

SCOTTS LIQUID GOLD INC  
Form DEF 14A  
April 06, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Scott s Liquid Gold Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Edgar Filing: SCOTTS LIQUID GOLD INC - Form DEF 14A

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**Table of Contents**

SCOTT S LIQUID GOLD-INC.

4880 Havana Street

Denver, Colorado 80239

NOTICE OF ANNUAL MEETING OF

SHAREHOLDERS

To Be Held May 16, 2012

TO OUR SHAREHOLDERS:

The Annual Meeting of Shareholders of Scott s Liquid Gold-Inc., a Colorado corporation (the Company ), will be held at 9:00 a.m., Mountain Time, on Wednesday, May 16, 2012 at the Company s offices, 4880 Havana Street, Denver, Colorado 80239 for the purpose of considering and acting upon the following:

- (1) The election of six directors;
- (2) A non-binding shareholder proposal to implement cumulative voting; and
- (3) Such other matters as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on March 30, 2012 are entitled to notice of and to vote at the meeting.

**Important notice regarding availability of proxy materials for the Annual Meeting of Shareholders to be held on May 16, 2012 or any adjournment thereof: The Proxy Statement for the Annual Meeting, the form of proxy and the Annual Report on Form 10-K for the year ended December 31, 2011 are available at the Company s website at [www.scottsliquidgold.com](http://www.scottsliquidgold.com) under the Company & Investor Relations tab.**

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Jeffrey R. Hinkle

Corporate Secretary

Denver, Colorado

April 6, 2012

THE FORM OF PROXY IS ENCLOSED. TO ASSURE THAT YOUR SHARES WILL BE VOTED AT THE MEETING, PLEASE COMPLETE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED, POSTAGE PREPAID, ADDRESSED ENVELOPE. NO ADDITIONAL POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES. THE GIVING OF A PROXY WILL NOT AFFECT YOUR RIGHT TO VOTE IN PERSON IF YOU ATTEND THE MEETING.



**Table of Contents**

**TABLE OF CONTENTS**

<u>Voting Securities and Principal Shareholders</u>	1
<u>Security Ownership of Management</u>	3
<u>Proposal 1: Election of Directors</u>	4
<u>Board Leadership Structure and Role in Risk Oversight</u>	6
<u>Executive Officers</u>	6
<u>Directors Meetings and Committees</u>	7
<u>Director Nomination Process</u>	8
<u>Director Attendance at Company Annual Meetings</u>	9
<u>Shareholder Communications with the Board</u>	9
<u>Code of Business Conduct and Ethics</u>	9
<u>Executive Compensation</u>	10
<u>Stock Plans</u>	12
<u>Compensation of Directors</u>	14
<u>Proposal 2: Shareholder Proposal</u>	15
<u>Certain Transactions</u>	17
<u>Section 16 Reports</u>	17
<u>Company Accountants</u>	17
<u>Shareholder Proposals and Director Nominations</u>	18
<u>2011 Annual Report on Form 10-K</u>	21
<u>Solicitation of Proxies</u>	21
<u>Other Business</u>	21
<u>Appendix A</u>	A-1

**Table of Contents**

**4880 Havana Street**

**Denver, Colorado 80239**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held May 16, 2012**

The enclosed proxy is solicited by and on behalf of the Board of Directors (the "Board") of Scott's Liquid Gold-Inc., a Colorado corporation (the "Company"), for use at the Company's Annual Meeting of Shareholders to be held at 9:00 a.m., Mountain Time, on Wednesday, May 16, 2012 at the Company's offices, 4880 Havana Street, Denver, Colorado 80239, or any adjournment thereof. This Proxy Statement and the accompanying form of proxy are first being mailed or given to the shareholders of the Company on or about April 12, 2012.

Any shareholder signing and mailing the enclosed proxy may revoke it at any time before it is voted by giving written notice of the revocation to the Company's Corporate Secretary, by voting in person at the meeting or by filing at the meeting a later executed proxy.

**VOTING SECURITIES AND PRINCIPAL SHAREHOLDERS**

All voting rights are vested exclusively in the holders of the Company's \$0.10 par value common stock. Each share of the Company's common stock is entitled to one vote. Cumulative voting in the election of directors is not permitted. Holders of a majority of shares entitled to vote at the meeting, when present in person or by proxy, constitute a quorum. On March 30, 2012, the record date for shareholders entitled to vote at the meeting, the Company had 10,937,000 shares of its \$0.10 par value common stock issued and outstanding.

When a quorum is present, in the election of directors, those six nominees having the highest number of votes cast in favor of their election will be elected to the Company's Board. Consequently, any shares not voted (whether by abstention, broker non-vote or otherwise) have no impact in the election of directors except to the extent the failure to vote for an individual results in another individual receiving a larger number of votes. With respect to any other matter, unless a greater number of votes are required by law, a matter is approved by the shareholders if the votes cast in favor of the matter exceed the votes cast in opposition. Any shares not voted (whether by abstention, broker non-vote or otherwise) have no impact on the vote for such other matters, if any, so long as a quorum is present.

**Table of Contents**

The following persons are the only persons known to the Company who on March 30, 2012, owned beneficially more than 5% of the Company's common stock, its only class of outstanding voting securities:

**Title of Class**

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Mark E. Goldstein 4880 Havana Street Denver, Colorado 80239	Common Stock 2,748,526 <sup>(1)(2)</sup>	25.1%
Scott's Liquid Gold-Inc. Employee Stock Ownership Plan 4880 Havana Street Denver, Colorado 80239	Common Stock 1,212,703 <sup>(3)</sup>	11.1%
Yorktown Avenue Capital, LLC and Boston Avenue Capital, LLC 415 South Boston, 9 <sup>th</sup> Floor Tulsa, Oklahoma 74103	Common Stock 1,461,530 <sup>(4)</sup>	13.4%
Timothy Stabosz 1307 Monroe Street Laporte, IN 46350	Common Stock 543,636 <sup>(5)</sup>	5.0%

- (1) Includes 2,126,473 shares held by the Goldstein Family Partnership, Ltd., a limited partnership of which the general partner is the Goldstein Family Corporation and whose limited partners include Mark E. Goldstein, his children, a sister, and certain other relatives. Mr. Goldstein is the sole director and sole executive officer of the Goldstein Family Corporation, and he owns 100% of the outstanding stock of the Goldstein Family Corporation. Mr. Goldstein has the sole voting and disposition powers with respect to these shares of the Company owned by the Goldstein Family Partnership, Ltd. Also includes 94,113 shares underlying stock options granted by the Company and exercisable within 60 days, and 86,670 shares held by Mr. Goldstein's two adult and one minor child. Includes 52,600 shares held jointly by Mr. Goldstein and his spouse, and does not include 25,890 shares of the Company's common stock owned by Mr. Goldstein's spouse, and 500 shares underlying stock options granted on March 23, 2010 by the Company to Mr. Goldstein's spouse as an employee and which vest over 48 months, as to which Mr. Goldstein disclaims any beneficial ownership.
- (2) Does not include 140,808 shares held by the Company's Employee Stock Ownership Plan attributable to Mr. Goldstein's vested interest in the Plan as of December 31, 2011.

## Edgar Filing: SCOTTS LIQUID GOLD INC - Form DEF 14A

- (3) The Trustees administering the Employee Stock Ownership Plan will vote as directed by participants in the plan. Shares with respect to which the Trustees do not receive participant instructions will be voted by the Trustees in accordance with the terms of the plan.
- (4) Yorktown Avenue Capital, LLC and Boston Avenue Capital, LLC are limited liability companies managed by Value Fund Advisors, LLC. This information is based upon filings by Yorktown Avenue Capital, LLC and Boston Avenue Capital, LLC with the Securities and Exchange Commission (the SEC).
- (5) This information is based upon a filing by Mr. Stabosz with the SEC.



