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SCOTTS LIQUID GOLD INC
Form 10QSB
August 10, 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

June 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 12-B-2 of the Exchange Act. Yes No

As of June 30, 2007, the Registrant had 10,533,000 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		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Net sales	\$ 4,304,200	\$ 4,133,300	\$ 8,480,000	\$ 8,289,100
Operating costs and expenses:				
Cost of sales	2,340,600	2,567,400	4,687,100	4,810,900
Advertising	88,800	107,600	201,100	701,300
Selling	1,379,000	1,410,200	2,634,400	2,835,700
General and administrative	768,800	863,200	1,582,900	1,775,300
	4,577,200	4,948,400	9,105,500	10,123,200
Loss from operations	(273,000)	(815,100)	(625,500)	(1,834,100)
Interest income	19,600	14,300	43,800	26,900
Interest expense	(104,200)	(59,100)	(208,100)	(100,400)
	(357,600)	(859,900)	(789,800)	(1,907,600)
Income tax expense (benefit)	-	-	-	-
Net loss	\$ (357,600)	\$ (859,900)	\$ (789,800)	\$ (1,907,600)
Net loss per common share (Note 3):				
Basic and Diluted	\$ (0.03)	\$ (0.08)	\$ (0.07)	\$ (0.18)
Weighted average shares outstanding:				
Basic and Diluted	10,533,000	10,503,000	10,533,000	10,503,000

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

June 30, 2007	December 31, 2006
-----	-----
(Unaudited)	

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ASSETS

Current assets:

Cash and cash equivalents	\$ 1,836,300	\$ 2,804,100
Investment securities	50,500	51,100
Trade receivables, net of allowance for doubtful accounts of \$62,800 and \$62,000, respectively	1,143,400	743,700
Other receivables	70,400	55,500
Inventories, net	3,593,500	3,291,400
Prepaid expenses	253,800	161,600

Total current assets	6,947,900	7,107,400
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Property, plant and equipment, net	12,869,700	13,159,700
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Other assets	57,500	59,700
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TOTAL ASSETS	\$19,875,100	\$20,326,800
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 2,275,700	\$ 1,893,600
Accrued payroll and benefits	1,038,200	866,400
Other accrued expenses	280,400	417,100
Current maturities of long-term debt	198,400	191,600

Total current liabilities	3,792,700	3,368,700
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Long-term debt, net of current maturities	4,774,200	4,875,500
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	8,566,900	8,244,200
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Commitments and contingencies

Shareholders' equity:

Common stock; \$.10 par value, authorized 50,000,000 shares; issued and outstanding 10,533,000 shares	1,053,300	1,053,300
Capital in excess of par	5,031,800	5,015,800
Accumulated comprehensive income	500	1,100
Retained earnings	5,222,600	6,012,400

Shareholders' equity	11,308,200	12,082,600
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$19,875,100	\$20,326,800
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SCOTT'S LIQUID GOLD-INC. & SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)

Six Months Ended
June 30,

2007	2006
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Cash flows from operating activities:

Net loss	\$ (789,800)	\$ (1,907,600)
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Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	323,200	353,300
Stock issued to ESOP	-	48,700
Stock options granted	16,000	-
Gain on disposal of assets	-	(8,800)
Changes in assets and liabilities:		
Trade and other receivables, net	(414,600)	691,100
Inventories	(302,100)	(521,600)
Prepaid expenses and other assets	(92,200)	(292,500)
Accounts payable and accrued expenses	417,200	417,200
	-----	-----
Total adjustments to net loss	(52,500)	687,400
	-----	-----
Net Cash Used by Operating Activities	(842,300)	(1,220,200)
	-----	-----
Cash flows from investing activities:		
Proceeds from disposal of assets	-	8,800
Purchase of property, plant & equipment	(31,000)	(68,200)
	-----	-----
Net Cash Used by Investing Activities	(31,000)	(59,400)
	-----	-----
Cash flows from financing activities:		
Proceeds from long-term borrowings	-	5,156,600
Short-term borrowings (payments), net	-	(150,000)
Purchase of stock for contribution to ESOP	-	(48,700)
Principal payments on long-term borrowings	(94,500)	(1,894,400)
Loan origination fees and other costs	-	(64,600)
	-----	-----
Net Cash Provided (Used) by Financing Activities	(94,500)	2,998,900
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents		
Cash and Cash Equivalents, beginning of period	2,804,100	2,260,700
	-----	-----
Cash and Cash Equivalents, end of period	\$ 1,836,300	\$ 3,980,000
	=====	=====
Supplemental disclosures:		
Cash paid during period for:		
Interest	\$ 209,300	\$ 101,500
	=====	=====
Income taxes	\$ 900	\$ 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

