SCOTTS LIQUID GOLD INC
Form 10-Q
August 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

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

For the transition period from to

Commission File Number: 001-13458

SCOTT'S LIQUID GOLD-INC.

(Exact name of registrant as specified in its charter)

Colorado (State or other jurisdiction of incorporation or organization)	84-0920811 (I.R.S. Employer Identification

No.)

4880 Havana Street, Suite 400, Denver, CO	80239
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (303) 373-4860

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 10, 2018, the Registrant had 12,054,350 of its common stock, $0.10 par value per share, outstanding.

CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION

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

- changing consumer preferences and the continued acceptance of each of our significant products in the marketplace;
- the degree of success of any new product or product line introduction by us;
- competitive factors, including any decrease in distribution of (i.e., retail stores carrying) our significant products;
- continuation of our distributorship agreements for 7th Heaven (previously known as Montagne Jeunesse) skin care products and Batiste Dry Shampoos;
- the need for effective advertising of our products and limited resources available for such advertising;
- new competitive products and/or technological changes;
- dependence upon third party vendors and upon sales to major customers;
- the availability of necessary raw materials and potential increases in the prices of these raw materials;
- changes in the regulation of our products, including applicable environmental and U.S. Food and Drug Administration (“FDA”) regulations;
- the degree of success of the integration of product lines or businesses we may acquire;
- future losses which could affect our liquidity;
- the loss of any executive officer;
- dependence on the efforts of our exclusive distributor in the People’s Republic of China (“China”) to market and sell certain of our products there; and
- other matters discussed in this Report, including the risks described in the Risk Factors section of this Report.

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

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PART I

ITEM 1. FINANCIAL STATEMENTS.
Condensed Consolidated Statements of Income (Unaudited)

Scott's Liquid Gold-Inc. & Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$10,806,600	$9,873,800	$18,234,600	$20,316,400
Operating costs and expenses:				
Cost of sales	5,429,000	5,606,800	9,836,500	11,229,000
Advertising	344,700	138,700	881,900	421,300
Selling	1,841,400	1,679,300	3,473,100	3,295,200
General and administrative	1,431,200	1,023,300	2,524,500	2,103,600
Total operating costs and expenses	9,046,300	8,448,100	16,716,000	17,049,100
Income from operations	1,760,300	1,425,700	1,518,600	3,267,300
Interest expense	(47,700)	(33,200)	(71,800)	(75,100)
Income before income taxes	1,712,600	1,392,500	1,446,800	3,192,200
Income tax expense	(428,700)	(517,200)	(359,300)	(1,235,800)
Net income	$1,283,900	$875,300	$1,087,500	$1,956,400
Net income per common share				
Basic	$0.11	$0.07	$0.09	$0.17
Diluted	$0.10	$0.07	$0.09	$0.16
Weighted average shares outstanding				
Basic	12,023,935	11,859,927	11,976,761	11,818,143
Diluted	12,548,947	12,286,256	12,577,916	12,158,117

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

Condensed Consolidated Balance Sheets (Unaudited)

Scott's Liquid Gold-Inc. & Subsidiaries

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$5,004,400	$4,113,800
Accounts receivable, net	4,012,100	3,104,200
Inventories, net	7,730,900	8,786,700
Income taxes receivable	203,400	-
Prepaid expenses	365,400	285,100
Total current assets	17,316,200	16,289,800
Property and equipment, net	863,900	908,800
Deferred tax asset	499,100	384,200
Goodwill	1,520,600	1,520,600
Intangible assets, net	5,838,000	6,148,400
Other assets	49,100	49,100
Total assets	$26,086,900	$25,300,900
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$2,537,300	$1,655,900
Accrued expenses	811,900	935,400
Income taxes payable	-	365,900
Contract liability	259,300	-
Current maturities of long-term debt	-	800,000
Total current liabilities	3,608,500	3,757,200
Long-term debt, net of current maturities and debt issuance costs	-	362,400
Total liabilities	3,608,500	4,119,600
Shareholders' equity:		
Preferred stock, no par value, authorized 20,000,000 shares; no shares issued and outstanding	-	-
Common stock; $0.10 par value, authorized 50,000,000 shares; issued and outstanding 12,023,965 shares (2018) and 11,885,839 shares (2017)	1,202,400	1,188,600
Capital in excess of par	6,637,100	6,441,300
Retained earnings	14,638,900	13,551,400
Total shareholders' equity	22,478,400	21,181,300
Total liabilities and shareholders' equity	$26,086,900	$25,300,900