**Table of Contents****SECURITY OWNERSHIP OF MANAGEMENT**

The following table shows as of March 30, 2012, the shares of the Company's common stock beneficially owned by each director and executive officer of the Company and the shares beneficially owned by all of the directors and executive officers as a group:

**Title of Class**

<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership <sup>(1)</sup></b>	<b>Percent of Class</b>
Mark E. Goldstein	2,748,526 <sup>(2)(3)(4)</sup>	25.1%
Barry J. Levine	6,250 <sup>(3)</sup>	0.1%
Jeffrey R. Hinkle	262,486 <sup>(3)(4)(5)</sup>	2.4%
Dennis P. Passantino	158,090 <sup>(3)(4)</sup>	1.4%
Dennis H. Field	54,333 <sup>(3)</sup>	0.5%
Jeffrey B. Johnson	231,097 <sup>(3)(6)</sup>	2.1%
Gerald J. Laber	49,375 <sup>(3)</sup>	0.5%
Philip Neri	6,250 <sup>(3)</sup>	0.1%
All Directors and executive officers as a Group (eight persons)	3,516,407 <sup>(3)(4)</sup>	32.2%

- (1) Beneficial owners listed have sole voting and disposition power with respect to the shares shown unless otherwise indicated.
- (2) For information regarding Mr. Goldstein's beneficial ownership of shares, see footnote 1 under the table in Security Ownership of Certain Beneficial Owners.
- (3) For each named person, includes the following number of shares underlying stock options granted by the Company and exercisable within 60 days: 133,171 for Mr. Goldstein; 6,250 for Mr. Levine; 140,608 for Mr. Hinkle; 104,171 for Mr. Passantino; 50,833 for Mr. Field; 112,608 for Mr. Johnson; 49,375 for Mr. Laber; 6,250 for Mr. Neri and 603,266 for directors and executive officers as a group.
- (4) Does not include shares owned by the Company's Employee Stock Ownership Plan under which, at December 31, 2011, Mark E. Goldstein had a vested interest in 140,960 shares, Jeffrey R. Hinkle had a vested interest in 97,072 shares, and Dennis P. Passantino had a vested interest in 73,705 shares.
- (5) Of Mr. Hinkle's shares, 121,878 shares are held in a revocable trust of which Mr. Hinkle and his spouse are co-trustees.
- (6) Of Mr. Johnson's shares, 37,000 are held jointly by Mr. Johnson and his spouse.

There has been no change in control of the Company since the beginning of the last fiscal year, and there are no arrangements known to the Company, including any pledge of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

Because of his beneficial ownership of the Company's stock and his positions as President, Chief Executive Officer and Chairman, Mark E. Goldstein may be considered a parent (i.e., a controlling person) of the Company.

**Table of Contents****PROPOSAL 1: ELECTION OF DIRECTORS**

The Company's Board currently consists of six directors. Unless authority to vote is withheld, the persons named in the enclosed form of proxy will vote the shares represented by such proxy for the election of the six nominees for director named below. If, at the time of the meeting, any of these nominees shall have become unavailable for any reason to serve as a director, the persons entitled to vote the proxy will vote for such substitute nominee or nominees, if any, as they determine in their discretion. If elected, the nominees for director will hold office until the next annual meeting of shareholders or until their successors are elected and qualified. The nominees for director, each of whom has consented to serve if elected, are as follows:

Name of Nominee and Position in the Company	Age	Director Since	Principal Occupation for Last Five Years
Mark E. Goldstein (Chairman of the Board, President and Chief Executive Officer)	56	1983	Chairman of the Board of the Company since February 2000, President and Chief Executive Officer of the Company since August, 1990, Vice President-Marketing of the Company from 1982 to 1990. Employed by the Company since 1978. Mr. Goldstein was selected as a director for his extensive experience in management, marketing, sales, consumer products and other aspects of the Company's business.
Jeffrey R. Hinkle (Executive Vice President of Corporate Development and Corporate Secretary)	58	2000	Executive Vice President of Corporate Development since August 2011 previously serving as Vice President-Marketing and Sales of the Company since February 2000. Employed by the Company since 1981. Mr. Hinkle was selected as a director for his in-depth knowledge of consumer products, the marketplace for the Company's products, the Company's sales force, international suppliers of distributed products and customers. Mr. Hinkle brings to the Board extensive experience in marketing, sales and management.
Dennis H. Field	79	1991	Management Consultant since 1990. From 1984 to 1990, Executive Vice President/General Manager, Faberge USA, Inc. (mass market health and beauty aids). Mr. Field was selected as a director for his extensive experience in marketing and sales of consumer products, including cosmetic and skin care products, and strategic planning.
Jeffrey B. Johnson	66	2000	Retired. Formerly Treasurer and Chief Financial Officer of the Company from November 2000 to January 2009. From 1981 to 2000, Controller of the Company. Employed by the Company since 1976. Mr. Johnson was selected as a director for his extensive knowledge of the Company's finances. Mr. Johnson brings to the Board extensive experience in management and financial matters.

**Table of Contents**

Name of Nominee and Position in the Company	Age	Director Since	Principal Occupation for Last Five Years
Gerald J. Laber, CPA	68	2004	President, The Catholic Foundation for the Roman Catholic Church in Northern Colorado since January 2008. Investor and community volunteer since 2000. From 1980 to 2000 partner with Arthur Andersen L.L.P. Currently a director, chair of the audit committee and member of the finance, compensation and nominating and governance committee of Smart Balance, Inc. (a manufacturer and distributor of heart-healthy food products); currently a director, member of the compensation committee and chair of the audit committee of Allied Motion Technologies; currently a director of three companies (Centennial Specialty Foods Corporation, HealtheTech, Inc. and Qualmark Corporation) which were public reporting companies while Mr. Laber served as a director and which ceased being public reporting companies during the past five years. Formerly, during the past five years, a director and chair of the audit committee of Spectralink Corporation until it was acquired in March 2007 and a director and member of audit committee of Applied Films Corporation until it was acquired in July 2007. Mr. Laber brings to the Board extensive experience in accounting, financial matters and strategic planning. He is also an audit committee financial expert.
Philip Neri	55	2011	Vice President of Sales and Marketing at Barrett-Jackson, where he manages the company's sponsorship and business development programs, as well as its marketing and merchandising endeavors. Mr. Neri has been with Barrett-Jackson since 2006, serving as Director of Sponsorships and Business Development prior to his promotion to Vice President. Before joining Barrett-Jackson, Mr. Neri was Senior Vice President of Marketing and Sales at Home Fragrance Holdings, where his guidance and innovation led to the revitalization of the company's sales and marketing program. Prior to Home Fragrance Holdings, Mr. Neri was Senior Vice President of Sales for The Dial Corporation with responsibility for all Dial Corp. products targeting grocery, drug, military and convenience store distribution channels throughout the U.S. Mr. Neri was with The Dial Corporation for 18 years and held numerous sales and management positions throughout the company prior to his promotion to Senior Vice President. Mr. Neri brings to the Board extensive sales and marketing, business development and strategic planning experience.

## **Table of Contents**

All of the foregoing persons are currently directors of the Company. Their positions on standing committees of the Board are shown below under Directors Meetings and Committees.

There are no family relationships among the executive officers or directors of the Company. There are no arrangements or understandings pursuant to which any of these persons were elected as an executive officer or director.

## **Vote Required**

The six nominees having the highest number of votes cast in favor of their election will be elected to the Company's Board.

## **THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE DIRECTOR NOMINEES.**

## **BOARD LEADERSHIP STRUCTURE AND ROLE IN RISK OVERSIGHT**

The Board is actively involved in assessing and managing risks that could affect the Company. Part of the Board's role is to periodically assess the processes utilized by management with respect to risk assessment and risk management, including identification by management of the primary risks of the Company's business, and the implementation by management of appropriate systems to deal with such risks. The Board fulfills these responsibilities either directly, through delegation to committees of the Board, or, as appropriate, through delegation to individual directors. When the Board determines to delegate any risk management oversight responsibilities, typically such delegation is made to the standing committees of the Board.

Mr. Goldstein serves as both the Chairman of the Board and the Chief Executive Officer of the Company. The Company believes this is appropriate in light of Mr. Goldstein's significant experience and leadership roles with the Company, and his in-depth knowledge of consumer products and the Company's management, marketplace, customers, marketing, sales and strategic vision. The Company further believes Mr. Goldstein's effectiveness in promoting the Company's products and forming new business relationships is significantly enhanced by his role as both Chairman of the Board and Chief Executive Officer.

