SCOTTS LIQUID GOLD INC
Form 10-K
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-13458

SCOTT'S LIQUID GOLD-INC.

(Name of small business as specified in its charter)

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

4880 Havana Street, Suite 400, Denver, CO 80239

(Address of principal executive offices and Zip Code)

(303) 373-4860

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

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

The aggregate market value of the common stock held by non-affiliates of the issuer was $3,359,303 on June 30, 2015.

As of March 29, 2016, there were 11,710,745 shares of common stock, $0.10 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III is incorporated by reference to the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be filed within 120 days after December 31, 2015.

CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K (this “Report”) contains “forward-looking statements” within the meaning of U.S. federal securities laws. All statements, other than statements of historical facts, included in this Report that address activities, events, or developments with respect to our financial condition, results of operations, or economic performance that we expect, believe, or anticipate will or may occur in the future, or that address plans and objectives of management for future operations, are forward-looking statements. You can typically identify forward-looking statements by the use of words, such as “may,” “could,” “should,” “assume,” “project,” “believe,” “anticipate,” “expect,” “esti “potential,” “plan,” and other similar words. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and our performance inherently involve 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:

- changing consumer preferences and the continued acceptance of each of our significant products in the marketplace;
- the degree of success of any new product or product line introduction by us including our Scott’s Liquid Gold® Floor Restore product, which we introduced late in the fourth quarter of 2013;
- competitive factors, including any decrease in distribution of (i.e., retail stores carrying) our significant products;
- continuation of our distributorship agreement for Montagne Jeunesse skin care products and Batiste Dry Shampoos;
- the need for effective advertising of our products and limited resources available for such advertising;
- new competitive products and/or technological changes;
- dependence upon third party vendors and upon sales to major customers;
- the availability of necessary raw materials and potential increases in the prices of these raw materials;
- changes in the regulation of our products, including applicable environmental and U.S. Food And Drug Administration (“FDA”) regulations;
- the continuing availability of financing on terms and conditions that are acceptable to us;
- future losses which could affect our liquidity;
- the loss of any executive officer; and
- other matters discussed in this Report, including the risks described in the Risk Factors section of this Report.

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

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PART I

ITEM 1. BUSINESS

General

Scott’s Liquid Gold-Inc., a Colorado corporation, was incorporated on February 15, 1954. Through our wholly-owned subsidiaries, we develop, manufacture, market and sell quality household and skin and hair care products. These products include:

- Scott’s Liquid Gold®, our wood cleaner and preservative that has been sold in the United States for over 60 years;
- Alpha Hydrox®, our skin care brand, which was one of the first to use alpha hydroxy acids (“AHAs”);
- Our Neoteric Diabetic® product which was specially developed to address the skin conditions of persons living with diabetes;
- Montagne Jeunesse face masque sachets, which are manufactured by another company and distributed exclusively by us in the United States under a distribution agreement with the manufacturer; and
- Batiste Dry Shampoo, which is manufactured by another company and distributed exclusively by us to the specialty retailer channel in the United States under a distribution agreement with the manufacturer.

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

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

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

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

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

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

Strategy

We are focused on strategies that we believe will enhance our long-term financial health and deliver long-term shareholder value. In order to achieve these objectives, we plan to generate continued growth of our existing brands and products, as well as pursue new opportunities to develop, acquire or distribute new brands and products. We believe that we made substantial progress on increasing our profitability and increasing the value of our common stock during 2015.

For 2016, we plan to pursue the following primary goals: (1) continue to increase sales by strengthening and broadening consumer awareness of our products; (2) continue to add additional products to the mix of products that one or more of our existing major customers already buy from us; (3) continue to obtain new distribution of our products at retailers that currently do not buy products from us; and (4) continue to evaluate potential products to be developed, acquired, manufactured and/or distributed by us.

