- 2007 -----	----- 2006 -----
Cash flows from operating activities:		
Net loss	\$ (1,369,300)	\$ (2,648,600)
	-----	-----
Adjustments to reconcile net loss to net		

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cash provided (used) by operating activities:		
Depreciation and amortization	484,700	533,000
Stock issued to ESOP	25,100	48,700
Stock options granted	28,700	-
Gain on disposal of assets	(200)	(67,100)
Changes in assets and liabilities:		
Trade and other receivables, net	(474,500)	872,400
Inventories, net	(232,100)	(656,600)
Prepaid expenses	(111,800)	(80,000)
Accounts payable and accrued expenses	295,800	541,800
	-----	-----
Total adjustments to net loss	15,700	1,192,200
	-----	-----
Net Cash Used by Operating Activities	(1,353,600)	(1,456,400)
	-----	-----
Cash flows from investing activities:		
Proceeds from disposal of assets	200	93,800
Purchase of property, plant & equipment	(61,100)	(84,200)
	-----	-----
Net Cash Provided (Used) by Investing Activities	(60,900)	9,600
	-----	-----
Cash flows from financing activities:		
Proceeds from long-term borrowings	-	5,156,600
Short-term borrowings (payments), net	-	(570,000)
Purchase of stock for contribution to ESOP	-	(48,700)
Principal payments on long-term borrowings	(141,500)	(1,938,200)
Loan origination fees and other costs	-	(64,600)
	-----	-----
Net Cash Provided (Used) by Financing Activities	(141,500)	2,535,100
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	(1,556,000)	1,088,300
Cash and Cash Equivalents, beginning of period	2,804,100	2,260,700
	-----	-----
Cash and Cash Equivalents, end of period	\$ 1,248,100	\$ 3,349,000
	=====	=====
Supplemental disclosures:		
Cash paid during period for:		
Interest	\$ 316,800	\$ 215,900
	=====	=====
Income taxes	\$ 2,000	\$ 1,100
	=====	=====

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

Note 1. 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, "we" or "our") manufacture and market quality household and skin care products, and we fill, package and market our Mold Control 500 product. Since the first quarter of 2001, we have acted as a distributor in the United States of beauty care products contained in individual sachets and manufactured by Montagne

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Jeunesse. Our business is comprised of two segments, household products and skin care products.

(b) Principles of Consolidation

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

(c) Use of Estimates

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

(d) Cash Equivalents

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

(e) Investments in Marketable Securities

We account for investments in marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities", which requires that we classify investments in marketable securities according to management's intended use of such investments. We invest our excess cash and have established guidelines relative to diversification and maturities in an effort to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. We consider all investments as available for use in our current operations and, therefore, classify them as short-term, available-for-sale investments. Available-for-sale investments are stated at fair value, with unrealized gains and losses, if any, reported net of tax, as a separate component of shareholders' equity and comprehensive income (loss). The cost of the securities sold is based on the specific identification method. Investments in corporate and government securities as of September 30, 2007, are scheduled to mature within one year.

(f) Inventories

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

Inventories were comprised of the following at:

	September 30, 2007	December 31, 2006
	-----	-----
Finished goods	\$ 2,562,500	\$ 2,435,400
Raw materials	1,368,700	1,337,200
Inventory reserve for obsolescence	(407,700)	(481,200)
	-----	-----
	\$ 3,523,500	\$ 3,291,400
	=====	=====

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### (g) Property, Plant and Equipment

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

### (h) Financial Instruments

Financial instruments which potentially subject us to concentrations of credit risk include cash and cash equivalents, investments in marketable securities, and trade receivables. We maintain our cash balances in the form of bank demand deposits with financial institutions that management believes are creditworthy. As of the balance sheet date and periodically throughout the year, the Company has 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, and accounts payable and accrued expenses approximate fair value due to the short-term nature of these financial instruments. The fair value of investments in marketable securities is based upon quoted market value. Our long-term debt bears interest at a fixed rate that adjusts annually on the anniversary date to a then prime rate. The carrying value of long-term debt approximates fair value as of September 30, 2007 and December 31, 2006.

### (i) Long-Lived Assets

We account for long-lived assets in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

### (j) Income Taxes

We account for income taxes in accordance with the provisions of SFAS No. 109, "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

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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.