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

Scott's Liquid Gold-Inc. & Subsidiaries

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$1,087,500	$1,956,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	433,200	388,500
Stock-based compensation	120,800	112,000
Deferred income taxes	(114,900)	576,700
Change in operating assets and liabilities:		
Accounts receivable	(907,900)	(41,800)
Inventories	1,055,800	(794,600)
Prepaid expenses and other assets	(80,300)	(228,400)
Income taxes (receivable) payable	(569,300)	611,600
Accounts payable and accrued expenses	757,900	(799,800)
Contract liability	259,300	-
Total adjustments to net income	954,600	(175,800)
Net cash provided by operating activities	2,042,100	1,780,600
Cash flows from investing activities:		
Purchase of property and equipment	(40,300)	(124,700)
Net cash used by investing activities	(40,300)	(124,700)
Cash flows from financing activities:		
Repayments under line-of-credit	-	(750,000)
Repayments of long-term debt	(1,200,000)	(400,000)
Proceeds from exercise of stock options	88,800	34,800
Net cash used by financing activities	(1,111,200)	(1,115,200)
Net increase in cash and cash equivalents	890,600	540,700
Cash and cash equivalents, beginning of period	4,113,800	2,097,300
Cash and cash equivalents, end of period	$5,004,400	$2,638,000
Supplemental disclosures:		
Cash paid during the period for interest	$34,200	$75,100
Cash paid during the period for income taxes	$1,043,500	$-

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Scott's Liquid Gold-Inc. & Subsidiaries

Note 1. Organization and Summary of Significant Accounting Policies

(a) Company Background

Scott's Liquid Gold-Inc. (a Colorado corporation) was incorporated on February 15, 1954. Scott's Liquid Gold-Inc. and its wholly-owned subsidiaries (collectively, the "Company," "we," "our," or "us") develop, manufacture, market and sell quality household and skin and hair care products. We are also a distributor in the United States of 7th Heaven face masque sachets and Batiste Dry Shampoo manufactured by two other companies. Our business is comprised of two segments, household products and skin and hair care products.

(b) Principles of Consolidation

Our Condensed Consolidated Financial Statements include our accounts and those of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

(c) Basis of Presentation

The Condensed Consolidated Statements of Income, Condensed Consolidated Balance Sheets, and the Condensed Consolidated Statements of Cash Flows included in this Report have been prepared by the Company. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at June 30, 2018 and results of operations and cash flows for all periods have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These Condensed Consolidated Financial Statements should be read in conjunction with our financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the period ended June 30, 2018 are not necessarily indicative of the operating results for the full year.

(d) Use of Estimates

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

(e) Cash Equivalents

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

(f) Inventories Valuation and Reserves

Inventories consist of raw materials and finished goods and are stated at the lower of cost (first-in, first-out method) or net realizable value, which is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. 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.

Inventories were comprised of the following at:

	June 30, 2018	December 31, 2017
Finished goods	$5,504,300	$ 6,983,600
Raw materials	2,242,900	1,811,200
Inventory reserve for obsolescence	(16,300)	(8,100)
	$7,730,900	$ 8,786,700

(g) Property and Equipment

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

(h) Intangible Assets

Intangible assets consist of customer relationships, trade names, formulas and batching processes and a non-compete agreement. The fair value of the intangible assets is amortized over their estimated useful lives and range from a period of five to 15 years and are reviewed for impairment when changes in market circumstances occur and written down to fair value if impaired.

(i) Goodwill

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests at the reporting unit level, which include the review of factors to determine if it is more-likely-than-not that the fair value of its reporting units were below carrying value. In certain circumstances these assets are written down to fair value if impaired.