In order to achieve these goals, we made a strategic decision to, among other things, increase our advertising and marketing spending in 2015 and 2016 compared to the prior several years. We believe it is necessary and in our long-term best interests for us to make significant investments in 2016 in the brands and products that we own. In 2015 we invested in consumer research, creative development and production of advertising and marketing assets for our new Alpha ™ Skin Care line of products (formerly our Alpha Hydrox® Skin Care line of products) and our existing Scott's Liquid Gold® line of products. In 2016 our investments will be in the advertising and marketing of these products to consumers using the benefits of our investments in 2015. We do not expect to recognize in 2016 the full benefits of the investments that we are making in 2016. Instead, we anticipate seeing the positive benefits over future periods.

Household Products

Scott's Liquid Gold® Wood Cleaner and Preservative has been our core product since our inception. It has been sold in the United States for over 60 years. Unlike a furniture polish, our product contains natural oils that penetrate the wood's surface to clean, replace lost moisture, minimize the appearance of scratches and bring out the natural beauty of wood. We have also introduced an additional wood care product in a wipe form and a wood wash product. Our Dust 'N Go pre-moistened cloth wipes are quick, easy and convenient dusting wipes for wood and numerous other surfaces. Our wood wash product simply and safely cleans all types of wood surfaces. Late in the fourth quarter of 2013, we introduced our Scott's Liquid Gold® Floor Restore product. This product is a quick and easy way to renew and protect hardwood floors.

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

Household products accounted for 21.8% of our consolidated net sales in 2015 and 24.2% in 2014. We continually evaluate potential new household products to be developed, acquired, manufactured and/or distributed by us.

Skin and Hair Care Products

In 1992, we began to develop, manufacture, market and sell skin care products under the trade name of Alpha Hydrox®. These products include facial care products, a body lotion, a body wash and a foot cream. Our Alpha Hydrox® skin care brand was one of the first to use AHAs. Products containing AHAs gently slough off dead skin cells to promote a healthier, more youthful appearance and help to diminish fine lines and wrinkles. Starting in 2016, our Alpha Hydrox® Skin Care line of products will be marketed and sold under the trade name of Alpha ™ Skin Care. There were several reasons for the change in names, including the desire to reflect that our line of skin care products is broader than just products containing AHAs.

Our Neoteric Diabetic® Healing Cream product was introduced in 2001. This product was developed to address the skin conditions of persons living with diabetes, caused by poor blood circulation. Our healing cream is a therapeutic moisturizer that provides a clinically proven and patented treatment for dry skin by helping to increase blood circulation and speed the healing of minor scrapes and cuts.

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

In the fourth quarter of 2009, we became the exclusive distributor in the United States for Batiste Dry Shampoo with the exception of certain warehouse stores and governmental entities. Our new distribution agreement with the manufacturer of Batiste Dry Shampoo, Church & Dwight Co. Inc. (“Church & Dwight”), went into effect on January 1, 2015. Under the new distribution agreement we continue as an exclusive distributor in the United States of Batiste Dry Shampoo, but are limited to the specialty retailer channel. The specialty retailer channel includes primarily beauty supply stores, such as Ulta Salon, Cosmetics & Fragrance, Inc. (“Ulta”), our largest customer, apparel retailers, department stores, hair salons and distributors to hair salons. Dry shampoo is a quick and convenient way to refresh hair between washes. Batiste was one of the innovators of dry shampoo. We believe that there is a large and fast-growing market for dry shampoo. See “Manufacturing and Suppliers” in this Item 1 below for information on the terms of our agreement with Church & Dwight.

Skin and hair care products accounted for 78.2% of our consolidated net sales in 2015 and 75.8% in 2014. We continually evaluate potential new skin and hair care products as well as other beauty care products to be developed, acquired, manufactured and/or distributed by us.

Marketing and Distribution

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

Our products are sold nationally, both directly through our sales force and indirectly through independent brokers and manufacturers' representatives, to mass marketers, drugstores, supermarkets, hardware stores and other retail outlets and to wholesale distributors.