### (k) Revenue Recognition

Revenue is recognized when an arrangement exists to sell our product, we have delivered such product in accordance with that arrangement, the sales price is determinable, and collectibility is probable. Reserves for estimated market development support, pricing allowances and returns are provided in the period of sale as a reduction of revenue. Reserves for returns and allowances are recorded as a reduction of revenue, and are maintained at a level that management believes is appropriate to account for amounts applicable to existing sales. Reserves for coupons and certain other promotional activities are recorded as a reduction of revenue at the later of the date at which the related revenue is recognized or the date at which the sales incentive is offered. At September 30, 2007 and December 31, 2006 approximately \$839,000 and \$649,000, respectively, had been reserved as a reduction of accounts receivable, and approximately \$32,000 and \$50,000, respectively, had been reserved as current liabilities. Co-op advertising, marketing funds, slotting fees and coupons are deducted from gross sales and totaled \$1,797,000, and \$1,804,000 at September 30, 2007 and 2006, respectively.

### (l) Advertising Costs

We expense advertising costs as incurred.

### (m) Stock-based Compensation

At September 30, 2007, we had four stock-based employee compensation plans. During the first quarter of fiscal 2007, we adopted the provisions of, and account for stock-based compensation in accordance with, the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards No. 123-revised 2004 ("SFAS 123R"), "Share-Based Payment" which replaced Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. We elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. No grants occurred in 2006 subsequent to the adoption of SFAS 123R and all outstanding options granted prior to December 31, 2006 were fully vested as of December 31, 2006.

Prior to January 1, 2006, we accounted for the plans described above under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income prior to January 1, 2006, as all options granted under those plans had an exercise price not less than the market value of the underlying common stock on the date of grant.

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During the third quarter of 2007 we granted options for 92,000 shares of our common stock at \$0.82 per share and 2,000 shares of our common stock at \$0.85 per share to employees. During the first quarter of 2007, we granted 448,550 options for shares of our common stock (268,500 to employees and 180,000 to non-employee directors) at \$0.82 per share. The options which vest ratably over forty-eight months, or upon a change in control, and which expire after five years, were granted at or above the market value as of the date of grant.

The weighted average fair market value of the options granted in the first quarter of 2007 of \$0.42 was estimated on the date of grant using a Black-Scholes option pricing model with the following assumptions.

Expected life of options	4.5 years
Risk-free interest rate	4.46%
Expected volatility of stock	58%
Expected dividend rate	None

The weighted average fair market value of the options granted in the third quarter of 2007 of \$0.47 was estimated on the date of each grant using a Black-Scholes option pricing model with the following assumptions.

Expected life of options	4.5 years
Risk-free interest rate	4.2%
Expected volatility of stock	57%
Expected dividend rate	None

Compensation cost related to stock options recognized in operating results (included in general and administrative expenses) under SFAS 123R was \$28,700 in the nine months ended September 30, 2007. Approximately \$200,700 of total unrecognized compensation costs related to non-vested stock options is expected to be recognized over the next forty-one to forty-seven months. In accordance with SFAS 123R, there was no tax benefit from recording the non-cash expense as relates to the options granted to employees as these were qualified stock options which are not normally tax deductible. With respect to the non-cash expense associated with the options granted to the non-employee directors, no tax benefit was recognized due to the existence of as yet unutilized net operating losses. At such time as these operating losses have been utilized and a tax benefit is realized from the issuance of non-qualified stock options, a corresponding tax benefit may be recognized.

(n) Comprehensive Income

We follow SFAS No. 130, "Reporting Comprehensive Income" which establishes standards for reporting and displaying comprehensive income and its components. Comprehensive income includes all changes in equity during a period from non-owner sources.

The following table is a reconciliation of our net loss to our total comprehensive loss:

Three Months Ended September 30,	Nine Months Ended September 30,
-----	-----



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	2007	2006	2007	2006
	-----	-----	-----	-----
Net loss	\$ (265,500)	\$ (741,000)	\$ (1,369,300)	\$ (2,648,600)
Unrealized gain (loss) on investment securities	(100)	400	(700)	(800)
	-----	-----	-----	-----
Comprehensive loss	\$ (265,600)	\$ (740,600)	\$ (1,370,000)	\$ (2,649,400)
	=====	=====	=====	=====

(o) Operating Costs and Expenses Classification

Cost of sales includes costs associated with manufacturing and distribution including labor, materials, freight-in, purchasing and receiving, quality control, internal transfer costs, repairs, maintenance and other indirect costs, as well as warehousing and distribution costs. We classify shipping and handling costs comprised primarily of freight-out and nominal outside warehousing costs as a component of selling expense on the accompanying Consolidated Statement of Operations. Shipping and handling costs totaled \$1,148,800 and \$1,106,800 for the nine months ended September 30, 2007 and 2006, respectively.