(j) Financial Instruments

Financial instruments which potentially subject us to concentrations of credit risk include cash and cash equivalents and accounts receivable. We maintain our cash balances in the form of bank demand deposits with financial institutions that we believe are creditworthy. During the six months ended June 30, 2018, we have maintained balances in various operating accounts in excess of federally insured limits. We establish an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. We have no significant financial instruments with off-balance sheet risk of accounting loss, such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

The recorded amounts for cash and cash equivalents, receivables, other current assets, accounts payable, accrued expenses, and current maturities of long-term debt approximate fair value due to the short-term nature of these financial instruments. The recorded amount of long-term debt approximates fair value and is estimated primarily based on current market rates for debt with similar terms and remaining maturities. At June 30, 2018, we had no outstanding balances on our long-term debt or on our line-of-credit. At December 31, 2017, we had long-term debt of $1,200,000 and no outstanding balance on our line-of-credit.

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(k) Income Taxes

Income taxes reflect the tax effects of transactions reported in the financial statements and consist of taxes currently payable plus deferred income taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. A valuation allowance is provided when it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which related temporary differences become deductible. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

The effective tax rate for the six months ended June 30, 2018 and 2017 was 24.8% and 38.7% respectively, which differs from the statutory income tax rate due to permanent book to tax differences. The decrease in the effective tax rate is a result of the enactment of the Tax Cuts and Jobs Act (“TCJA”) on December 22, 2017 which, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018.

(l) Revenue Recognition

Our revenue recognition policy is significant because the amount and timing of revenue is a key component of our results of operations. Certain criteria are required to be met in order to recognize revenue. If these criteria are not met, then the associated revenue is deferred until it is met. When consideration is received in advance of the delivery of goods or services, a contract liability is recorded. Our revenue contracts are identified when purchase orders are received and accepted from customers and represent a single performance obligation to sell our products to a customer.

Net sales reflect the transaction prices for contracts, which include products shipped at selling list prices reduced by variable consideration. Variable consideration includes estimates for expected customer allowances, promotional programs for consumers, and sales returns.

Variable consideration is primarily comprised of customer allowances. Customer allowances primarily include reserves for trade promotions to support price features, displays, slotting fees, and other merchandising of our products to our customers. Promotional programs for consumers primarily include coupons, rebates, and certain other promotional programs, and do not represent a significant portion of variable consideration. The costs of customer allowances and promotional programs for consumers are estimated using either the expected value or most likely amount approach, depending on the nature of the allowance, using all reasonably available information, including our historical experience and current expectations. Customer allowances and promotional programs for consumers are reflected in the transaction price when sales are recorded. We may adjust our estimates based on actual results and consideration of other factors that cause allowances. In the event that actual results differ from our estimates, the results of future periods may be impacted. Adjustments to the costs of customer allowances and promotional programs for consumers in subsequent periods are generally not material, as our promotions are typically of short duration, thereby reducing the uncertainty inherent in such estimates.

Sales returns are generally not material to our financial statements, and do not comprise a significant portion of variable consideration. Estimates for sales returns are based on, among other things, an assessment of historical trends, information from customers, and anticipated returns related to current sales activity. These estimates are established in the period of sale and reduce our revenue in that period.

Sales are recorded at the time that control of the products is transferred to customers. In evaluating the timing of the transfer of control of products to customers, we consider several indicators, including significant risks and rewards of products, our right to payment, and the legal title of the products. Based on the assessment of control indicators, sales are generally recognized when products are delivered to customers.

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

At June 30, 2018 and December 31, 2017 approximately $834,200 and $1,069,700, respectively, had been reserved as a reduction of accounts receivable. Trade promotions to our customers and incentives such as coupons to our consumers are deducted from gross sales and totaled $1,272,100 and $1,331,800 for the six months ended June 30, 2018 and 2017, and totaled $671,700 and $712,100 for the three months ended June 30, 2018 and 2017 respectively.

(m) Advertising Costs
We expense advertising costs as incurred.

(n) Stock-based Compensation
We account for share based payments by recognizing compensation expense based upon the estimated fair value of the awards on the date of grant. We determine the estimated grant-date fair value of stock options using the Black-Scholes option pricing model. In order to calculate the fair value of the options, certain assumptions are made regarding the components of the model, including the estimated fair value of underlying common stock, risk-free interest rate, volatility, expected dividend yield and expected option life. Changes to the assumptions could cause significant adjustments to the valuation. We recognize compensation costs ratably over the vesting period using the straight-line method.

(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 as selling expenses. Other selling expenses consist primarily of wages, benefits, and travel expenses for sales and sales support personnel, brokerage commissions and promotional costs, as well as certain other indirect costs. Shipping and handling costs totaled $1,159,800 and $1,253,200 for the six months ended June 30, 2018 and 2017, and totaled $538,400 and $621,600 for the three months ended June 30, 2018 and 2017 respectively.