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distributor in the United States of beauty care products contained in individual sachets and manufactured by Montagne 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 June 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:

	June 30, 2007	December 31, 2006
	-----	-----
Finished goods	\$ 2,496,000	\$ 2,435,400
Raw materials	1,505,200	1,337,200
Inventory reserve for obsolescence	(407,700)	(481,200)
	-----	-----
	\$ 3,593,500	\$ 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 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 June 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 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

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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 June 30, 2007 and December 31, 2006 approximately \$915,000 and \$649,000, respectively, had been reserved as a reduction of accounts receivable, and approximately \$55,000 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 \$1,007,200, and \$1,152,700 at June 30, 2007 and 2006, respectively.

(l) Advertising Costs

We expense advertising costs as incurred.

(m) Stock-based Compensation

At June 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.

We granted no options for shares of our common stock during the second quarter of 2007. During the first quarter of 2007, we granted 448,550 options for shares of our common stock (268,550 to employees and 180,000 to non-employee directors). 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 of \$0.82 as of the date of grant.

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

	Three and Six Months Ended June 30, 2007

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

Compensation cost related to stock options recognized in operating results (included in general and administrative expenses) under SFAS 123R was \$16,000 in the six months ended June 30, 2007. Approximately \$175,300 of total unrecognized compensation costs related to non-vested stock options is expected to be recognized over the next forty-four months. In accordance with 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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006

Net loss	\$(357,600)	\$(859,900)	\$(789,800)	\$(1,907,600)
Unrealized loss on investment securities	(500)	(700)	(600)	(1,200)
Comprehensive loss	\$(358,100)	\$(860,600)	(790,400)	\$(1,908,800)
	=====	=====	=====	=====

(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 \$730,400 and \$737,500 for the six months ended June 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

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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.

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 1,904,650 and 1,680,600 at

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June 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 months ended June 30 follows:

	2007	2006
	-----	-----
Common shares outstanding, beginning of the year	10,533,000	10,503,000
Stock options exercised	-	-
	-----	-----
Weighted average number of common shares outstanding	10,533,000	10,503,000
Dilutive effect of common share equivalents	-	-
	-----	-----
Diluted weighted average number of common shares outstanding	10,533,000	10,503,000
	=====	=====

At June 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 June 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 six months ended June 30:

	Three Months ended June 30,			
	2007		2006	
	Household Products	Skin Care Products	Household Products	Skin Care Products
	-----	-----	-----	-----
Net sales to external customers	\$ 1,936,200	\$ 2,368,000	\$ 2,561,000	\$ 1,572,300
	=====	=====	=====	=====
Income(loss) before profit sharing, bonuses and income taxes	\$ 28,200	\$ (385,800)	\$ (46,700)	\$ (813,200)
	=====	=====	=====	=====

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Identifiable assets	\$ 3,483,000	\$ 6,051,800	\$ 4,025,600	\$ 5,995,800
	=====	=====	=====	=====

Six Months ended June 30,

	2007		2006	
	Household Products	Skin Care Products	Household Products	Skin Care Products
Net sales to external customers	\$ 4,241,700	\$ 4,238,300	\$ 4,626,000	\$ 3,663,100
	=====	=====	=====	=====
Income(loss) before profit sharing, bonuses and income taxes	\$ 88,500	\$ (878,300)	\$ (373,800)	\$ (1,533,800)
	=====	=====	=====	=====
Identifiable assets	\$ 3,483,000	\$ 6,051,800	\$ 4,025,600	\$ 5,995,800
	=====	=====	=====	=====