In 2015 and 2014, Ulta accounted for approximately 31% and 26%, respectively, of our skin and hair care products and approximately 24% and 20% of our aggregate net sales on a consolidated basis in 2015 and 2014, respectively. In 2015 and 2014, Wal-Mart Stores, Inc. ("Wal-Mart") accounted for approximately 34% and 36%, respectively, of our net sales of household products. With regard to our skin and hair care products, Wal-Mart accounted for approximately 10% and 12% of our net sales in 2015 and 2014, respectively. Wal-Mart accounted for approximately 15% and 18% of our aggregate net sales on a consolidated basis in 2015 and 2014, respectively. In 2015 and 2014, TJ Maxx accounted for approximately 21% and 5%, respectively, of our skin and hair care products and approximately 16% and 4% of our aggregate net sales on a consolidated basis in 2015 and 2014, respectively.

As is typical in our industry, we do not have a long-term contract with Wal-Mart, TJ Maxx, Ulta or any other retail customer.

We also use our Scott's Liquid Gold and Neoteric Cosmetics websites for sales of our products directly to consumers. Such sales accounted for approximately 8% and 5% of total net sales in 2015 and 2014, respectively.

Our household and skin and hair care products are available in limited distribution in Canada and other foreign countries. Currently, foreign sales are made to distributors who are responsible for the marketing of the products, and we are paid for these products in United States dollars.

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

Manufacturing and Suppliers

We owned all of our manufacturing facilities until February 1, 2013, when we sold the facilities and entered into a lease with the new owner for a portion of the facilities. Please see Note 10 to our Consolidated Financial Statements in Item 8 for information on our leasing back certain of the manufacturing facilities that we sold. We own and operate all of our manufacturing equipment. We manufacture all of our products with the exception of the following products: (1) those products for which we act as a distributor; and (2) our Scott's Liquid Gold® Dust 'N Go wipes. For all of our products, we must maintain sufficient inventories to ship most orders as they are received.

Quality control is enforced at all stages of production, as well as upon the receipt of raw materials from suppliers. Raw materials are purchased from a number of suppliers and, at the present time, are readily available. However, we do not have long term contracts with our suppliers and any contracts we do have with suppliers may be terminated at any time. Our sole supplier for the oxygenated oil used in our Neoteric Diabetic® Healing Cream product is a French company with which we have a non-exclusive supply agreement. In addition, we have sole suppliers for two of the polymers used in our Scott's Liquid Gold® Floor Restore product. We believe that we have good relationships with all of our suppliers.

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

In 2001, our wholly-owned subsidiary, Neoteric Cosmetics, Inc. ("Neoteric"), commenced purchases of skin care sachets from Montagne Jeunesse under a distributorship agreement covering the United States. Pursuant to our distribution agreement with Montagne Jeunesse that became effective on September 15, 2014, we continue as the exclusive distributor to market and sell Montagne Jeunesse's skin care sachets in the United States. The initial term of the distribution agreement with Montagne Jeunesse expires on September 15, 2017 and automatically renews for two year terms, unless terminated at the end of any such term upon six months prior notice.

Under the terms of the agreement, Neoteric agreed, among other things: (1) not to distribute during the duration of the agreement any goods of the same description as and which compete with the Montagne Jeunesse products; (2) to use our commercially reasonable endeavors to develop, promote and sell the products in the United States and to expand the sale of the products to all potential purchasers by all reasonable and proper means; (3) to purchase certain core products; and (4) to maintain an inventory of the products for our own account for sale of these products throughout the United States. Montagne Jeunesse agreed to use commercially reasonable efforts to meet all of our orders for the products. The initial pricing terms for the products were negotiated with Montagne Jeunesse. Any changes to the prices must be mutually agreed to by both parties and must be agreed to at least six months in advance. Neoteric may not assign or transfer any rights or obligations under the agreement or subcontract the performance of any obligation.

Under our new distribution agreement with Church & Dwight that became effective on January 1, 2015, we are the exclusive distributor of Batiste Dry Shampoo products in the specialty retailer channel in the United States. The specialty retailer channel includes primarily beauty supply stores, such as Ulta, our largest customer, apparel retailers, department stores, hair salons and distributors to hair salons. Church & Dwight retained the rights to sell Batiste products to the remainder of the market in the United States.