## **EXECUTIVE OFFICERS**

The Company has four executive officers. They are Mr. Goldstein, Mr. Levine, Mr. Hinkle, and Mr. Passantino. Information regarding Mr. Goldstein and Mr. Hinkle is stated above under Nominees. Information concerning Mr. Levine and Mr. Passantino is as follows:

Mr. Levine, 53, has been employed by the Company as Chief Operating Officer, Chief Financial Officer and Treasurer beginning in 2012. Prior to joining the Company, Mr. Levine was Director of Business Advisory Services at Hein & Associates, LLP, a leading accounting and consulting firm. Prior to that, he served as Chief Executive Officer of LGK Advisors, LLC, a national business advisory firm, from 2008 to 2011. From 2005 to 2008, he served as Senior Vice President, Business Affairs and General Counsel for Cohen Brothers Homes, LLC, a residential homebuilder and real estate developer.

Mr. Passantino, 56, has been employed by the Company since 1981. He has been Vice President Operations of the Company since November 2002 and Corporate Secretary from 2002 until 2011. From 1991 to 2002, he served as Operations Manager of the Company. He also served as a member of the Board of Directors from 2002 to 2011.

The officers of the Company are elected annually at the first meeting of the Company's Board held after each annual meeting of shareholders and serve at the pleasure of the Board.

## **Table of Contents**

### **DIRECTORS MEETINGS AND COMMITTEES**

During the year ended December 31, 2011, the Company had four regular Board meetings, three special meetings by conference call and two actions by unanimous written consent. The Company's Board has both a Compensation Committee and an Audit Committee. The Company does not have a nominating committee. No member of the Board attended fewer than 75% of the meetings of the Board or of committees for which such member served during 2011.

#### **Compensation Committee**

The primary responsibilities of the Compensation Committee include, without limitation, reviewing the development of a compensation philosophy for the Company, reviewing the compensation packages for executive officers and engaging and overseeing compensation consultants and advisers. The Compensation Committee may not delegate its authority. The Compensation Committee operates under resolutions adopted by the Board of Directors that may constitute a charter, a copy of which is attached hereto as [Appendix A](#). The Compensation Committee currently consists of three independent directors. The current members of the Compensation Committee are Mr. Field (Chairperson), Mr. Laber and Mr. Neri, each of whom is an independent director as defined under the NASDAQ rules. The Compensation Committee had two meetings during 2011.

In making decisions regarding executive compensation, the Compensation Committee requests the comments of the Chief Executive Officer and the other executive officers about their compensation and considers a number of factors. In determining the executive compensation in 2010 and 2011, the Committee considered, among other things, the following matters:

#### *Overview*

The objectives of the Company's compensation program;

What the compensation program is designed to reward;

Each element of the compensation;

How the Company determines the amount (and, where applicable, the formula) for each element; and

How each compensation element and the Company's decisions regarding that element fit into the Company's overall compensation objectives and affect decisions regarding other elements.

#### *Specific Factors*

Services performed and time devoted to the Company by the executive;

Amounts paid to executives in comparable companies;

The size and complexities of the Company's business;

Successes achieved by the executive;

The executive's abilities;

The executive's tenure;

The Company's financial results;

Prevailing economic conditions;

Compensation paid to other employees of the Company; and

The amount previously paid to the executive.

## **Table of Contents**

The Compensation Committee previously determined that an outside consultant on compensation matters should be used periodically to provide information about the compensation paid to the Company's executive officers compared to compensation paid by other companies. This is only one factor among many considered by the Compensation Committee. In 2011, the Compensation Committee engaged the Harlon Group to provide this type of market analysis. The report from the Harlon Group compared each element of the Company's compensation for the executive officers to a peer group of 10 companies developed by the Harlon Group. This report showed that the total direct compensation levels for the Company's executive officers for 2010 were below the median of total direct compensation for executives of the peer group companies.

Peer Group Companies determined by the Harlon Group were:

United-Guardian, Inc.  
Electromed, Inc.  
Forward Industries, Inc.  
The Female Health Company  
Universal Security Instruments, Inc.  
Ocean Bio-Chem, Inc.  
Heelys, Inc.  
People's Liberation, Inc.  
Talon International, Inc.  
MOD-PAC Corp.

The Compensation Committee also determines the fees paid to the non-employee directors. The fees for the non-employee directors result from discussions between the executive officers and each of the non-employee directors as to a reasonable amount.

## **Audit Committee**

The Audit Committee's primary responsibilities include appointing the independent auditor for the Company, pre-approving all audit and non-audit services, and assisting the Board in monitoring the integrity of the financial statements of the Company, the independent auditor's qualifications, independence and performance and the Company's compliance with legal requirements. The Audit Committee operates under a written charter adopted by the Board, a copy of which has been filed with the SEC and is available at the Company's website at [www.scottsliquidgold.com](http://www.scottsliquidgold.com). The current members of the Audit Committee are Mr. Laber (Chairperson), Mr. Neri and Mr. Field. Each member of the Audit Committee is an independent director as defined in the NASDAQ rules. Mr. Laber has the professional experience deemed necessary to qualify as an audit committee financial expert under rules of the SEC. The Audit Committee had four meetings during 2011.

## **DIRECTOR NOMINATION PROCESS**

The Board of the Company does not have a nominating committee. The full Board performs the functions of a nominating committee. The Board believes that it does not need a separate nominating committee because the full Board is relatively small, has the time to perform the functions of selecting Board nominees and in the past has acted unanimously in regard to nominees.

In considering an incumbent director whose term of office is to expire, the Board reviews the director's overall service during the person's term, the number of meetings attended, level of participation and quality of performance. In the case of new directors, the directors on the Board are asked for suggestions as to potential candidates, discuss any candidates suggested by a shareholder of the Company and apply the criteria stated below. The Company may engage a professional search firm to locate nominees for the position of director of the Company. However, to date the Board has not engaged professional search firms for this purpose. A selection of a nominee by the Board requires a majority vote of the Company's directors. The Board consists of six members of which Mr. Field, Mr. Laber, Mr. Johnson and Mr. Neri are independent as defined under NASDAQ rules.

## **Table of Contents**

The Board seeks candidates for nomination to the position of director who have excellent decision-making ability, business experience, particularly those relevant to consumer products, personal integrity and a high reputation, diverse backgrounds and who meet such other criteria as may be set forth in a writing adopted by a majority vote of the Board.

Pursuant to a policy adopted by the Board, the directors will take into consideration a director nominee submitted to the Company by a shareholder; provided that the shareholder submits the director nominee and reasonable supporting material concerning the nominee by the due date for a shareholder proposal to be included in the Company's Proxy Statement for the applicable annual meeting as set forth in Section 2.14 of the Company's Bylaws and the rules of the SEC then in effect. See "Shareholder Proposals and Director Nominations" below.

## **DIRECTOR ATTENDANCE AT COMPANY ANNUAL MEETINGS**

The Company does not have a policy regarding attendance by members of the Board at the Company's annual meeting of shareholders. The Company has always encouraged its directors to attend its annual meeting. In 2011, the year of our last annual meeting, all directors attended the Company's annual meeting of shareholders.

## **SHAREHOLDER COMMUNICATIONS WITH THE BOARD**

Historically, the Company has not had a formal process for shareholder communications with the Board. The Company does not believe a formal process for handling shareholder communications is necessary because the Board reviews and considers all material communications from shareholders.

## **CODE OF BUSINESS CONDUCT AND ETHICS**

The Company has a Code of Business Conduct and Ethics that reflects long-standing positions of the Company and contains additional provisions that address the Company's expectations relating to ethical business conduct. The Code applies to all employees, including executive officers, and to directors. The Code concerns, among other things, compliance with applicable law, the avoidance of conflicts of interest, trading restrictions imposed on persons who are aware of material non-public information, a prohibition on taking corporate opportunities, competing fairly and honestly, diversity as an asset, the Company's efforts to provide a safe and healthful work environment, recordkeeping, confidentiality, proper use of Company assets and payments to government personnel. A copy of the Code of Business Conduct and Ethics may be obtained upon request to: Corporate Secretary, Scott's Liquid Gold Inc., 4880 Havana Street, Denver, Colorado 80239. The Code is also available at the Company's website at [www.scottsliquidgold.com](http://www.scottsliquidgold.com).