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

	Three Months ended June 30,		Six Months ended June 30,	
	2007	2006	2007	2006
Net sales to external customers	\$ 4,304,200	\$ 4,133,300	\$ 8,480,000	\$ 8,289,100
	=====	=====	=====	=====
Loss before profit sharing, bonuses and income taxes	\$ (357,600)	\$ (859,900)	\$ (789,800)	\$ (1,907,600)
	=====	=====	=====	=====
Identifiable assets	\$ 9,534,800	\$10,021,400	\$ 9,534,800	\$10,021,400
Corporate assets	10,340,300	12,848,700	10,340,300	12,848,700
	-----	-----	-----	-----
Consolidated total assets	\$19,875,100	\$22,870,100	\$19,875,100	\$22,870,100
	=====	=====	=====	=====

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 half 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 an increase in sales of our Alpha Hydrox skin care products. Our net loss for the first half of 2007 was \$789,800 versus a loss of \$1,907,600 in the first half of 2006. The decrease in our loss for the first half of 2007 compared to the first half of 2006 results from a reduction in our operating costs and expenses, including the reduction of advertising.

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Summary of Results as a Percentage of Net Sales

	Year Ended December 31,	Six Months Ended June 30,	
	2006	2007	2006
Net sales			
Scott's Liquid Gold			
household products	53.1%	50.0%	55.8%
Neoteric Cosmetics	46.9%	50.0%	44.2%
Total Net Sales	100.0%	100.0%	100.0%
Cost of Sales	57.4%	55.3%	58.0%
Gross profit	42.6%	44.7%	42.0%
Other revenue	1.0%	0.5%	0.3%
	43.6%	45.2%	42.3%
Operating expenses	63.8%	52.1%	64.1%
Interest	2.0%	2.4%	1.2%
	65.8%	54.5%	65.3%
Loss before income taxes	(22.2%)	(9.3%)	(23.0%)

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

	Six Months Ended June 30,		
	2007	2006	Percentage Increase (Decrease)
Scott's Liquid Gold and other household products	\$3,654,900	\$3,930,800	(7.0%)
Touch of Scent	586,800	695,200	(15.6%)
Total household chemical products	4,241,700	4,626,000	(8.3%)
Alpha Hydrox and other skin care	1,855,400	1,681,100	10.4%
Montagne Jeunesse skin care	2,382,900	1,982,000	20.2%
Total skin care products	4,238,300	3,663,100	15.7%

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Total Net Sales	\$8,480,000	\$8,289,100	2.3%
	=====	=====	=====

Six Months Ended June 30, 2007
 Compared to Six Months Ended June 30, 2006

Consolidated net sales for the first half of the current year were \$8,480,000 versus \$8,289,100 for the first six months of 2006, an increase of \$190,900. Average selling prices were up by \$104,200. Co-op advertising, marketing funds, slotting fees, and coupons paid to retailers are deducted from gross sales, and totaled \$1,007,200 in the first half of 2007 versus \$1,152,700 in the same period in 2006, a decrease of \$145,500 or 12.6%. This decrease consisted of a decrease in coupon expense of \$233,100, an increase in co-op marketing funds of \$138,700, and a decrease in slotting fee expenses of \$51,100.

From time to time, our customers return product to us. For our 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 June 30, 2007, our product returns (as a percentage of gross revenue) have averaged as follows: household products 0.5%, Montagne Jeunesse products 2.9%, and our Alpha Hydrox and other skin care products 6.1%. 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 0.3%, Montagne Jeunesse products 1.7%, and our Alpha Hydrox and other skin care products 7.9%. 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 half of 2007, net sales of skin care products accounted for 50.0% of consolidated net sales compared to 44.2% for the same period of 2006. Net sales of these products for that period were \$4,238,300 in 2007 compared to \$3,663,100 in 2006, an increase of \$575,200 or 15.7%. Our increase in sales of Alpha Hydrox and other skin care was due to the first half 2007 introduction of the line Neoteric Massage Oils, including the initial, first quarter, "pipeline" orders so that the massage

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oils are on the shelves of retailers. With only the introduction underway, it is too early to tell about consumer acceptance of Neoteric Massage Oils. This increase was somewhat offset by a decrease in sales of our Alpha Hydrox products introduced in 2005. 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 half of 2007, the sales of our Alpha Hydrox products accounted for 22.7% of net sales of skin care products and 11.3% of total net sales, compared to 30.7% of net sales of skin care products and 13.6% of total net sales in 2006.