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

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

(p) Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosure related to the use of fair value measures in financial statements. SFAS No. 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. The Standard emphasizes that fair value is a market-based measurement and not an entity-specific measurement based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS No. 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. SFAS No. 157 is effective in fiscal years beginning after November 15, 2007. Adoption of this statement is not expected to materially impact our results of operations or financial position.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48,) "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes". FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The interpretation applies to all tax positions related to income taxes subject to FASB Statement No. 109.

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FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption should be accounted for as cumulative-effect adjustment recorded to the beginning balance of retained earnings. The adoption of FIN 48 did not have a material impact on our financial position.

### Note 2. Basis of Preparation of Financial Statements

We have prepared these unaudited interim consolidated financial statements in accordance with the rules and regulations of the Securities and Exchange Commission. Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles as long as the statements are not misleading. In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal recurring nature. These interim financial statements should be read in conjunction with our financial statements included in our 2006 Annual Report on Form 10-KSB.

### Note 3. Earnings Per Share

Per share data was determined by using the weighted average number of common shares outstanding. Potentially dilutive securities, including stock options, are considered only for diluted earnings per share, unless considered anti-dilutive. The potentially dilutive securities, which are comprised of outstanding stock options of 1,994,200 and 1,680,600 at September 30, 2007 and 2006, were excluded from the computation of weighted average shares outstanding due to their anti-dilutive effect.

A reconciliation of the weighted average number of common shares outstanding for the three and nine months ended September 30, 2007 and 2006, respectively, follows:

	2007		Total	2006
	Three Months	Nine Months	Shares	Three and Nine Months
Common shares outstanding beginning of period	10,533,000	10,533,000	10,533,000	10,503,000
Stock issued to ESOP	12,000	4,000	27,000	-
	10,545,000	10,537,000	10,560,000	10,503,000
Weighted average number of common shares outstanding	10,545,000	10,537,000	10,560,000	10,503,000
Dilutive effect of common share equivalents	-	-	-	-
	10,545,000	10,537,000	10,560,000	10,503,000
Diluted weighted average number of common shares outstanding	10,545,000	10,537,000	10,560,000	10,503,000

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At September 30, 2007, there were authorized 50,000,000 shares of our \$.10 par value common stock and 20,000,000 shares of preferred stock issuable in one or more series. None of the preferred stock was issued or outstanding at September 30, 2007.

### Note 4. Segment Information

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

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

	Three Months Ended September 30,			
	2007		2006	
	Household Products	Skin Care Products	Household Products	Skin Care Products
	-----	-----	-----	-----
Net sales to external customers	\$ 1,941,700	\$ 2,702,400	\$ 1,897,300	\$ 1,945,100
	=====	=====	=====	=====
Income (loss) before profit sharing, bonuses, and income taxes	\$ 85,400	\$ (350,900)	\$ (136,600)	\$ (604,400)
	=====	=====	=====	=====
Identifiable Assets	\$ 3,333,300	\$ 6,114,800	\$ 3,763,100	\$ 5,908,900
	=====	=====	=====	=====
	Nine Months Ended September 30,			
	2007		2006	
	Household Products	Skin Care Products	Household Products	Skin Care Products
	-----	-----	-----	-----
Net sales to external customers	\$ 6,183,400	\$ 6,626,700	\$ 6,523,300	\$ 5,608,200
	=====	=====	=====	=====
Income (loss) before profit sharing, bonuses and income taxes	\$ 173,900	\$ (1,543,200)	\$ (510,400)	\$ (2,138,200)
	=====	=====	=====	=====

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Identifiable Assets	\$ 3,333,300	\$ 6,114,800	\$ 3,763,100	\$ 5,908,900
	=====	=====	=====	=====

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,	
	2007	2006	2007	2006
Net sales to external customers	\$ 4,644,100	\$ 3,842,400	\$12,810,100	\$12,131,500
Loss before profit sharing, bonuses and income taxes	\$ (265,500)	\$ (741,000)	\$ (1,369,300)	\$ (2,648,600)
Identifiable assets	\$ 9,448,100	\$ 9,672,000	\$ 9,448,100	\$ 9,672,000
Corporate assets	9,716,800	12,118,400	9,716,800	12,118,400
Consolidated total assets	\$19,164,900	\$21,790,400	\$19,164,900	\$21,790,400

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

Item 2. Management's Discussion and Analysis or Plan of Operation

Results of Operations

During the first nine months of 2007, we experienced a decrease in sales of our Scott's Liquid Gold household chemical products, while experiencing an increase in sales of our Montagne Jeunesse line of skin care products and a decrease in sales of our Alpha Hydrox skin care products. Our net loss for the first nine months of 2007 was \$1,369,300 versus a loss of \$2,648,600 in the first nine months of 2006. The decrease in our loss for the first nine months of 2007 compared to the first nine months of 2006 results from a small increase in sales, and a reduction in our operating costs and expenses, primarily the reduction of advertising.