**Table of Contents****EXECUTIVE COMPENSATION**

The following Summary Compensation Table shows the annual and other compensation of the Chief Executive Officer and all other executive officers of the Company at December 31, 2011, for services in all capacities provided to the Company and its subsidiaries for the past two years. The Company's compensation packages to the executive officers, as determined by the Compensation Committee, are designed to enable the Company to recruit, retain and motivate a talented and diverse group of people who contribute to the Company's success. The packages are also intended to synchronize executive compensation with the Company's performance, motivate executive officers to achieve the Company's business objectives, provide performance incentives and minimize undue risk to the Company. The Company's Chief Executive Officer provides input on determining and recommending compensation packages of the executive officers other than himself.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year (b)	Salary	Bonus	Stock Awards	Option awards	Non-equity incentive plan compensation	Non-qualified deferred compensation earnings	All Other Compensation	Total
		\$ (c)	\$ <sup>(1)</sup> (d)	\$ (e)	\$ (f)	\$ (g)	\$ (h)	\$( <sup>(2)</sup> ) (i)	\$ (j)
E. Goldstein Chairman of the Board, President and Chief Executive Officer	2011	342,000			0			53,414	395,414
	2010	342,000			23,914			56,614	422,528
Guy R. Hinkle Executive Vice President of Corporate Development and Corporate Secretary	2011	192,375			0			25,742	218,117
	2010	192,375			24,448			14,129	230,952
Thomas P. Passantino President - Operations	2011	165,375			0			19,324	184,700
	2010	165,375			17,563			25,029	207,967
L. Boberick Treasurer and Chief Financial Officer <sup>(3)</sup>	2011	135,000			0			25,537	160,537
	2010	135,000			3,804			27,494	166,298

- (1) There was no bonus plan for our executive officers for 2011 and there will not be one for 2012. In 2010, there was a bonus plan that provided that an amount would be distributed to our executive officers equal to 10% of the annual before tax profit exceeding \$1,000,000, excluding items that are infrequent, unusual, or extraordinary. In 2010, no bonuses were accrued or paid due to net losses.
- (2) Certain details for All Other Compensation for 2011 and 2010 is summarized in the table below.
- (3) Mr. Boberick's service as Treasurer and Chief Financial Officer terminated on February 16, 2012.

**Table of Contents**

	Mark E. Goldstein		Jeffrey R. Hinkle	
	2011	2010	2011	2010
Automobile lease/allowance <sup>(a)</sup>	\$ 9,081	\$ 9,081	\$ 7,716	\$
Income taxes on automobile lease/allowance <sup>(a)</sup>	6,890	6,890	5,440	
Other automobile expenses	1,190	953	925	1,012
Memberships	7,616	16,884		
Life insurance	5,052	4,716	1,814	1,814
Income taxes on life insurance	3,833	3,578	1,280	1,280
Medical plan <sup>(b)</sup>	15,080	5,421	3,580	3,814
Disability insurance	4,672	4,672	4,987	4,987
ESOP <sup>(c)</sup>		1,545		1,222
Other		2,874		
<b>Total other compensation</b>	<b>\$ 53,414</b>	<b>\$ 56,614</b>	<b>\$ 25,742</b>	<b>\$ 14,129</b>

	Dennis P. Passantino		Brian L. Boberick	
	2011	2010	2011	2010
Automobile lease/allowance <sup>(a)</sup>	\$ 5,951	\$ 6,066	\$ 6,000	\$ 6,000
Income taxes on automobile lease/allowance <sup>(a)</sup>	4,195	4,274	4,225	4,225
Other automobile expenses	661	858	1,528	401
Memberships				
Life insurance	1,245	1,245	4,495	2,719
Income taxes on life insurance	876	876	3,169	1,915
Medical plan <sup>(b)</sup>	3,056	8,269	3,367	8,991
Disability insurance	3,340	2,365	2,753	2,314
ESOP <sup>(c)</sup>		1,076		929
Other				
<b>Total other compensation</b>	<b>\$ 19,324</b>	<b>\$ 25,029</b>	<b>\$ 25,537</b>	<b>\$ 27,494</b>

- (a) The Company provides funds needed, plus an amount to pay resulting income taxes, to each executive officer. In the case of Mr. Passantino and Mr. Goldstein, the amounts shown for 2011 and 2010 represent the lease value, and income tax on that value, for his use in 2011 and 2010 of a vehicle leased by the Company. In the case of Mr. Hinkle, the amount shown for 2011 represents a provision for his use of his personally-owned vehicle. In the case of Mr. Boberick, the amount shown for 2011 and 2010 represents a provision for use of his personally-owned vehicle.
- (b) In addition to group life, health, hospitalization and medical reimbursement plans which are generally available to all employees, the Company has adopted a plan which provides for additional medical coverage of not more than \$50,000 per year for each of the Company's executive officers.
- (c) ESOP compensation for each of the executive officers consists of Company contributions under an Employee Stock Ownership Plan and Trust Agreement ( ESOP ). The Company may contribute annually to the ESOP cash or common stock which, in combination with any employer contribution made to the 401(k) Plan, may not exceed 25% of all participants' total compensation (the maximum amount currently deductible under tax laws). The Board determines whether any contributions will be made for a given year. Benefits are allocated to all eligible employees according to a formula based on compensation, except that any income earned on assets of the Trust is allocated to ESOP participants based upon the value that each participant's account bears to the total value of Trust assets.

**Table of Contents**

**STOCK PLANS**

Executive officers and non-employee directors of the Company are eligible to receive stock awards under the Company's 2005 Stock Incentive Plan as amended, which expires on March 31, 2015. The number of shares authorized under the 2005 Plan is 3,000,000 shares of common stock. The 2005 Plan provides for the issuance of stock awards consisting of incentive and non-qualified stock options, stock appreciation rights, restrictive stock or restrictive stock units. Eligible persons under the 2005 Plan are full-time and part-time employees, non-employee directors and consultants. Under the 2005 Plan, stock awards vest upon a change in control. All options granted in or prior to 2006 were 100% vested on the date of grant. Options granted after 2006 including those granted to date in 2012 vest <sup>1</sup>/<sub>48</sub> of the shares subject to the options each month after the date of grant and vest fully upon a change in control. The Company's 1998 Stock Option Plan expired on November 8, 2008 and had covered 1,100,000 shares of common stock. Options under the 1998 Plan remain outstanding. The terms of the 1998 Plan are similar to those of the 2005 Plan.

**Option Grants in 2011**

On August 9, 2011, the Company's Board granted five-year options, effective on that date, for a total of 30,000 shares of common stock to one non-employee director at an exercise price of \$0.37 per share, representing 120% of the closing market price on August 9, 2011.

**Option Grants in 2010**

On May 13, 2010, the Company's Board granted five-year options, effective on that date, for a total of 357,000 shares of common stock to the four executive officers and two non-employee directors at an exercise price of \$0.22 per share (the closing market price on May 13, 2010), except in the case of Mr. Goldstein whose options have an exercise price of \$0.24, representing 110% of the closing market price. The number of shares subject to these options were 80,000 each for Mr. Goldstein, Mr. Hinkle, Mr. Passantino and Mr. Johnson, 30,000 for Mr. Bellini and 7,000 for Mr. Boberick.

On August 10, 2010, the Company's Board granted five-year options, effective on that date, for a total of 265,000 shares of common stock to three executive officers and the four non-employee directors at an exercise price of \$0.23 per share (the closing market price on August 10, 2010), except in the case of Mr. Goldstein whose options have an exercise price of \$0.25, representing 110% of the closing market price. The number of shares subject to these options were 50,000 each for Mr. Goldstein, Mr. Hinkle and Mr. Johnson, 5,000 for Mr. Passantino, 55,000 for Mr. Belini, 25,000 for Mr. Field and 30,000 for Mr. Laber.