Net sales of Montagne Jeunesse products were \$2,382,900 in the first half of 2007 versus \$1,982,000 for the comparable period of 2006, an increase of \$400,900 or 20.2%. 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 are expecting to return to two more retail chains with placement of Montagne Jeunesse in the second half of 2007.

Sales of household products for the first half of this year accounted for 50.0% of consolidated net sales compared to 55.8% 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 six months ended June 30, 2007 sales of household products were \$4,241,700 as compared to \$4,626,000 for the same period in 2006, a decrease of \$384,300, or 8.3%. Sales of Scott's Liquid Gold wood care products decreased by \$315,100 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 \$472,000 for the first half of 2007 versus \$432,800 in the same period of 2006. Sales of "Touch of Scent" were down by \$108,400 or 15.6%, primarily due to a decrease in distribution in 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.

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 or "Touch of Scent", 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 newer 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 currently plan to introduce four new items to the Alpha Hydrox cosmetic line plus a line of health and beauty care products under the Neoteric cosmetic label. Within the household product line we plan to introduce three to four new products or items including some additions to our Touch of Scent air fragrance product line. 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

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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.

On a consolidated basis, cost of goods sold was \$4,687,100 during the first half of 2007 compared to \$4,810,900 for the same period of 2006, a decrease of \$123,800 or 2.6%, on a sales increase of 2.3%. As a percentage of consolidated net sales, cost of goods sold was 55.3% in 2007 versus 58.0% in 2006, a decrease of about 2.7%, which reflects primarily the decrease in sales promotion expenses, particularly in the household chemical line of products, which are offset against sales, which increased our margins.

Operating Expenses, Interest Expense and Other Income

	Six Months ended June 30,		
	2007	2006	Percentage Increase (Decrease)
Operating Expenses			
Advertising	\$ 201,100	\$ 701,300	(71.3%)
Selling	2,634,400	2,835,700	(7.1%)
General & Administrative	1,582,900	1,775,300	(10.8%)
Total operating expenses	\$ 4,418,400	\$ 5,312,300	(16.8%)
Interest Income	\$ 43,800	\$ 26,900	62.8%
Interest Expense	\$ 208,100	\$ 100,400	107.3%

Operating expenses, comprised primarily of advertising, selling and general and administrative expenses, decreased \$893,900 in the first half of 2007, when compared to the first half of 2006. The various components of operating expenses are discussed below.

Advertising expenses for the first six months of 2007 were \$201,100 compared to \$701,300 for the comparable period of 2006, a decrease of \$500,200 or 71.3%. A majority of that decrease was due to decrease in television advertising expenses applicable to our Alpha Hydrox skin care products.

Selling expenses for the first half of 2007 were \$2,634,400 compared to \$2,835,700 for the comparable six months of 2006, a decrease of \$201,300 or 7.1%. That decrease was comprised of a decrease in salaries, fringe benefits and related travel expense of \$138,000 primarily because of a decrease in personnel in 2007 versus 2006, a decrease in freight and brokerage expenses of \$63,700, offset by a net increase in other selling expense, none of which by itself is significant, of \$400.

General and administrative expenses for the first six months of 2007 were \$1,582,900 compared to \$1,775,300 for the comparable period of 2006, a decrease of \$192,400 or 10.8%. 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 \$180,700, and a net decrease in other general and administrative expenses of \$11,700.

Interest expense for the first half of 2007 was \$208,100 versus \$100,400 for the comparable period of 2006. Interest expense increased

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because of higher interest rates and increased borrowing levels. Interest income for the six months ended June 30, 2007 was \$43,800 compared to \$26,900 for the same period of 2006, which consists of interest earned on our cash reserves in 2007 and 2006.