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

The Company entered into a confidential separation agreement, waiver and release with the former Chief Financial Officer of the Company effective June 1, 2018 (the “Separation Agreement”). The Company agreed to pay the former Chief Financial Officer severance pay over nine months in conjunction with terms set forth in the Separation Agreement. Severance costs of $287,200 were recognized in the second quarter of 2018 and are included in general and administrative expenses for the six months ended June 30, 2018. Accrued severance costs are included in accrued expenses on the Condensed Consolidated Balance Sheets as of June 30, 2018.

(p) Recently Issued Accounting Standards
In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). This guidance, as amended by subsequent ASUs on the topic, requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with such classification affecting the pattern of expense recognition in the income statement. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for

lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We anticipate that most of our operating leases will result in recognition of additional assets and the corresponding liabilities on the Consolidated Balance Sheets. We have not determined the amount of these transactions or the final impact to our earnings as the actual impact will depend on the Company's lease portfolio at the time of adoption.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. ASU 2016-13 is not expected to have a material impact on our financial statements.

Note 2. Stock-Based Compensation

During the six months ended June 30, 2018, we granted options to acquire: (i) 40,056 shares of our common stock to employees at prices ranging between $2.17 to $3.35 per share; (ii) 105,000 shares of our common stock to executive officers at prices ranging between $2.09 to $2.17 per share; and (iii) 90,000 shares of our common stock to non-employee board members at a price of $2.17 per share. During the six months ended June 30, 2017, we granted options to acquire 7,536 shares of our common stock to an employee at a price of $1.80 per share.

The weighted average fair market value of the options granted in the six months ended June 30, 2018 and 2017 was estimated on the date of grant, using a Black-Scholes option pricing model with the following assumptions:

	June 30, 2018	June 30, 2017
Expected life of options (using the "simplified" method)	4 years	6 years
Average risk-free interest rate	2.63%	1.82%
Average expected volatility of stock	69%	107%
Expected dividend rate	None	None
Fair value of options granted	$246,300	$11,100

Compensation cost related to stock options recognized in operating results (included in general and administrative expenses) totaled $120,800 and $112,000 in the six months ended June 30, 2018 and 2017, respectively. Approximately $597,600 of total unrecognized compensation costs related to non-vested stock options is expected to be recognized over the next four years, depending on the vesting provisions of the options. There was no tax benefit from recording the non-cash expense as it relates to the options granted to employees, as these were qualified stock options which are not normally tax deductible.

In 2005, we adopted a stock option plan for our employees, officers and directors (the "2005 Plan"). In 2015, we adopted a stock option plan for our employees, officers and directors (the "2015 Plan") to replace the 2005 Plan, which expired on March 31, 2015.

Activity under our two stock option plans is as follows:

	Number of	Weighted Average	Weighted Average Remaining Contractual Life	Aggregate Intrinsic

	Options	Exercise Price		Value
2005 Plan				
Outstanding, December 31, 2017	492,063	$ 0.73	3.8 years	$1,067,000
Granted	-	$ -		
Exercised	(101,563)	$ 0.42		
Cancelled/Expired	-	$ -		
Outstanding, June 30, 2018	390,500	$ 0.81	4.2 years	$522,600
Exercisable, June 30, 2018	327,897	$ 0.80	3.8 years	$442,100
2015 Plan				
Outstanding, December 31, 2017	784,684	$ 1.32	6.4 years	$1,238,200
Granted	235,056	$ 2.26		
Exercised	(36,563)	$ 1.25		
Cancelled/Expired	-	$ -		
Outstanding, June 30, 2018	983,177	$ 1.55	5.7 years	$624,000
Exercisable, June 30, 2018	471,805	$ 1.32	5.5 years	$397,400

Note 3. Earnings per Share

Per share data is determined by using the weighted average number of common shares outstanding. Common equivalent shares are considered only for diluted earnings per share, unless considered anti-dilutive. Common equivalent shares, determined using the treasury stock method, result from stock options with exercise prices that are below the average market price of the common stock.

Basic earnings per share include no dilution and are computed by dividing income available to common shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect the potential of securities that could share in our earnings.