On November 10, 2010, the Company's Board granted five-year options, effective December 14, 2010, for a total of 122,000 shares of common stock to the four executive officers and two non-employee directors at an exercise price of \$0.20 per share (the closing market price on December 14, 2010), except in the case of Mr. Goldstein whose options have an exercise price of \$0.22, representing 110% of the closing market price. The number of shares subject to these options were 18,400 each for Mr. Goldstein, Mr. Hinkle, Mr. Passantino, Mr. Boberick and Mr. Johnson, and 30,000 for Mr. Laber.

**Table of Contents**

The following table summarizes information with respect to each person's outstanding stock options at December 31, 2011.

Name	OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2011 Option Awards					Stock Awards			
	Number of securities underlying unexercised options # Exercisable (b)	Number of securities underlying unexercised options # Unexercisable (c)	Equity incentive plan awards: Number of securities underlying unexercised unearned options # (d)	Option exercise price \$ (e)	Option expiration date (f)	Number of shares or units of stock that have not vested # (g)	Market value of shares or units of stock that have not vested \$ (h)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested # (i)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested \$ (j)
(a) Mark E. Goldstein	16,200 <sup>(1)</sup>			0.90	Feb. 26, 2012				
	54,344 <sup>(4)</sup>	16,156		0.19	Nov. 27, 2013				
	33,333 <sup>(7)</sup>	46,667		0.24	May 12, 2015				
	17,708 <sup>(8)</sup>	32,292		0.25	Aug. 09, 2015				
	4,983 <sup>(9)</sup>	13,417		0.22	Dec. 13, 2015				
Jeffrey R. Hinkle	16,200 <sup>(1)</sup>			0.82	Feb. 26, 2012				
	60,896 <sup>(4)</sup>	18,104		0.17	Nov. 27, 2013				
	33,333 <sup>(7)</sup>	46,667		0.22	May 12, 2015				
	17,708 <sup>(8)</sup>	32,292		0.23	Aug. 9, 2015				
	4,983 <sup>(9)</sup>	13,417		0.20	Dec. 13, 2015				
Dennis P. Passantino	26,200 <sup>(1)</sup>			0.82	Feb. 26, 2012				
	54,625 <sup>(3)</sup>	2,375		0.55	Feb. 25, 2013				
	6,167 <sup>(4)</sup>	1,833		0.17	Nov. 27, 2013				
	33,333 <sup>(7)</sup>	46,667		0.22	May 12, 2015				
	1,771 <sup>(8)</sup>	3,229		0.23	Aug. 9, 2015				
4,983 <sup>(9)</sup>	13,417		0.20	Dec. 13, 2015					
Brian L. Boberick	10,000 <sup>(1)</sup>			0.82	Feb 26, 2012				
	3,000 <sup>(2)</sup>			0.82	Sep. 3, 2012				
	4,792 <sup>(3)</sup>	208		0.55	Feb. 25, 2013				
	21,250 <sup>(5)</sup>	8,750		0.17	Feb. 23, 2014				
	1,813 <sup>(6)</sup>	1,188		0.25	Aug. 10, 2014				
	2,917 <sup>(7)</sup>	4,083		0.22	May 12, 2015				
4,983 <sup>(9)</sup>	13,417		0.20	Dec. 13, 2015					

(1) These options were granted on February 27, 2007 and vest  $\frac{1}{48}$  per month from date of grant.

(2) These options were granted on September 4, 2007 and vest  $\frac{1}{48}$  per month from date of grant.

(3) These options were granted on February 26, 2008 and vest  $\frac{1}{48}$  per month from date of grant.

(4) These options were granted on November 28, 2008 and vest  $\frac{1}{48}$  per month from date of grant.

(5) These options were granted on February 24, 2009 and vest  $\frac{1}{48}$  per month from date of grant.

(6) These options were granted on August 11, 2009 and vest  $\frac{1}{48}$  per month from date of grant.

Edgar Filing: SCOTTS LIQUID GOLD INC - Form DEF 14A

- (7) These options were granted on May 13, 2010 and vest  $\frac{1}{48}$  per month from date of grant.
- (8) These options were granted on August 10, 2010 and vest  $\frac{1}{48}$  per month from date of grant.
- (9) These options were granted on December 14, 2010 and vest  $\frac{1}{48}$  per month from date of grant.

**Table of Contents****COMPENSATION OF DIRECTORS**

Two directors, Mr. Goldstein and Mr. Hinkle, are full-time executive officers of the Company and receive no additional compensation for their service as a director. Mr. Bellini, Mr. Field, Mr. Johnson, Mr. Neri and Mr. Laber were in 2011 and, other than Mr. Bellini who has resigned, are currently non-employee directors. The Company compensates Messrs. Field, Johnson and Neri at a rate of \$1,125 per month for their service as directors, and compensates Mr. Laber at a rate of \$1,250 per month for his service as a director and Chair of the Audit Committee. In addition, directors are eligible for option award grants under the Company's 2005 Stock Incentive Plan. The following table shows the annual and other compensation of the non-employee directors at December 31, 2011 for services to the Company for 2011.

Name	DIRECTOR COMPENSATION FOR 2011						
	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total
(a)	(\$) (b)	(\$) (c)	(\$) (d) <sup>(1)</sup>	(\$) (e)	(\$) (f)	(\$) (g)	(\$) (j)
Carl A. Bellini	13,500						13,500
Dennis H. Field	13,500						13,500
Gerald J. Laber	15,000						13,500
Jeffry B. Johnson	13,500						13,500
Philip A. Neri	5,625		11,100				16,725

(1) Amounts shown in the column Option Awards are the aggregate grant date fair value of stock options granted in 2011, computed in accordance with ASC 718. For information on the valuation assumptions for the stock options, please refer to Note 1 of the Company's Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the SEC on March 30, 2012 and included with this Proxy Statement. These amounts do not necessarily correspond to the actual value that may be recognized by the directors in the future.

The following table summarizes information with respect to each non-employee director's outstanding stock options at December 31, 2011:

Name	Outstanding Options at December 31, 2011			
	Number of Securities Underlying Unexercised Options # Exercisable	Number of Securities Underlying Unexercised Options # Unexercisable	Option Exercise Price \$	Option Expiration Date
Carl A. Bellini	50,000 <sup>(1)</sup>		0.82	Feb. 26, 2012
	21,250 <sup>(4)</sup>	8,750	0.17	Feb. 23, 2014
	12,500 <sup>(5)</sup>	17,500	0.22	May 12, 2015
	19,479 <sup>(6)</sup>	35,521	0.23	Aug. 09, 2015
Dennis H. Field	100,000 <sup>(1)</sup>		0.82	Feb. 26, 2012
	34,688 <sup>(3)</sup>	10,313	0.17	Nov. 27, 2013
	8,854 <sup>(6)</sup>	16,146	0.23	Aug. 09, 2015
Gerald J. Laber	30,000 <sup>(1)</sup>		0.82	Feb. 26, 2012
	21,250 <sup>(4)</sup>	8,750	0.17	Feb. 23, 2014
	10,625 <sup>(6)</sup>	19,375	0.23	Aug. 09, 2015
	8,125 <sup>(7)</sup>	21,875	0.20	Dec. 13, 2015
Jeffry B. Johnson	16,200 <sup>(1)</sup>		0.82	Feb. 26, 2012
	40,250 <sup>(2)</sup>	1,750	0.55	Feb. 25, 2013
	6,167 <sup>(3)</sup>	1,833	0.17	Nov. 27, 2013
	33,333 <sup>(5)</sup>	46,667	0.22	May 12, 2015
	17,708 <sup>(6)</sup>	32,292	0.23	Aug. 09, 2015
	4,983 <sup>(7)</sup>	13,417	0.20	Dec. 13, 2015

Philip A. Neri	3,125 <sup>(8)</sup>	26,875	0.37	Aug. 18, 2016
----------------	----------------------	--------	------	---------------

**Table of Contents**

- (1) These options were granted on February 27, 2007 and vest  $\frac{1}{48}$  per month from the date of grant.
- (2) These options were granted on February 26, 2008 and vest  $\frac{1}{48}$  per month from the date of grant.
- (3) These options were granted on November 28, 2008 and vest  $\frac{1}{48}$  per month from the date of grant.
- (4) These options were granted on February 24, 2009 and vest  $\frac{1}{48}$  per month from the date of grant.
- (5) These options were granted on May 13, 2010 and vest  $\frac{1}{48}$  per month from the date of grant.
- (6) These options were granted on August 10, 2010 and vest  $\frac{1}{48}$  per month from the date of grant.
- (7) These options were granted on December 14, 2010 and vest  $\frac{1}{48}$  per month from the date of grant.
- (8) These options were granted on August 19, 2011 and vest  $\frac{1}{48}$  per month from the date of grant.