The agreement provides that we will not be permitted to manufacture, distribute or sell any products that are competitive with Batiste Dry Shampoo products. The initial pricing terms for the Batiste products were negotiated with Church & Dwight, but may be increased by Church & Dwight at any time upon 90 days' prior written notice of any price increase. The initial term of the agreement runs through December 31, 2016 and will automatically renew for successive one year terms until it is terminated by either party upon 120 days' prior written notice.

Competition

Both the household and skin and hair care products markets are highly competitive. We compete in both markets against a range of competitors, most of which are significantly larger and have greater financial resources, name recognition and product and market diversification than us. We compete in both categories primarily on the basis of quality and the distinguishing characteristics of our products. The wood care and air freshener product categories are dominated by three to five companies that are significantly larger than us and each of these competitors produces several competing products. In the skin and hair care category, several of our competitors are significantly larger than us and each of these competitors produces several competing products. Some of these companies also manufacture products with AHAs with which our Alpha Hydrox® products must compete.

Regulation

We are subject to various federal, state and local laws and regulations that pertain to the types of consumer products that we manufacture and sell. Many chemicals used in consumer products, some of which are used in several of our product formulations, have come under scrutiny by various state governments and the Federal government. These chemicals are called volatile organic compounds ("VOCs"), which arguably contribute to the formation of ground level ozone. Many states as well as the Federal government have passed regulations that limit the amount of VOCs allowed in various categories of consumer products. All of our products currently meet the most stringent VOC regulations and may be sold throughout the United States. Any new or revised VOC regulations developed by various states or the

Federal government may apply to our products and could potentially require reformulation of those products in the future. Limitation of VOC content in consumer products by both state and Federal governments will continue to be part of regulatory efforts to achieve compliance with clean air regulations. We continue to monitor all environmental regulatory activities and believe that we have done all that is necessary to satisfy the current requirements of the Federal Clean Air Act and the laws of various state governments.

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

The FDA's National Center for Toxicological Research has periodically been investigating the effect of long term exposure to AHAs since 2003. On December 31, 2003, the FDA published a call for data on certain ingredients in various products, including AHAs that are part of wrinkle remover products. Manufacturers were asked to submit any data supporting the reclassification of these cosmetic products as over-the-counter drugs. In January 2005, the FDA issued final guidance to the effect that products containing AHAs should alert users that those products may increase skin sensitivity to sun and possible sunburn and the steps to avoid such consequences. On March 20, 2014, the FDA published a set of Q&As that dealt with both long term exposure and drug/cosmetic issues.

In the 2014 Q&As, the FDA restated its traditional position that certain AHA products intended for therapeutic use, such as acne treatments or skin lighteners, are considered drugs. However, the FDA also confirmed that other AHA products, including those marketed by us, are considered cosmetics and therefore are not subject to more stringent regulations applicable to drugs. The Q&A also reported on the results of two studies on the issue of skin damage caused by UV rays, and the potential photocarcinogenicity of AHA products. The studies concluded that applying AHA products to the skin resulted in increasing UV sensitivity, but that the effect was completely reversible. In addition another study on potential photocarcinogenesis found that AHA products had no effect on the process. Accordingly, we believe we are appropriately marketing our products as cosmetics, and our labeling fully complies with the FDA's guidance.

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

Employees

We employ 67 people of which 25 full-time and two part-time work in plant and production related functions and 38 work in administrative, sales and advertising functions. No contracts exist between us and any union. We monitor wage and salary rates in the Rocky Mountain area and pursue a policy of providing competitive compensation to our employees. The compensation of our executive officers is subject to annual review by the Compensation Committee of our Board of Directors. Additional benefits that we provide for our employees include medical, vision and dental plans, short-term disability, life insurance, a 401(k) plan with matching contributions for employees earning $50,000 or less per annum and an employee stock ownership (ESOP) plan. We consider our employee relations to be satisfactory.

Patents and Trademarks

At present, we own one patent for our Neoteric Diabetic® Healing Cream. Additionally, we actively use our registered trademarks for Scott's Liquid Gold®, Touch of Scent®, Alpha Hydrox® and Neoteric® in the United States and have registered trademarks in a number of additional countries. Our registered trademarks protect names and logos relating to our products as well as the design of boxes for certain of our products.