Summary of Results as a Percentage of Net Sales

	Year Ended December 31,	Nine Months Ended September 30,	
	2006	2007	2006
Net sales			
Scott's Liquid Gold household products	53.1%	48.3%	53.8%
Neoteric Cosmetics	46.9%	51.7%	46.2%
Total Net Sales	100.0%	100.0%	100.0%
Cost of Sales	57.4%	57.0%	56.7%
Gross profit	42.6%	43.0%	43.3%

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Other revenue	1.0%	0.5%	1.1%
	-----	-----	-----
	43.6%	43.5%	44.4%
	-----	-----	-----
Operating expenses	63.8%	51.7%	64.5%
Interest	2.0%	2.5%	1.7%
	-----	-----	-----
	65.8%	54.2%	66.2%
	-----	-----	-----
Loss before income taxes	(22.2%)	(10.7%)	(21.8%)
	=====	=====	=====

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

Comparative Net Sales

	Nine Months Ended September 30,		Percentage Increase (Decrease)
	2007	2006	
	-----	-----	-----
Scott's Liquid Gold and other household products	\$ 5,384,700	\$ 5,476,400	(1.7%)
Touch of Scent	798,700	1,046,900	(23.7%)
	-----	-----	-----
Total household chemical products	6,183,400	6,523,300	(5.2%)
	-----	-----	-----
Alpha Hydrox and other skin care	2,310,900	2,836,400	(18.5%)
Montagne Jeunesse skin care	4,315,800	2,771,800	55.7%
	-----	-----	-----
Total skin care product	6,626,700	5,608,200	18.2%
	-----	-----	-----
Total net sales	\$12,810,100	\$12,131,500	5.6%
	=====	=====	=====

Nine Months Ended September 30, 2007  
Compared to Nine Months Ended September 30, 2006

Consolidated net sales for the first nine months of the current year were \$12,810,100 versus \$12,131,500 for the first nine months of 2006, an increase of \$678,600. Average selling prices were down by \$86,700. Co-op advertising, marketing funds, slotting fees, and coupons paid to retailers are deducted from gross sales, and totaled \$1,797,000 in the first nine months of 2007 versus \$1,804,000 in the same period in 2006, a decrease of \$7,000 or 0.4%. This decrease consisted of a decrease in coupon expense of \$33,100, an increase in co-op marketing funds of \$105,700, and a decrease in slotting fee expenses of \$79,600.

From time to time, our customers return product to us. For our

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

From January 1, 2004 through end of last quarter September 30, 2007, our product returns (as a percentage of gross revenue) have averaged as follows: household products 0.5%, Montagne Jeunesse products 3.1%, and our Alpha Hydrox and other skin care products 6.4%. The level of returns as a percentage of gross revenue for the household products and Montagne Jeunesse products have remained fairly constant as a percentage of sales over that period while the Alpha Hydrox and other skin care products return levels have fluctuated. More recently, as our sales of the skin care products have declined we have seen a decrease in returns as a percentage of gross revenues. The products returned in the fiscal year to date (indicated as a percentage of gross revenues) were: household products 0.2%, Montagne Jeunesse products 3.9%, and our Alpha Hydrox and other skin care products 8.9%. We are not aware of any industry trends, competitive product introductions or advertising campaigns at this time which would cause returns as a percentage of gross sales to be materially different for the current fiscal year than for the above averages. Furthermore, the Company's management is not currently aware of any changes in customer relationships that we believe would adversely impact anticipated returns. However, we review our reserve for returns quarterly and we regularly face the risk that the existing conditions related to product returns will change.

During the first nine months of 2007, net sales of skin care products accounted for 51.7% of consolidated net sales compared to 46.2% for the same period of 2006. Net sales of these products for that period were \$6,626,700 in 2007 compared to \$5,608,200 in 2006, an increase of \$1,018,500 or 18.2%.