A reconciliation of the weighted average number of common shares outstanding is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Common shares outstanding, beginning of the period	12,023,716	11,857,026	11,885,839	11,749,589
Weighted average common shares issued	219	2,901	90,922	68,554
Weighted average number of common shares outstanding	12,023,935	11,859,927	11,976,761	11,818,143
Dilutive effect of common share equivalents	525,012	426,329	601,155	339,974
Diluted weighted average number of common shares outstanding	12,548,947	12,286,256	12,577,916	12,158,117

Common stock equivalents that have been excluded from the calculation of earnings per share because they would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock options	251,600	7,500	251,600	525,600

Note 4. Segment Information

We operate in two different segments: household products and skin and hair care products. Our products are sold nationally and internationally (primarily China and Canada), directly through our sales force (or pursuant to an exclusive distribution agreement in the case of sales to China) and indirectly through independent brokers and manufacturer's representatives, to mass merchandisers, drugstores, supermarkets, hardware stores, e-commerce retailers, and other retail outlets and to wholesale distributors. We have chosen to organize our business around these segments based on differences in the products sold.

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

The following provides information on our segments for the three and six months ended June 30:

	Three Months Ended June 30, 2018		
	Household Products	Skin and Hair Care Products	Total
Net sales	$1,364,200	$9,442,400	$10,806,600
Operating (loss) income	(449,800)	2,210,100	1,760,300
Capital and intangible asset expenditures	17,700	22,600	40,300
Depreciation and amortization	31,700	195,000	226,700

	Three Months Ended June 30, 2017		
	Household Products	Skin and Hair Care Products	Total
Net sales	$1,330,700	$8,543,100	$9,873,800
Operating (loss) income	(130,300)	1,556,000	1,425,700
Capital and intangible asset expenditures	80,300	-	80,300
Depreciation and amortization	30,100	166,800	196,900

	Six Months Ended June 30, 2018		
	Household Products	Skin and Hair Care Products	Total
Net sales	$2,715,400	$15,519,200	$18,234,600
Operating (loss) income	(895,300)	2,413,900	1,518,600
Capital and intangible asset expenditures	17,700	22,600	40,300
Depreciation and amortization	68,400	364,800	433,200

	Six Months Ended June 30, 2017		
	Household Products	Skin and Hair Care Products	Total
Net sales	$2,780,300	$17,536,100	$20,316,400
Operating (loss) income	(209,200)	3,476,500	3,267,300
Capital and intangible asset expenditures	124,700	-	124,700
Depreciation and amortization	54,000	334,500	388,500

Note 5. Goodwill and Intangible Assets
Intangible assets consisted of the following:

	As of June 30, 2018			As of December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets:						
Customer relationships	$4,022,100	$ 804,400	$3,217,700	$4,022,100	$ 603,300	$3,418,800
Trade names	2,362,400	314,800	2,047,600	2,362,400	236,100	2,126,300
Formulas and batching processes	668,600	111,600	557,000	668,600	83,700	584,900
Non-compete agreement	26,300	10,600	15,700	26,300	7,900	18,400
	7,079,400	1,241,400	5,838,000	7,079,400	931,000	6,148,400
Goodwill			1,520,600			1,520,600
Total intangible assets			$7,358,600			$7,669,000

The amortization expense for the six months ended June 30, 2018 and 2017 was $310,400, respectively. The amortization expense for the three months ended June 30, 2018 and 2017 was $155,200, respectively.

Estimated amortization expense for 2018 and subsequent years is as follows:

2018 (remaining)	$310,300
2019	620,700
2020	620,700
2021	617,600
Thereafter	3,668,700
Total	$5,838,000

Note 6. Long-Term Debt and Line-of-Credit

On June 30, 2016, Neoteric Cosmetics, Inc., a wholly-owned subsidiary of the Company, and the Company, as borrowers, entered into a credit agreement, as amended (the "Credit Agreement") with JPMorgan Chase Bank, N.A. ("Chase"), as lender, pursuant to which Chase provided a term loan and a revolving credit facility.

In June 2018, we paid the remaining principal balance of the term loan in the amount of $1,000,000. There were no additional costs incurred associated with the prepayment of the term loan.