**PROPOSAL 2: SHAREHOLDER PROPOSAL**

Mr. Michael Deutsch, located at 7000 Boulevard East 128C, Guttenberg, NJ 07093, is the beneficial owner of 142,500 shares of the Company's common stock and has submitted the following precatory, non-binding shareholder proposal for consideration at the upcoming annual meeting. The proposal and supporting statement, for which the Board of Directors accepts no responsibility, is set forth below exactly as the Company received it. Following the proposal, we explain why our Board of Directors recommends a vote against the proposal.

**Proponents Resolution**

RESOLVED:

That the shareholders of Scott's Liquid Gold Inc. urge its Board of Directors to promptly and clearly take action to amend Section 2.16 of the Bylaws of Scott's Liquid Gold Inc. adopted by its Board of Directors on July 13, 2011 and other relevant corporate documents to mandate cumulative voting for Directors.

**STATEMENT IN SUPPORT**

Cumulative Voting is defined in the website of the Securities and Exchange Commission as a type of voting process that helps strengthen the ability of minority shareholders to elect a director. This method allows shareholders to cast all of their votes for a single nominee for the board of directors when the company has multiple openings on its board.

The financial performance of the company has been unsatisfactory for many years. The Scott's Liquid Gold Annual Reports from 2000 and 2010 show that, in those 10 years:

Net Sales of all products were down approximately 50%

Number of Employees was down approximately 48%

Stockholders Equity was down approximately 48%

High Annual Stock Price was down approximately 69%

Cash and Equivalents was down approximately 91%

Advertising Expenditures were down approximately 95%

These results suggest that fresh voices are needed on the Board of Directors. The adoption of cumulative voting could increase the likelihood that badly needed viewpoints, possibly by investors who have acquired shares by significant open market purchases, rather than by grants of stock options, become members of the Board of Directors for the benefit of all stockholders.



## Table of Contents

### Board of Directors Response

#### **THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST PROPOSAL 2 FOR THE FOLLOWING REASONS:**

The Board of Directors does not believe that cumulative voting is in the best interests of the Company or its shareholders. The Company's present voting system, which is like that of a majority of publicly traded companies, provides that each share of common stock is entitled to one vote for each nominee for director. This system allows all shareholders to vote on the basis of their share ownership. The Board of Directors believes this voting system is the fairest and the most likely to produce an effective board of directors that will represent the interests of all of the Company's shareholders.

The Company and Board of Directors strongly believe that every director should represent the shareholders as a whole. In contrast, cumulative voting would permit shareholders representing a comparatively small number of shares to elect a director, possibly resulting in the election of directors who advocate for the positions of the small groups of shareholders responsible for their election rather than positions which are in the best interests of the Company as a whole and all its shareholders.

The presence on the Board of Directors of directors who were elected by, and are beholden to, small constituencies of shareholders and who advocate for the special interests of those constituencies could create partisanship and divisiveness among the members of the Board of Directors and impair the Board's ability to operate effectively as a governing body, to the detriment of the Company and all its shareholders.

Under Colorado law, every member of the Board of Directors is obligated to represent all shareholders of a corporation fairly and equally. The Company's current voting system encourages each director's sense of responsibility towards all our shareholders without special commitments or loyalties and thereby promotes compliance with director fiduciary duty obligations. As discussed above, a cumulative voting standard would have the opposite effect.

The Company has an effective governance and nominating process in place to ensure that each year it nominates a Board of Directors which represents all shareholders. Pursuant to the Company's Bylaws, a shareholder may recommend or nominate candidates for election to the Board of Directors. See "Shareholder Proposals" in this proxy statement and Section 2.14 in the Company's Bylaws for additional information regarding how you may recommend or nominate a director.

The current Board of Directors is committed to continuing its strong oversight of management and progressive corporate governance practices, which include safeguards to shareholder representation and director independence such (i) as an annually elected Board (as opposed to a classified board in which directors hold office for terms of longer than one year), (ii) a majority of independent directors on the Board, (iii) key Board Committees composed exclusively of independent directors, and (iv) transparent corporate governance guidelines and committee charters.

The proponent of this proposal has offered no evidence that cumulative voting would produce more qualified or effective board of directors or that it would enhance the financial performance or competitive position of the Company. Accordingly, the Board of Directors believes the present method of voting best promotes the election of directors who will represent the interests of our shareholders as a whole.

## **Table of Contents**

### **Vote Required**

The shareholder proposal is precatory and non-binding. The Company will not be required to take any action in response to the vote on the proposal. Because the implementation of cumulative voting would require an amendment to the Company's Articles of Incorporation, if the Board determined to adopt a cumulative voting standard on a voluntary basis, the Company would first need to submit to shareholders a proposal to amend the Articles of Incorporation at a subsequent annual meeting of shareholders.

**FOR THESE REASONS, OUR BOARD UNANIMOUSLY RECOMMENDS THAT**

**SHAREHOLDERS VOTE AGAINST THIS PROPOSAL.**

### **CERTAIN TRANSACTIONS**

The Company has indemnification agreements with each of its directors and executive officers. These agreements provide for indemnification and advancement of expenses to the full extent permitted by law in connection with any proceeding in which the person is made a party because the person is a director or officer of the Company. They also state certain procedures, presumptions and terms relevant to indemnification and advancement of expenses.

### **SECTION 16 REPORTS**

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and beneficial owners of more than 10% of the outstanding shares of the Company to file with the SEC reports regarding changes in their beneficial ownership of shares in the Company. To the Company's knowledge, based solely upon review of Forms 3, 4 and 5, and amendments thereto furnished to the Company, there was full compliance with all Section 16(a) filing requirements applicable to those persons for reports filed in 2011.

### **COMPANY ACCOUNTANTS**

#### **General**

Ehrhardt, Keefe, Steiner & Hottman PC served as the Company's independent auditors for the fiscal year ended December 31, 2011 and has been selected by the Audit Committee of the Board as the Company's independent auditors for the fiscal year ending December 31, 2012. Ehrhardt, Keefe, Steiner and Hottman PC has been the Company's independent auditors since June 2003. A representative of Ehrhardt, Keefe, Steiner & Hottman PC is expected to be present at the Annual Meeting of Shareholders and to have the opportunity to make a statement if the representative so desires. Such representative also is expected to be available to respond to appropriate questions at that time.

#### **Report of Audit Committee**

March 23, 2012

To the Board of Scott's Liquid Gold-Inc.:

We have reviewed and discussed with management the Company's audited financial statements. We have discussed with Ehrhardt, Keefe, Steiner & Hottman PC, its independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, as adopted in a rule of the Public Company Accounting Oversight Board (PCAOB). We have received and reviewed the written disclosures and the letter from the independent auditors required by applicable requirements of the PCAOB regarding the independent auditors' communications with the Audit Committee concerning independence and have discussed with the auditors the auditors' independence.

**Table of Contents**

Based on the reviews and discussions referred to above, we recommended to the Board that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and filed with the SEC.

The Audit Committee is composed of the three directors named below, all of whom are independent directors as defined in Rule 4200(a)(15) of the NASDAQ Stock Market listing standards.

The Board has adopted a written charter for the Audit Committee.

Submitted by the members of the Audit Committee of the Board.

Gerald J. Laber, Chairman

Dennis H. Field

Philip A. Neri

**The preceding information under the caption Report of Audit Committee shall be deemed to be furnished but not filed with the SEC.**

**Disclosure of Auditor Fees**

The following is a description of the fees billed to the Company by its independent auditor (Ehrhardt, Keefe, Steiner & Hottman PC) for each of the years ended December 31, 2011 and 2010.