During 2015 and 2014, our expenditures for research and development were insignificant.

Available Information and Code of Ethics

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

We will also provide to any person without charge, upon request (see below for instructions), a copy of our Code of Business Conduct and Ethics Policy.

A request for our reports filed with the SEC or our Code of Business Conduct and Ethics Policy may be made to: Corporate Secretary, Scott's Liquid Gold-Inc., 4880 Havana Street, Suite 400, Denver, Colorado 80239.

ITEM 1A. RISK FACTORS.
The following is a discussion of certain risks that may affect our business. These risks may negatively impact our existing business, future business opportunities, our financial condition or our financial results. In such case, the trading price of our common stock could also decline. Additional risks and uncertainties not presently known to us, or that we currently see as immaterial, may also negatively impact our business.

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

Prior to 2013, we experienced significant losses over an extended number of years. These losses resulted primarily from declining sales of our skin care products and our primary household products as well as the costs and expenses associated with the ownership of our facilities. Maintaining or increasing our revenues is uncertain and involves a number of factors, including consumer acceptance of our products, distribution of our products and other matters described below.

Our cash flow is dependent upon operating cash flow, available cash and available funds under our financing agreement with Summit Financial Resources, L.P. (“Summit”).

Because we are dependent on our operating cash flow, any loss of a significant customer, any further decreases in the distribution of our skin and hair care or household products, new competitive products affecting sales levels of our products or any significant expense not included in our internal budget could result in the need to raise cash. Our agreement with Summit has a term that expires on January 1, 2017, but it may be renewed for additional 12 month periods unless either party elects to cancel in writing at least 60 days prior to January 1, 2017 and thereafter on the anniversary date of each 12 month period. We have no other arrangements for any external financing of debt or equity, and any such financing may not be available on acceptable terms. In order to improve our operating cash flow, we need to continue to increase our revenues and/or further reduce our costs.

Unfavorable economic conditions could adversely affect demand for our products.

Unfavorable and uncertain economic conditions in recent years have adversely affected, and in the future may adversely affect, consumer demand for some of our products, resulting in reduced sales volume. Factors that can affect consumer demand include rates of unemployment, consumer confidence, health care costs, fuel and other energy costs and other economic factors affecting consumer spending behavior.

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

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

In both skin and hair care and household products, our competitors include some of the largest consumer products companies in the United States.

The markets in which our products compete are intensely competitive, and many of the other competitors in these markets are multi-national consumer products companies that are significantly larger than us. These large competitors have financial, technical, and other resources exceeding those available to us, and as a result, are able to regularly introduce new products and spend considerably more than we can on advertising. The distribution and sales of our products can be adversely impacted by the actions of our competitors, and we may have little or no ability to take action to prevent or mitigate these adverse impacts.

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

We believe the growth of our net sales is substantially dependent upon our ability to introduce our products to current and new consumers through advertising and marketing. At present, we have limited resources compared to many of our competitors to spend on advertising and marketing. Advertising and marketing can be important in reaching consumers, although the effectiveness of any particular advertisement and marketing cannot be predicted. Additionally, we may not be able to obtain optimal effectiveness at our current advertising and marketing budget even though we made a strategic decision to increase our advertising and marketing spending in 2015 and 2016 compared to the prior several years. Our limited resources to promote our products through advertising and marketing may adversely affect our net sales and operating performance.

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

If we are not successful in making ongoing sales of our newer products to retail stores or these products are not well received by consumers, our revenues could be materially and adversely affected. In particular, our operating results for 2016 could be significantly affected by the performance of our Scott's Liquid Gold® Floor Restore product that we introduced late in the fourth quarter of 2013. It is too early to judge the success of this product in the marketplace.

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

For more than a majority of our sales, we are dependent upon sales to a small number of major retail customers, including Ulta, which is our largest customer and Wal-Mart, which is our second largest customer. The easy access of consumers to our products is dependent upon these major retail stores and other retail stores carrying our products. The willingness of these customers (i.e., retail stores) to carry any of our products depends on various factors, including the level of sales of the product at their stores. Any declines in sales of a product to consumers can result in the loss of retail stores and a corresponding decrease in the distribution of the product. It is uncertain whether the consumer base served by these stores would purchase our products at other retail stores. In the past, sales of our products have been affected by retail stores which discontinue a product or carry the product in fewer stores.