The revolving credit facility amount is $4 million with interest of: (i) the LIBO Rate + 2.5%; or (ii) the Prime Rate, with a floor of the one month LIBO Rate + 2.5%, and will terminate on June 30, 2019 or any earlier date on which the revolving commitment is otherwise terminated pursuant to the Credit Agreement. Under the Credit Agreement we are obligated to pay quarterly an unused commitment fee equal to 0.5% per annum on the daily amount of the undrawn portion of the revolving line-of-credit. The loans are collateralized by all of the assets of the Company and its subsidiaries.

The Credit Agreement requires, among other things, that beginning on December 31, 2016 and subsequently on a quarterly basis, the Company is subject to affirmative, negative, and financial covenants. The Company was in compliance with the covenants in the Credit Agreement as of June 30, 2018 and December 31, 2017.

Debt issuance costs recognized as a component of interest expense for the six months ended June 30, 2018 and 2017 were $37,600 and $12,500, respectively. Debt issuance costs recognized as a component of interest expense for the three months ended June 30, 2018 and 2017 were $31,300 and $6,200, respectively. In conjunction with the prepayment of the remaining principal balance of the term loan, $25,100 of unamortized debt issuance costs were recognized as a component of interest expense. Prior to the prepayment of the term loan, these costs were amortized using the effective interest method over the term of the Credit Agreement.

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

Results of Operations

Three months

Our net income for the second quarter of 2018 was $1,283,900 versus net income of $875,300 in the second quarter of 2017. This increase is primarily due to: (1) an increase in net sales; and (2) decreases in cost of sales and income tax expense, and was offset by an increase in operating expenses.

Summary of Results as a Percentage of Net Sales

	Year Ended December 31, 2017	Three Months Ended June 30, 2018	2017
Net sales			
Household products	13.4 %	12.6 %	13.5 %
Skin and hair care products	86.6 %	87.4 %	86.5 %
Total net sales	100.0 %	100.0 %	100.0 %
Cost of sales	54.1 %	50.2 %	56.8 %
Gross profit	45.9 %	49.8 %	43.2 %
Expenses			
Operating expenses	27.8 %	33.5 %	28.8 %
Interest expense	0.3 %	0.4 %	0.3 %
Total expenses	28.1 %	33.9 %	29.1 %
Income before income taxes	17.8 %	15.9 %	14.1 %

Comparative Net Sales

	Three Months Ended June 30, 2018	2017	Percentage Increase (Decrease)
Total household products	$1,364,200	$1,330,700	2.5 %
Total skin and hair care products	9,442,400	8,543,100	10.5 %
Total net sales	$10,806,600	$9,873,800	9.4 %

Sales of household products for the second quarter of 2018 were consistent compared to the same period in 2017, with slight increases in Scott's Liquid Gold® Floor Restore and Wood Care products offset by the discontinuance of sales of our Touch of Scent® Air Freshener products in the second quarter of 2018.

Sales of skin and hair care products for the second quarter of 2018 significantly increased by $899,300 or 10.5% compared to the same period in 2017. This increase was primarily the result of an increase in sales of our Alpha® Skin Care products internationally and to e-commerce retailers. This was offset by a decrease in the net sales of 7th Heaven and Batiste Dry Shampoo. The decrease in net sales of 7th Heaven face masque sachets is due primarily to a substantial increase in competitive products. The decrease in net sales of Batiste Dry Shampoo is due to changes in our distribution arrangement with Church & Dwight, which eliminated sales to TJ Maxx.

On a consolidated basis, cost of sales was $5,429,000 during the second quarter of 2018 compared to $5,606,800 for the same period in 2017, a decrease of $177,800 or 3.2%, on a net sales increase of 9.4%. As a percentage of consolidated net sales, cost of sales was 50.2% in the second quarter of 2018 compared to 56.8% for the same period in 2017.

As a percentage of net sales of our household products, the costs of sales for our household products increased to 53.6% in the second quarter of 2018 compared to 52.0% for the same period in 2017 due to slight increases in the underlying production costs.

As a percentage of net sales of our skin and hair care products, the cost of sales for our skin and hair care products decreased to 49.8% in the second quarter of 2018 compared to 57.5% for the same period in 2017. This change varies from period to period based on sales mix and trade promotions of the products we make versus the products we distribute for other companies. The decrease is primarily attributable to an increase in sales of our Alpha® Skin Care products internationally and to e-commerce retailers, and offset by: (1) increased trade promotions related to Batiste Dry Shampoo; and (2) an increase in the costs of Prell® Shampoo, which we began manufacturing during the fourth quarter of 2017.