<b>Audit and Non-Audit Fees</b>	<b>2011</b>	<b>2010</b>
Audit fees	\$ 75,500	\$ 60,478
Audit-related fees	2,147	1,185
Tax fees	2,500	2,500
All other fees		
<b>Total</b>	<b>\$ 80,147</b>	<b>\$ 64,163</b>

Audit fees are for the audit of the Company's annual financial statements and the review of the Company's Annual Report on Form 10-K. Audit-related fees include required review of certain filings with the SEC, issuance of consents, review of correspondence between the Company and the SEC and services concerning internal controls. Tax fees primarily include tax compliance, tax advice, including the review of, and assistance in the preparation of, federal and state tax returns.

**Policy on Pre-Approval of Audit and Non-Audit Services**

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by the independent public accountants. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services. The Audit Committee has delegated limited pre-approval authority to its chairperson. The chairperson is required to report any decisions to pre-approve such services to the full Audit Committee at its next meeting.

**SHAREHOLDER PROPOSALS AND DIRECTOR NOMINATIONS**

Shareholder proposals for inclusion in the Company's proxy materials relating to the next annual meeting of shareholders must be received by the Company on or before December 14, 2012. Also, persons named in the proxy solicited by the Board of the Company for its year 2012 annual meeting of shareholders may exercise discretionary authority on any proposal presented by a shareholder of the Company at that meeting if the Company has not received notice of the proposal by March 7, 2012.



## **Table of Contents**

### **Shareholder Proposals**

A shareholder proposal will only be considered at an annual meeting of the shareholders if such proposal is properly brought before the meeting pursuant to Section 2.13 of the Company's Bylaws or if such proposal is properly made in accordance with Rule 14-8 under the Securities Exchange Act of 1934 (the Exchange Act) and included in the notice of meeting given by the Board.

To bring a proposal before an annual meeting, a shareholder must (i) be a shareholder of record both at the time of giving notice and at the time of the meeting, (ii) be entitled to vote at the meeting, and (iii) comply with the requirements of Section 2.13 as to such business.

For a proposal to be properly brought by a shareholder, the shareholder must (i) provide Timely Notice (as defined below) thereof in writing and in proper form to the Secretary of the Company at the principal office of the Company and (ii) provide any updates or supplements to such notice as required by Section 2.13. To be timely, a shareholder's notice must be delivered to, or mailed and received at, the principal office of the Company not less than 120 days nor more than 150 days prior to the one-year anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is more than 30 days before or after such anniversary date, notice by the shareholder to be timely must be so delivered, or mailed and received, not later than the later of (i) 90 days prior to such annual meeting, or (ii) the date that is 10 days after the day on which public disclosure of the date of such annual meeting was first made (such notice within such time periods, Timely Notice).

To be in proper form, a shareholder's notice must set forth certain information as described in the Bylaws regarding (i) the proposing shareholder, beneficial owner of the shares, if different from the shareholder, the shareholder's affiliates and any person acting in concert with the shareholder (collectively, a Proposing Person), and (ii) any proxy arrangements, synthetic equity interests, stock borrowing arrangements, performance fees related to any increase or decrease in the price or value of the Company's shares, other persons responsible for formulating or involved in the decision to bring the proposal before the meeting, and any other information relating to the Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies or consents by such Proposing Person in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act.

Additionally, as to each item of business that the shareholder proposes to bring before the annual meeting, the shareholder's notice must set forth: (i) a reasonably brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, (ii) the text of the proposal or business (including the text of any resolutions proposed for consideration), and (iii) a reasonably detailed description of all agreements, arrangements and understandings (a) between or among any of the Proposing Persons or (b) between or among any Proposing Person and any other person or entity (including their names) in connection with the proposal of such business.

The shareholder providing notice of a proposal to be brought before an annual meeting is responsible for further updating and supplementing the information previously provided to the Company in connection with the proposal so that the information provided or required to be provided is true and correct as of the record date of the annual meeting and through the date of the meeting or any adjournment or postponement thereof.

No business may be brought by a shareholder before an annual meeting other than in compliance with Section 2.13 of the Company's bylaws.

## **Table of Contents**

### **Shareholder Director Nominations**

To nominate a person for election to the Board at a meeting, a shareholder must (i) be a shareholder of record both at the time of giving the notice provided for in Section 2.14 of the Company's Bylaws and at the time of the meeting, (ii) be entitled to vote at the meeting, and (iii) comply with the requirements of Section 2.14 as to such nomination.

For a shareholder to make any nomination of a person for election to the Board at an annual meeting, the shareholder must (i) provide Timely Notice (as defined above) thereof in writing and in proper form to the Secretary of the Company at the principal office of the Company and (ii) provide any updates or supplements to such notice as required by Section 2.14.

To be in proper form, a shareholder's notice to the Secretary of the Company must set forth certain information as described in the Bylaws regarding (i) the nominating shareholder, beneficial owner of the shares, if different from the shareholder, the shareholder's affiliates and any person acting in concert with the shareholder (collectively, a Nominating Person), and (ii) any proxy arrangements, synthetic equity interests, stock borrowing arrangements, performance fees related to any increase or decrease in the price or value of the Company's shares, other persons responsible for formulating or involved in the decision to bring the proposal before the meeting, and any other information relating to the Nominating Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies or consents by such Nominating Person in support of the election of directors in a contested election pursuant to Section 14(a) of the Exchange Act.

Additionally, as to each person whom a Nominating Person proposes to nominate for election as a director, (i) all information with respect to such proposed nominee that would be required to be set forth in a shareholder's notice pursuant to Section 2.14 if such proposed nominee were a Nominating Person, (ii) all information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14(a) under the Exchange Act (including such proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (iii) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among any Nominating Person, on the one hand, and each proposed nominee, his or her respective affiliates and associates and any other persons with whom such proposed nominee (or any of his or her respective affiliates and associates) is acting in concert, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K (or any successor regulations) if such Nominating Person were the registrant for purposes of such rule and the proposed nominee were a director or executive officer of such registrant, and (iv) a completed and signed questionnaire, representation and agreement as provided in Section 2.14.

The Company may also require any proposed nominee to furnish such other information (i) as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company in accordance with the Company's corporate governance guidelines or (ii) that could be material to a reasonable shareholder's understanding of the independence or lack of independence of such proposed nominee.

Any nominee for election to the Board must meet certain qualification criteria. A proposed nominee must (i) be capable of demonstrating to the reasonable satisfaction of Board or a committee thereof, in its sole discretion, an understanding of basic financial statements, (ii) be over 21 years of age, (iii) have relevant business experience (taking into account the business experience of the other directors) and high moral character, in each case as determined by the Board or a committee thereof, in its sole discretion, and (iv) satisfy such other criteria for service on the Board as may be set forth from time to time by the Company.

## **Table of Contents**

The shareholder providing notice of a nomination of a person for election to the Board is responsible for further updating and supplementing the information previously provided to the Company in connection with the proposal so that the information provided or required to be provided in such request or demand is true and correct as of the record date of the annual meeting and through the date of the meeting or any adjournment or postponement thereof.

No person may be nominated by a shareholder for election to the Board unless nominated in accordance with Section 2.14 of the Company's Bylaws.

## **2011 ANNUAL REPORT ON FORM 10-K**

Shareholders who wish to obtain, without charge, a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 in the form filed with the SEC should address a written request to Corporate Secretary, Scott's Liquid Gold-Inc., 4880 Havana Street, Denver, Colorado 80239. The Company's annual report to shareholders consists of such Form 10-K and accompanies this Proxy Statement.

## **SOLICITATION OF PROXIES**

The Company will pay the cost of soliciting proxies in the accompanying form. In addition to solicitation by mail, proxies may be solicited by officers and other regular employees of the Company by telephone, telegraph or by personal interview for which employees will not receive additional compensation. Arrangements also may be made with brokerage houses and other custodians, nominees and fiduciaries to forward solicitation materials to beneficial owners of the shares held of record by such persons, and the Company may reimburse such persons for reasonable out-of-pocket expenses incurred by them in so doing.