Our decrease in sales of Alpha Hydrox and other skin care products was due to a decrease in distribution in 2007; however, this decrease was offset somewhat by the sales of our line of Neoteric Massage Oils, introduced earlier in 2007. With only the introduction underway, it is too early to tell about consumer acceptance of Neoteric Massage Oils. We have continued to experience a drop in unit sales of our more recently introduced Alpha Hydrox products and our earlier-established alpha hydroxy acid-based products due primarily to maturing in the market for alpha hydroxy acid-based skin care products, intense competition from producers of similar or alternative products, many of which are considerably larger than Neoteric Cosmetics, Inc. and reduced distribution of these products at retail stores in current and prior periods. For the first nine months of 2007, the sales of our Alpha Hydrox products accounted for 12.7% of net sales of skin care products and 6.6% of total net sales, compared to 35.7% of net sales of skin care products and 16.5% of total net sales in 2006. During the third quarter we introduced four new items to the Alpha

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Hydrox line of products, it is too early to tell about consumer acceptance of these additions.

Net sales of Montagne Jeunesse products were \$4,315,800 in the first nine months of 2007 versus \$2,771,800 for the comparable period of 2006, an increase of \$1,544,000 or 55.7%. The increase reflects the product placement in additional Wal-Mart stores which began late in the first quarter. This placement included significantly more stores and more sachet variants in the stores. We have returned to two more national retail chains with placement of Montagne Jeunesse in the second half of 2007.

Sales of household products for the first nine months of this year accounted for 48.3% of consolidated net sales compared to 53.8% for the same period in 2006. These products are comprised of Scott's Liquid Gold wood care products (Scott's Liquid Gold for wood, a wood wash and wood wipes), mold remediation products and Touch of Scent. During the nine months ended September 30, 2007 sales of household products were \$6,183,400 as compared to \$6,523,300 for the same period in 2006, a decrease of \$339,900, or 5.2%. Sales of Scott's Liquid Gold wood care products decreased by \$274,700 in 2007 versus 2006. We believe this reduction to be a result of a decrease in media advertising of our wood care products in 2007 versus 2006. Mold Control 500 sales, which are shown in the sales for Scott's Liquid Gold and other household products, were \$741,000 for the first nine months of 2007 versus \$558,000 in the same period of 2006. Sales of "Touch of Scent" were down by \$248,200 or 23.7%, primarily due to a decrease in distribution in present and past quarters. We anticipate that there will be further reductions in distribution of our older Touch of Scent products in the fourth quarter of 2007. During the third quarter of 2007, we introduced some additions to our Touch of Scent air fragrance product line, it is too early to tell about consumer acceptance of these additions. The additions are fragrances in a formulation called Odor Extinguisher.

As sales of a consumer product decline, there is the risk that retail stores will stop carrying the product. The loss of any significant customer for any skin care products, "Scott's Liquid Gold" wood care or mold remediation products, could have a significant adverse impact on our revenues and operating results. We believe that our future success is highly dependent on favorable acceptance and sales in the marketplace of Montagne Jeunesse products, our Alpha Hydrox products and our "Scott's Liquid Gold" wood care and mold remediation products.

We also believe that the introduction of successful new products, including line extensions of existing products, such as the wood wash and our new mold remediation product, using the name "Scott's Liquid Gold", are important in our efforts to maintain or grow our revenue. Late in the fourth quarter of 2006, we introduced two new items within our Alpha Hydrox cosmetic line of products. We have introduced, as mentioned above, new products in 2007. We do not have any additional products scheduled for introduction in 2007 or early 2008. However, we review regularly possible additional products to sell through distribution agreements or to manufacture ourselves. To the extent that we manufacture a new product rather than purchase it from external parties, we are also benefited by the use of existing capacity in our facilities. We are using our facilities to fill and package the mold control products. The actual introduction of additional products, the timing of any additional introductions and any revenues realized from new products is uncertain.

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On a consolidated basis, cost of goods sold was \$7,296,400 during the first nine months of 2007 compared to \$6,880,200 for the same period of 2006, an increase of \$416,200 or 6.0%, on a sales increase of 5.6%. As a percentage of consolidated net sales, cost of goods sold was 57.0% in 2007 versus 56.7% in 2006, an increase of about 0.5%.