Operating Expenses, Interest Expense and Other Income

	Three Months Ended June 30, 2018	2017	Percentage Increase (Decrease)
Operating expenses			
Advertising	$344,700	$138,700	148.5 %
Selling	1,841,400	1,679,300	9.7 %
General and administrative	1,431,200	1,023,300	39.9 %
Total operating expenses	$3,617,300	$2,841,300	27.3 %
Interest expense	$47,700	$33,200	43.7 %

Advertising expenses for the second quarter of 2018 increased by $206,000 compared to the same period in 2017 primarily due to investments in: (1) airing a national television campaign for Scott's Liquid Gold® Wood Care products; and (2) airing a national television campaign for Prell® Shampoo during the second quarter of 2018.

Selling expenses for the second quarter of 2018 increased by $162,100 compared to the same period in 2017 primarily due to an increase in brokerage commissions. The increase in brokerage commissions is due to an increase in sales of Alpha® Skin Care to China, which have higher brokerage commission rates than sales to other customers.

General and administrative expenses for the second quarter of 2018 increased by $407,900 compared to the same period in 2017, primarily due to the incurrence of severance costs related to the Separation Agreement and recruiting fees to fill positions across the Company.

Interest expense for the second quarter of 2018 increased by $14,500 compared to the same period in 2017, primarily due to the recognition of the unamortized debt issuance costs upon the prepayment of the remaining balance of the term loan in June 2018.

Six months

Our net income for the first six months of 2018 was $1,087,500 compared to $1,956,400 in the first six months of 2017. This decrease is primarily due to a decrease in net sales and was offset by decreases in: (1) cost of sales; (2) operating expenses; and (3) income tax expense.

Summary of Results as a Percentage of Net Sales

	Year Ended December 31, 2017	Six Months Ended June 30, 2018	2017
Net sales			
Household products	13.4 %	14.9 %	13.7 %
Skin and hair care products	86.6 %	85.1 %	86.3 %
Total net sales	100.0 %	100.0%	100.0%
Cost of sales	54.1 %	53.9 %	55.3 %
Gross profit	45.9 %	46.1 %	44.7 %
Expenses			
Operating expenses	27.8 %	37.7 %	28.6 %
Interest expense	0.3 %	0.4 %	0.4 %
Total expenses	28.1 %	38.1 %	29.0 %
Income before income taxes	17.8 %	8.0 %	15.7 %

Comparative Net Sales

	Six Months Ended June 30, 2018	2017	Percentage Increase (Decrease)
Total household products	$2,715,400	$2,780,300	(2.3 %)
Total skin and hair care products	15,519,200	17,536,100	(11.5 %)
Total net sales	$18,234,600	$20,316,400	(10.2 %)

Sales of household products for the first six months of 2018 were consistent compared to the same period in 2017, with a slight decrease in 2018 that was primarily attributable to the discontinuance of sales of our Touch of Scent® Air Freshener products in the second quarter of 2018.

Sales of skin and hair care products for the first six months of 2018 significantly decreased by $2,016,900 compared to the same period in 2017. This decrease was primarily a result of a decrease in the net sales of 7th Heaven and Batiste Dry Shampoo. The decrease in 7th Heaven face masque sachets is due primarily to a substantial increase in competitive products. The decrease in net sales of Batiste Dry Shampoo is due to: (1) changes in our distribution arrangement with Church & Dwight, which eliminated sales to TJ Maxx; and (2) what we believe to have been changes in the timing of purchases and optimal inventory levels by certain of our customers in the first quarter of 2018 compared to the same period in 2017. This decrease was partially offset by an increase in sales of Alpha® Skin Care products internationally and to e-commerce retailers.

On a consolidated basis, cost of sales was $9,836,500 during the first six months of 2018 compared to $11,229,000 for the same period in 2017, a decrease of $1,392,500 or 12.4%, on a net sales decrease of 10.2%. As a percentage of consolidated net sales, cost of sales was 53.9% in the first six months of 2018 compared to 55.3% for the same period in 2017.

As a percentage of net sales of our household products, the costs of sales for our household products increased to 51.7% in the first six months of 2018 compared to 48.5% for the same period in 2017 due to slight increases in the underlying production costs.