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

If our agreements with Montagne Jeunesse or Church & Dwight are terminated, we will no longer be able to distribute Montagne Jeunesse or Batiste Dry Shampoo products and sales in our skin and hair care segment would be adversely affected. Please see “Manufacturing and Suppliers” in Item 1 for information on the terms of our agreements with Montagne Jeunesse and Church & Dwight.

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

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

Our sales are affected adversely by returns.

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

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

Regulations affecting our products include requirements of the FDA for cosmetic products and environmental regulations affecting emissions from our products. In the past, the FDA has mentioned the treatment of products with AHAs as drugs, which could make our production and sale of certain Alpha Hydrox® products more expensive or prohibitive. Also, in the past, we have been required to change the formulation of our household products to comply with environmental regulations and may be required to do so again in the future if the applicable regulations are further amended.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, on our networks. The secure processing, maintenance and transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations, and damage our reputation, which could adversely affect our future financial results and stock price.

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

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

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

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

Our stock price can be volatile and can decline substantially.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.
Not applicable.

ITEM 2. PROPERTIES.

Until February 1, 2013, we owned real property, buildings and related improvements located in Denver, Colorado consisting of four connected buildings and a parking garage (approximately 241,684 square feet in total) and about 16.3 acres of land (the “Property”). These buildings range in age from approximately 16 to 39 years (126,600 square feet having been added in 1995 and 1996). We sold the Property on February 1, 2013 and leased the portion of the Property used by our facilities back from the purchaser. Our facilities house our corporate headquarters and all of our manufacturing and warehouse operations, which are used by both of our operating segments. Please see Note 10 to our Consolidated Financial Statements in Item 8 for information on our leasing back of certain of the facilities that we sold. We believe that our current leased space will provide capacity for growth for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Market Information

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

2015			2014		
Three Months Ended	High	Low	Three Months Ended	High	Low
March 31	$0.99	$0.82	March 31	$0.80	$0.55
June 30	$1.45	$0.84	June 30	$0.73	$0.52
September 30	$1.66	$0.96	September 30	$0.79	$0.64
December 31	$1.54	$1.30	December 31	$0.96	$0.70

Shareholders

As of March 29, 2016, based on inquiry, we had approximately 708 shareholders of record.

Dividends

We did not pay any cash dividends during the two most recent fiscal years. No decision has been made as to future dividends.

Equity Plans

The following table provides, as of December 31, 2015, information regarding our 2005 and 2015 Stock Option Plans. We also have an employee stock ownership plan which invests only in our common stock, but which is not included in the table below.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
	1,393,013	$ 0.96	3,606,987

Equity compensation plans approved by security holders				
Equity compensation plans not approved by security holders	0		0	0
Total	1,393,013	$	0.96	3,606,987

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Critical Accounting Policies

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

Revenue Recognition

Our revenue recognition policy is significant because the amount and timing of revenue is a key component of our results of operations. We follow guidance issued by the Financial Accounting Standards Board ("FASB"), which requires that certain criteria be met in order to recognize revenue. If these criteria are not met, then the associated revenue is deferred until it is met. In our case, the criteria generally are met when we have an arrangement to sell a product, we have delivered the product in accordance with that arrangement, the sales price of the product is determinable and we believe that we will be paid for the sale.

We establish reserves for customer returns of our products and customer allowances. We estimate these reserves based upon, among other things, an assessment of historical trends, information from customers and anticipated returns and allowances related to current sales activity. These reserves are established in the period of sale and reduce our revenue in that period.