### Operating Expenses, Interest Expense and Other Income

	Nine Months Ended September 30,		Percentage Increase (Decrease)
	2007	2006	
Operating Expenses			
Advertising	\$ 267,800	\$ 1,062,200	(74.8%)
Selling	4,041,300	4,189,100	(3.5%)
General & Administrative	2,318,700	2,566,700	(9.7%)
Total operating expenses	\$ 6,627,800	\$ 7,818,000	(15.2%)
Interest and Other Income	\$ 60,600	\$ 129,300	(53.1%)
Interest Expense	\$ 315,700	\$ 211,200	49.5%

Operating expenses, comprised primarily of advertising, selling and general and administrative expenses, decreased \$1,190,100 in the first nine months of 2007, when compared to the first nine months of 2006. The various components of operating expenses are discussed below.

Advertising expenses for the first nine months of 2007 were \$267,800 compared to \$1,062,200 for the comparable period of 2006, a decrease of \$794,400 or 74.8%. A majority of that decrease was due to a decrease in television advertising expenses applicable to our Alpha Hydrox skin care products, Mold Control 500 product and Scott's Liquid Gold for wood.

Selling expenses for the first nine months of 2007 were \$4,041,300 compared to \$4,189,100 for the comparable nine months of 2006, a decrease of \$147,800 or 3.5%. That decrease was comprised of a decrease in salaries, fringe benefits and related travel expense of \$130,100 primarily because of a decrease in personnel in 2007 versus 2006, a decrease in web sales expenses of \$45,000, offset by a net increase in other selling expense, none of which by itself is significant, of \$27,300.

General and administrative expenses for the first nine months of 2007 were \$2,318,700 compared to \$2,566,700 for the comparable period of 2006, a decrease of \$248,000 or 9.7%. That decrease was primarily attributable to a decrease in salaries and fringe benefits and related travel expense resulting from a reduction in salaries and personnel of \$223,000, and a net decrease in other general and administrative expenses of \$25,000.

Interest expense for the first nine months of 2007 was \$315,700 versus \$211,200 for the comparable period of 2006. Interest expense increased because of higher interest rates and increased borrowing levels. Interest income for the nine months ended September 30, 2007 was \$60,600 compared to \$62,200 for the same period of 2006, which consists of interest earned on our cash reserves in 2007 and 2006.



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During the first nine months of 2007 and of 2006, expenditures for research and development were not material (under 2% of revenues).

Three Months Ended September 30, 2007  
Compared to Three Months Ended September 30, 2006

### Comparative Net Sales

	Three Months Ended September 30,		
	2007	2006	Percentage Increase (Decrease)
Scott's Liquid Gold and other household products	\$ 1,729,800	\$ 1,545,600	11.9%
Touch of Scent	211,900	351,700	(39.7%)
	1,941,700	1,897,300	2.3%
Alpha Hydrox and other skin care	764,900	1,155,300	(33.8%)
Montagne Jeunesse skin care	1,937,500	789,800	145.3%
	2,702,400	1,945,100	38.9%
Total net sales	\$ 4,644,100	\$ 3,842,400	20.9%

Consolidated net sales for the third quarter of the current year were \$4,644,100 versus \$3,842,400 for the comparable quarter of 2006, an increase of \$801,700 or about 20.9%. Average selling prices for the third quarter of 2007 were up by \$141,100 over those of the comparable period of 2006, prices of household products being up by \$48,900, while average selling prices of skin care products were up by \$92,200. Co-op advertising, marketing funds, slotting fees and coupon expenses paid to retailers were subtracted from gross sales in accordance with current accounting policies totaling \$475,800 in the third quarter of 2007 versus \$651,200 in the same period in 2006, a decrease of \$175,400 or about 26.9%. This decrease consisted of a decrease in coupon expenses of \$114,100, a decrease in co-op advertising of \$33,000, and a decrease in slotting of \$28,500.

During the third quarter of 2007, net sales of skin care products accounted for 58.2% of consolidated net sales compared to 50.6% for the third quarter of 2006. Net sales of these products for those periods were \$2,702,400 in 2007 compared to \$1,945,100 in 2006, an increase of \$757,300 or about 38.9%. Net sales of Montagne Jeunesse were approximately \$1,937,500 in the third quarter of 2007 compared to \$789,800 in the third quarter of 2006. Please see the discussion above for the first nine months of 2007 for additional information regarding sales of skin care products, which is also applicable to sales of skin care products in the third quarter of 2007.