## **OTHER BUSINESS**

Except as discussed in this Proxy Statement, there are no other matters that the Board of Directors intends to present for action at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, or if a person named as a Company nominee for election as a Director should decline or be unable to serve, the persons named as proxy holders are authorized to vote the shares according to their discretion. If the Chairman of the Annual Meeting determines that any matter is not properly brought before the Annual Meeting, the Chairman will announce this at the Annual Meeting and the matter will not be considered.

The Company has received notification that a shareholder of the Company, Mr. Michael Deutsch, intends to bring four proposals from the floor of the Annual Meeting (collectively, the Deutsch Floor Proposals). Such proposals may include:

A non-binding proposal to urge the Board of Directors to take action to revise the Company's Bylaws to separate the positions and functions of Chairman of the Board of Directors and Chief Executive Officer.

A repeal of Section 2.13 of the Company's Bylaws regarding advance notice of shareholder proposals.

A repeal of Section 2.14 of the Company's Bylaws regarding shareholder nomination of candidates for election to the Board of Directors.

A non-binding proposal to urge the Board of Directors to not issue stock options at less than the most recent quarterly calculation of shareholders' equity per share.

The Board of Directors has not endorsed any of the Deutsch Floor Proposals and does not believe they would be in the best interests of the Company or its shareholders. Therefore, the Board of Directors strongly urges any shareholders who attend the Annual Meeting to vote against the Deutsch Floor Proposals if they are





**Table of Contents**

properly presented at the Annual Meeting by Mr. Deutsch. Additionally, it is the intention of the persons named as proxies in the accompanying form of proxy to exercise their discretionary authority to vote against each of the Deutsch Floor Proposals if they are properly presented at the Annual Meeting. If any other matter requiring a vote of the Shareholders should arise, the persons named in the accompany form of proxy will exercise their discretionary authority to vote in accordance with their best judgment.

The Board of Directors does not support the Deutsch Floor Proposals for many reasons, including without limitation, the following:

*Chair and CEO Role.* Mr. Goldstein serves as both the Chairman of the Board and the Chief Executive Officer of the Company. The Company believes this is appropriate in light of Mr. Goldstein's significant experience and leadership roles with the Company, and his in-depth knowledge of consumer products and the Company's management, marketplace, customers, marketing, sales and strategic vision. The Company further believes Mr. Goldstein's effectiveness in promoting the Company's products and forming new business relationships is significantly enhanced by his role as both Chairman of the Board and Chief Executive Officer.

*Advance Notice of Proposals.* Section 2.13 is the Company's advance notice requirement regarding shareholder proposals. Most public companies have an advance notice bylaw provision. Such provisions allow for the thoughtful consideration and evaluation of all proposals and for the orderly conduct of shareholder meetings. The 120 day advance notice requirement contained in Section 2.13 is consistent with both the SEC's rules for shareholder proposals and other advance notice bylaw provisions adopted by the vast majority of public companies. This time frame allows for appropriate deliberation by the Board consistent with its fiduciary duties and gives the Company time to consider possible inclusion of the proposal in its proxy materials. Given that such proxy materials must be prepared and delivered to shareholders, brokers and other street name holders well in advance of the annual meeting, the 120 day time frame is both common and appropriate.

*Shareholder Nominations.* Section 2.14 sets forth requirements for shareholder submissions of director candidates. Absent this provision, there is no formal process by which shareholders may require the Board to consider shareholder proposed candidates to potentially include them in the Company's proxy materials. Historically, the Board has voluntarily taken shareholder suggestions into consideration. Like the advance notice provision, this formal process allows for appropriate deliberation by the Board consistent with its fiduciary duties and gives the Company time to consider possible inclusion of the nominee in its proxy materials.

*Option Pricing Limitation.* In response to shareholder proposals at the 2011 annual shareholder meeting, the Company voluntarily amended its equity plan to set exercise prices 20% above market value and to limit the total number of awards that may be granted to directors and officers. The Company believes that the proposed further adjustment is out of market and, among other things, puts the Company at a disadvantage with respect to recruiting talented leadership at the executive and director levels. Further, the Company believes that the amendment of a specific provision of a Company's equity plan is not a proper shareholder purpose.

The above Notice and Proxy Statement are sent by order of the Board of Directors.

/s/ Jeffrey R. Hinkle

Corporate Secretary

Denver, Colorado

April 6, 2012

**Table of Contents**

**APPENDIX A**

**COMPENSATION COMMITTEE CHARTER**

SCOTT S LIQUID GOLD-INC.

**COMPENSATION COMMITTEE RESOLUTION**

April 2011

RESOLVED, that the members of the Compensation Committee shall consist of at least two or more outside Directors of the Company as determined by the Board of Directors from time to time;

RESOLVED, that the Compensation Committee of the Board of Directors shall have the following authority and responsibilities:

1. To review the development of an executive compensation philosophy for the Company; and to obtain all relevant data and information to perform its functions, including the retention of outside consultants at the Company's expense, if necessary;
2. To review all executive compensation proposals, including recommendations as to salaries, bonuses, determinations of stock grants under various stock plans and other executive benefits and perquisites;
3. To review the duties and responsibilities of the executive officers over time; and to recommend adjustments to compensation of executive officers up or down as appropriate;
4. To review the appropriate mix of variable versus fixed compensation for the Company's executives and to make recommendations on this issue, as appropriate;
5. To review the Company's bonus and other long-term incentive plans and to determine if procedures followed historically are the most effective; and
6. To consider, subject to approval by the whole Board of Directors and/or the shareholders where necessary and appropriate, any request or proposal for any loan by the Company to directors, officers or other insiders of the Company.

**Table of Contents**

**VOTE BY INTERNET - [www.proxymvote.com](http://www.proxymvote.com)**

*SCOTT S LIQUID GOLD-INC.*

*4880 HAVANA ST.*

*DENVER, CO 80239*

*ATTN: SHELLEY KENNISON*

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M46162-P24322      KEEP THIS PORTION FOR YOUR RECORDS  
DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**SCOTT S LIQUID GOLD-INC.**

**The Board of Directors recommends you vote**

**FOR the following nominees:**

**For All**   **Withhold All**   **For All Except**   To withhold authority to vote for any individual nominee(s), mark **For All Except** and write the number(s) of the nominee(s) on the line below.



**Table of Contents**

**Important notice regarding availability of proxy materials for the Annual Meeting of Shareholders to be held on**

**May 16, 2012 or any adjournment thereof: The Proxy Statement for the Annual Meeting,**

**the form of proxy and the Annual Report on Form 10-K for the year ended December 31, 2011**

**are available at the Company's website at [www.scottsliquidgold.com](http://www.scottsliquidgold.com) under the**

**Company & Investor Relations tab.**

M46163-P24322

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held May 16, 2012**

The enclosed proxy is solicited by and on behalf of the Board of Directors of Scott's Liquid Gold-Inc., a Colorado corporation (the "Company"), for use at the Company's Annual Meeting of Shareholders to be held at 9:00 a.m., Mountain Time, on Wednesday, May 16, 2012 at the Company's offices, 4880 Havana Street, Denver, Colorado 80239, or any adjournment thereof. This Proxy Statement and the accompanying form of proxy are first being mailed or given to the shareholders of the Company on or about April 12, 2012.

Any shareholder signing and mailing the enclosed proxy may revoke it at any time before it is voted by giving written notice of the revocation to the Company's Corporate Secretary, by voting in person at the meeting or by filing at the meeting a later executed proxy.

By signing the proxy, you revoke all prior proxies and appoint Mark E. Goldstein and Jeffrey R. Hinkle and each of them acting in the absence of the other, with full power of substitution, as your proxies to vote all your shares on the matters shown on the reverse side and any other matters which may come before the Annual Meeting and any adjournment thereof.

If no choice is specified, the proxy will vote FOR Item 1 and AGAINST Item 2. For any other matters that may properly come before the meeting or any adjournment thereof, the proxy will vote as the Board of Directors recommends.

**Continued and to be signed on reverse side**