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

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

Comparative Net Sales			
Three Months Ended June 30,			
	2007	2006	Percentage Increase (Decrease)
Scott's Liquid Gold and other household products	\$ 1,694,800	\$ 2,249,600	(24.7%)
Touch of Scent	241,400	311,400	(22.5%)
Total household products	1,936,200	2,561,000	(24.4%)
Alpha Hydrox and other skin care	681,000	652,400	4.4%
Montagne Jeunesse skin care	1,687,000	919,900	83.4%
Total skin care products	2,368,000	1,572,300	50.6%
Total Net Sales	\$ 4,304,200	\$ 4,133,300	4.1%

Consolidated net sales for the second quarter of the current year were \$4,304,200 versus \$4,133,300 for the comparable quarter of 2006, an increase of \$170,900 or about 4.1%. Average selling prices for the second quarter of 2007 were up by \$62,900 over those of the comparable period of 2006, prices of household products being up by \$26,300, while average selling prices of skin care products were up by \$36,600. 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 \$348,100 in the second quarter of 2007 versus \$522,600 in the same period in 2006, a decrease of \$174,500 or about 33.4%. This decrease consisted of a decrease in coupon expenses of \$183,400, a decrease in co-op advertising of \$20,200, offset by an increase in slotting of \$29,100.

During the second quarter of 2007, net sales of skin care products accounted for 55.0% of consolidated net sales compared to 38.0% for the second quarter of 2006. Net sales of these products for those periods were \$2,368,000 in 2007 compared to \$1,572,300 in 2006, an increase of \$795,700 or about 50.6%. Net sales of Montagne Jeunesse were approximately \$1,687,000 in the second quarter of 2007 compared to \$919,900 in the second quarter of 2006. Please see the discussion above for the first half of 2007 for additional information regarding sales of skin care products, which is also applicable to sales of skin care products in the second quarter of 2007.

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Sales of household products for the second quarter of this year accounted for 45.0% of consolidated net sales compared to 62.0% for the same period of 2006. These products are comprised of Scott's Liquid Gold wood care and mold remediation products, and "Touch of Scent", a room air freshener. During the second quarter of 2007, sales of household products were \$1,936,200, as compared to sales of \$2,561,000 for the same three months of 2006. Sales of Scott's Liquid Gold wood care and other household products were down by \$554,800, a decrease of 24.7%. Sales of "Touch of Scent" were down by \$70,000 or 22.5%. During the second quarter of 2006 we began the introduction of our mold remediation product "Mold Control 500" with sales of \$432,800 during this period. Sales of Mold Control 500 were \$258,900 during the second quarter of 2007, with 2007 sales being less than 2006 because the second quarter of 2006 was the introduction of our Mold Control 500 product and included initial "pipeline" orders to stock retailer shelves. Please see the discussion above for the first half of 2007 for additional information regarding sales of household products, which is also applicable to sales of household products in the second quarter of 2007.

On a consolidated basis, cost of goods sold was \$2,340,600 during the second quarter of 2007 compared to \$2,567,400 for the same period of 2006, a decrease of \$226,800 (8.8%), on a sales increase of 4.1%. As a percentage of consolidated net sales for the second quarter of 2007, cost of goods sold was 54.4% compared to 62.1% in 2006, a decrease of 7.7%, which reflects primarily the decrease in sales promotion expenses, particularly in the skin care line of products, which are offset against sales, which increased our margins.

Operating Expenses, Interest Expense and Other Income

	2007	2006	Percentage Increase (Decrease)
	-----	-----	-----
Operating Expenses			
Advertising	\$ 88,800	\$ 107,600	(17.5%)
Selling	1,379,000	1,410,200	(2.2%)
General & Administrative	768,800	863,200	(10.9%)
	-----	-----	-----
Total operating expenses	\$ 2,236,600	\$ 2,381,000	(6.1%)
	=====	=====	=====
Interest Income	\$ 19,600	\$ 14,300	37.1%
Interest Expense	\$ 104,200	\$ 59,100	76.3%

Operating expenses, comprised primarily of advertising, selling and general and administrative expenses, decreased \$144,400 in the second quarter of 2007, when compared to the same period during 2006. The various components of operating expenses are discussed below.