Sales of household products for the third quarter of this year accounted for 41.8% of consolidated net sales compared to 49.4% for the same period of 2006. These products are comprised of Scott's Liquid

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Gold wood care and mold remediation products, and "Touch of Scent", a room air freshener. During the third quarter of 2007, sales of household products were \$1,941,700, as compared to sales of \$1,897,300 for the same three months of 2006. Sales of Scott's Liquid Gold wood care and other household products were up by \$184,200, an increase of 11.9%. Sales of "Touch of Scent" were down by \$139,800 or 39.7%. During the second quarter of 2006 we began the introduction of our mold remediation product "Mold Control 500". Sales of Mold Control 500 were \$269,000 during the third quarter of 2007, versus \$125,000 in the third quarter of 2006. Please see the discussion above for the first nine months of 2007 for additional information regarding sales of household products, which is also applicable to sales of household products in the third quarter of 2007.

On a consolidated basis, cost of goods sold was \$2,609,300 during the third quarter of 2007 compared to \$2,069,300 for the same period of 2006, an increase of \$540,000 or 26.1%, on a sales increase of 20.9%. As a percentage of consolidated net sales for the third quarter of 2007, cost of goods sold was 56.2% compared to 53.9% in 2006, an increase of 4.3%, which reflects primarily the decrease in manufacturing plant utilization.

### Operating Expenses, Interest Expense and Other Income

	2007	2006	Percentage Increase (Decrease)
	-----	-----	-----
Operating Expenses			
Advertising	\$ 66,700	\$ 360,900	(81.5%)
Selling	1,406,900	1,353,400	4.0%
General & Administrative	735,800	791,400	(7.0%)
	-----	-----	-----
Total operating expenses	\$ 2,209,400	\$ 2,505,700	(11.8%)
	=====	=====	=====
Interest and Other Income	\$ 16,700	\$ 102,400	(83.7%)
Interest Expense	\$ 107,600	\$ 110,800	(2.9%)

Operating expenses, comprised primarily of advertising, selling and general and administrative expenses, decreased \$296,300 in the third quarter of 2007, when compared to the same period during 2006. The various components of operating expenses are discussed below.

Advertising expenses for the third quarter of 2007 were \$66,700 compared to \$360,900 for the comparable quarter of 2006, a decrease of \$294,200 or 81.5%, primarily due to a decrease in Mold Control 500 advertising.

Selling expenses for the three months ended September 30, 2007 were \$1,406,900 compared to \$1,353,400 for the comparable three months of 2006, an increase of \$53,500 or 4.0%. That increase was primarily because of an increase in freight and brokerage expenses of \$45,300 and a net increase in other selling expenses, none of which by itself is significant, of \$8,200.

General and administrative expenses for the third quarter of 2007 were \$735,800 compared to \$791,400 for the comparable period of 2006, a decrease of \$55,600 or 7.0%. That decrease was primarily attributable to a decrease in salaries and fringe benefits resulting from a reduction in salaries and personnel of \$51,900, and a net

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decrease in other general and administrative expenses of \$3,600.

Interest expense for the third quarter of 2007 was \$107,600 versus \$110,800 for the comparable period of 2006. Interest expense decreased because of decreased borrowing levels. Interest income for the three months ended September, 2007 was \$16,700 compared to \$35,300 for the same period of 2006.

During the third quarter of 2007 and of 2006, expenditures for research and development were not material (under 2% of revenues).

### Liquidity and Capital Resources

On June 28, 2006, we entered into a new loan with a fifteen year amortization with Citywide Banks for \$5,156,600 secured by the land, building and fixtures at our Denver, Colorado facilities. This loan replaced the bank loan with Citywide Banks, secured by the facilities, in the principal amount of approximately \$1,582,900. Interest on the bank loan (8.0% at December 31, 2006) is at the prime rate as published in The Wall Street Journal, adjusted annually each June (8.25% at September 30, 2007). This loan requires 180 monthly payments of approximately \$49,500, which commenced on July 28, 2006. As did the prior bank loan, the loan agreement contains a number of covenants, including the requirement for maintaining a current ratio of at least 1:1 and a ratio of consolidated long-term debt to consolidated net worth of not more than 1:1. We may not declare any dividends that would result in a violation of either of these covenants. The foregoing requirements were met at the end of the first nine months of 2007.

During the first nine months of 2007, our working capital decreased by \$1,043,200, and concomitantly, our current ratio (current assets divided by current liabilities) decreased from 2.1:1 at December 31, 2006 to 1.7:1 at September 30, 2007. This decrease in working capital is attributable to a net loss in the first nine months of 2007 of \$1,369,300, reduction in long-term debt of \$150,600, offset by depreciation in excess of capital additions of \$420,500.