As a percentage of net sales of our skin and hair care products, the cost of sales for our skin and hair care products decreased to 54.3% in the first six months of 2018 compared to 56.3% for the same period in 2017. This change varies from period to period based on sales mix and trade promotions of the products we make versus the products we distribute for other companies. The decrease is primarily attributable to an increase in sales of our Alpha® Skin Care products internationally and to e-commerce retailers, and offset by: (1) increased trade promotions related to Batiste Dry Shampoo; and (2) an increase in the underlying costs of Prell® Shampoo, which we began manufacturing during the fourth quarter of 2017.

Operating Expenses, Interest Expense and Other Income

	Six Months Ended June 30, 2018	2017	Percentage Increase (Decrease)
Operating expenses			
Advertising	$881,900	$421,300	109.3 %
Selling	3,473,100	3,295,200	5.4 %
General and administrative	2,524,500	2,103,600	20.0 %
Total operating expenses	$6,879,500	$5,820,100	18.2 %
Interest expense	$71,800	$75,100	(4.4 %)

Advertising expenses for the first six months of 2018 increased by $460,600 compared to the same period in 2017, primarily due to investments in: (1) producing and airing a national television campaign for Scott's Liquid Gold® Wood Care products; and (2) airing a national television campaign for Prell® Shampoo during the first six months of 2018.

Selling expenses for the first six months of 2018 increased by $177,900 compared to the same period in 2017, primarily due to an increase in brokerage commissions. The increase in brokerage commissions is due to an increase in sales of Alpha® Skin Care to China, which have higher brokerage commission rates than sales to other customers.

General and administrative expenses for the first six months of 2018 increased by $420,900 compared to the same period in 2017, primarily due to the incurrence of severance costs related to the Separation Agreement and recruiting fees to fill positions across the Company.

Interest expense for the first six months of 2018 was $71,800 compared to $75,100 for the same period in 2017, a decrease of $3,300 or 4.4%. The decrease is due to a lower balance on the term loan and no outstanding balance on the line-of-credit during the first six months of 2018 and was offset by the recognition of the unamortized debt issuance costs upon the prepayment of the remaining balance of the term loan in June 2018.

Liquidity and Capital Resources

Financing Agreements

Please see Note 6 to our Condensed Consolidated Financial Statements for information on our Credit Agreement with Chase.

Liquidity

At June 30, 2018, we had $4.0 million available on our revolving credit facility, and approximately $5.0 million in cash on hand, which was $890,600 more compared to December 31, 2017.

Net cash provided by operating activities in the first six months of 2018 was $2.0 million, primarily comprised of net income of $1.1 million and cash generated by working capital of $515,500, which includes $1.1 million of cash generated by inventory and offset by $540,300 due to timing of cash flows of working capital and other uses of cash in the normal course of operations.

Net cash used by investing activities is comprised of $40,300 of purchases of property and equipment.

Net cash used by financing activities is primarily comprised of $1.2 million in payments of long-term debt.

We anticipate that our existing cash and our cash flow from operations, together with our current Credit Agreement with Chase, will be sufficient to meet our cash requirements for the 12 months following the filing date of this Report. During the first six months of 2018, we spent $40,300 on routine and maintenance production and warehouse equipment in our manufacturing facility. We expect to make additional capital expenditures of approximately $150,000 in 2018 to improve our manufacturing capabilities and efficiencies and on production and warehouse equipment that is primarily related to our acquisition of the Prell®, Denorex®, and Zincon® brands.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of June 30, 2018, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the six months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and subsequent quarterly reports on Form 10-Q, which could materially affect our business, financial condition or future results.

ITEM 6. EXHIBITS

Exhibit Number	Document
10.1	Confidential Separation Agreement, Waiver and Release, dated as of April 27, 2018, between Barry J. Levine and the Company incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on May 3, 2018.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Section 1350 Certification.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

*Furnished, not filed.

SIGNATURES

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

SCOTT'S LIQUID GOLD-INC.

By:	/s/ Mark E. Goldstein Mark E. Goldstein President and Chief Executive Officer (Principal Executive Officer)
By:	/s/ Kevin A. Paprzycki Kevin A. Paprzycki Chief Financial Officer (Principal Financial and Chief Accounting Officer)

Date: August 13, 2018

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