Advertising expenses for the second quarter of 2007 were \$88,800 compared to \$107,600 for the comparable quarter of 2006, a decrease of \$18,800 or 17.5%.

Selling expenses for the three months ended June 30, 2007 were \$1,379,000 compared to \$1,410,200 for the comparable three months of 2006, a decrease of \$31,200 or 2.2%. That decrease was primarily because of a decrease in salaries, fringe benefits and related travel expense of \$61,700 resulting from a decrease in personnel in 2007 versus 2006, offset by a net increase in other selling expenses, none of which by itself is

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significant, of \$30,200.

General and administrative expenses for the second quarter of 2007 were \$768,800 compared to \$863,200 for the comparable period of 2006, a decrease of \$94,400 or 10.9%. That decrease was primarily attributable to a decrease in salaries and fringe benefits resulting from a reduction in salaries and personnel of \$86,700, and a net decrease in other general and administrative expenses of \$7,700.

Interest expense for the second quarter of 2007 was \$104,200 versus \$59,100 for the comparable period of 2006. Interest expense increased because of higher interest rates and borrowing levels. Interest income for the three months ended June 30, 2007 was \$19,600 compared to \$14,300 for the same period of 2006.

During the second 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 June 30, 2007). Part of the proceeds of the new loan were used to pay off the prior loan, and the remaining proceeds have been or will be used in business operations, including the development and introduction of new products. 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 half of 2007.

During the first half of 2007, our working capital decreased by \$583,500, and concomitantly, our current ratio (current assets divided by current liabilities) decreased from 2.1:1 at December 31, 2006 to 1.8:1 at June 30, 2007. This decrease in working capital is attributable to a net loss in the first half of 2007 of \$789,800, reduction in long-term debt of \$101,300, offset by depreciation in excess of capital additions of \$290,000.

At June 30, 2007, trade accounts receivable were \$1,143,400 versus \$743,700 at the end of 2006, largely because sales in the last two months of the quarter ended June 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 June of 2007 by \$382,100 corresponding primarily with the increase and timing of purchases of inventory over that period. At June 30, 2007 inventories were \$302,100 more than at December 31, 2006, due to the increase in cosmetic product inventory to support our new products, including new product introductions in the upcoming months. Prepaid expenses increased from the end of 2006 by \$92,200 primarily due to an increase in prepaid promotional expenses. Accrued payroll and benefits increased \$171,800 from December 31, 2006 to June 30, 2007 primarily because of the increase in accrued employee fringe benefits. Other Accrued liabilities decreased by \$136,700 primarily because of a decrease in accrued property taxes.

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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 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 June 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

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disclosure controls and procedures are 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 June 30, 2007. There was no change in our internal control over financial reporting during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Not Applicable

Item 2. Not Applicable.

Item 3. Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders

On May 2, 2007, we held our 2007 Annual Meeting of Shareholders. At that meeting, the seven existing directors were nominated and re-elected as our directors. These seven persons constitute all members of our Board of Directors. These directors and the votes for and withheld for each of them were as follows:

	For -----	Withheld -----
Mark E. Goldstein	8,706,284	337,779
Jeffrey R. Hinkle	8,793,321	250,742
Jeffrey B. Johnson	8,768,821	275,242
Dennis P. Passantino	8,789,284	254,779
Carl A. Bellini	8,805,899	238,164
Dennis H. Field	8,764,899	279,164
Gerald J. Laber	8,766,521	277,542

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.

August 10, 2007
Date

BY: /s/ Mark E. Goldstein

Mark E. Goldstein
President and Chief Executive Officer

August 10, 2007

BY: /s/ Jeffrey B. Johnson

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Date

Jeffry B. Johnson
Treasurer and Chief Financial Officer

EXHIBIT INDEX

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