At September 30, 2007, trade accounts receivable were \$1,218,600 versus \$743,700 at the end of 2006, largely because sales in the last two months of the quarter ended September 30, 2007 were more than those of the last two months of the quarter ended December 31, 2006. Accounts payable increased from the end of 2006 through September of 2007 by \$450,300 corresponding primarily with the increase and timing of purchases of inventory over that period. At September 30, 2007 inventories were \$232,100 more than at December 31, 2006, due to the increase in cosmetic product inventory to support our new products, and upcoming holiday sales. Prepaid expenses increased from the end of 2006 by \$111,800 primarily due to an increase in prepaid promotional expenses. Accrued payroll and benefits decreased \$90,900 from December 31, 2006 to September 30, 2007 primarily because of a decrease in accrued payroll. Other Accrued liabilities decreased by \$63,600 primarily because of a decrease in accrued property taxes.

We have no significant capital expenditures planned for 2007 and have no current plans for any external financing, other than our existing bank loans. We expect that our available cash flows from operating activities will fund the next twelve months' cash requirements.

Our dependence on operating cash flow means that risks involved in our business can significantly affect our liquidity. Any loss of a significant customer, any further decreases in distribution of our

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skin care or household products, any new competitive products affecting sales levels of our products, or any significant expense not included in our internal budget could result in the need to raise cash, such as through a bank financing. We have no arrangements for any additional external financing of debt or equity, and we are not certain whether any such financing would be available on acceptable terms. In order to improve our operating cash flow, we need to achieve profitability.

As we have indicated in previous public reports, the Company uses less than the capacity of its facilities and is also interested in reducing its expenses. As part of this process, the Company has engaged a commercial real estate broker to explore alternatives. These alternatives include the sale of all or part of the facilities, a sale of all or part of the facilities combined with a leaseback by the Company of the facilities, or a lease of all or part of the facilities by the Company to a third party. There is, however, no assurance that acceptable transactions will be offered or completed.

### Forward-Looking Statements

This report may contain "forward-looking statements" within the meaning of U.S. federal securities laws. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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; the uncertainty of consumer acceptance of the new Alpha Hydrox introduced in 2005, mold control and wood wash products; competitive factors; any decrease in distribution of (i.e., retail stores carrying) our significant products; continuation of our distributorship agreement with Montagne Jeunesse; the need for effective advertising of our products; limited resources available for such advertising; new competitive products and/or technological changes; dependence upon third party vendors and upon sales to major customers; changes in the regulation of our products, including applicable environmental regulations; continuing losses which could affect our liquidity; the loss of any executive officer; and other matters discussed in our 2006 Annual Report on Form 10-KSB. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

### Item 3A(T). Controls and Procedures

As of September 30, 2007, we conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms as of September 30, 2007. In September 2007 we made changes in the following areas of our disclosure controls and procedures in an effort to remediate a material weakness:

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.. The addition of a National Sales Director as an additional level of review and approval over promotional budgets and program spending.

.. Enhanced budgeting procedures and additional periodic reviews of our promotional programs by our National Sales Director and executive management.

.. Enhanced follow up by our National Sales Director and corporate headquarters to insure that the Company has received all pertinent documentation for sales promotional proposals, commitments and contracts.

.. Required sales call reports, in written form, shortly after sales appointments between Company personnel and our customer's buyer and/or purchasing personnel. This report would, among other things, summarize any commitments made on behalf of the Company or customer.

.. Quarterly, or more often if warranted, review by sales management and executive management of promotional commitments to insure accurate financial reporting.

PART II OTHER INFORMATION

Item 1. Not Applicable

Item 2. Not Applicable.

Item 3. Not Applicable.

Item 4. Not Applicable

Item 5. Not Applicable

Item 6. Exhibits

31.1 Rule 13a-14(a) Certification of the Chief Executive Officer

31.2 Rule 13a-14(a) Certification of the Chief Financial Officer

32.1 Section 1350 Certification

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

SCOTT'S LIQUID GOLD-INC.

November 13, 2007  
Date

BY: /s/ Mark E. Goldstein  
-----  
Mark E. Goldstein  
President and Chief Executive Officer

November 13, 2007  
Date

BY: /s/ Jeffry B. Johnson  
-----  
Jeffry B. Johnson  
Treasurer and Chief Financial Officer

EXHIBIT INDEX

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