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

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

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

Income Taxes

Income taxes reflect the tax effects of transactions reported in the financial statements and consist of taxes currently payable plus deferred income taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred income tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when assets are recovered or settled. Deferred income taxes are also recognized for tax credits that are available to offset future income taxes. Deferred income taxes are measured by applying current tax rates to the differences between financial statement and income tax reporting. In assessing the need for a valuation allowance on our deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon whether future book income is sufficient to reverse existing temporary differences that give rise to deferred tax assets, as well as whether future taxable income is sufficient to utilize net operating loss and credit carryforwards. Assessing the need for, or the sufficiency of, a valuation allowance requires the evaluation of all available evidence, both negative and positive. For additional discussion, see Note 5, "Income Taxes," to our Consolidated Financial Statements in Item 8.

Inventory Valuation and Reserves

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

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 amends the guidance for revenue recognition to replace numerous industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts and customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in this ASU are effective for reporting periods beginning after December 15, 2017, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of the adoption. We are currently assessing the impact, if any, that the adoption of ASU 2014-09 will have on our financial statements.

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory,” (“ASU 2015-11”), which is intended to simplify the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method. Application of the standard, which should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. We are currently assessing the impact, if any, that the adoption of ASU 2015-11 will have on our financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”), which requires that all deferred tax liabilities and assets be classified as noncurrent amounts on the balance sheet. ASU 2015-

17 will be effective for interim and annual periods beginning after December 15, 2016 (January 1, 2017 for the Company) and may be applied prospectively or retrospectively. Early adoption of the standard is permitted. The Company early adopted this standard retrospectively on December 31, 2015. The adoption of this standard had no effect on the Company’s results of operations, financial condition or cash flows.

Results of Operations

Our consolidated net sales for 2015 were $29,188,400 compared to $24,343,600 for 2014, an increase of $4,844,800 or 19.9%. We saw a 24.2% increase in net sales of the skin and hair care products that we distribute for other companies and a 21.7% increase in net sales of our own line of skin care products. We saw an 8.0% increase in net sales of our household products. The reasons for the foregoing changes in net sales of our products are described below.

Our net income for 2015 was $4,779,900 compared to a net income of $2,093,400 for 2014, an increase of $2,686,500 or 128.3%. The increase in net income for 2015 compared to the net income for 2014 resulted primarily from: (1) increased sales; (2) changes in our trade promotions to our customers; (3) changes in costs of sales; (4) changes in operating expenses; and (5) the release of our deferred tax asset valuation allowance. See Note 5, “Income Taxes,” to our Consolidated Financial Statements in Item 8.

Summary of Results as a Percentage of Net Sales

	Year Ended December 31, 2015		2014	
Net sales				
Household products	21.8	%	24.2	%
Skin and hair care products	78.2	%	75.8	%
Total net sales	100.0	%	100.0	%
Cost of sales	57.6	%	56.2	%
Gross profit	42.4	%	43.8	%
Other revenue	0.1	%	0.2	%
	42.5	%	44.0	%
Operating expenses	34.6	%	35.1	%
Interest expense	0.1	%	0.1	%
	34.7	%	35.2	%
Income before taxes	7.8	%	8.8	%

Our gross margins may not be comparable to those of other companies that include all of the costs related to their distribution network in cost of sales because we, like some other companies, exclude a portion of these costs (i.e., freight out to customers) from gross margin. Instead, we include them as part of selling expenses. See Note 1(m) to our Consolidated Financial Statements in Item 8.

Comparative Net Sales

	Year Ended December 31, 2015	2014	Percentage Increase (Decrease)	
Scott’s Liquid Gold® and other household products	$6,359,100	$5,890,200	8.0	%
Total household products	6,359,100	5,890,200	8.0	%
Alpha Hydrox®, Diabetic cream and other skin care products	4,668,600	3,836,800	21.7	%
Montagne Jeunesse and Batiste Dry Shampoo	18,160,700	14,616,600	24.2	%
Total skin and hair care products	22,829,300	18,453,400	23.7	%
Total net sales	$29,188,400	$24,343,600	19.9	%

Sales of household products for 2015 accounted for 21.8% of consolidated net sales compared to 24.2% for the same period in 2014. During 2015, the sales of our household products were $6,359,100 as compared to $5,890,200 for the same period in 2014, an increase of $468,900 or 8.0%. This increase is attributable primarily to sales of our Scott’s Liquid Gold® Floor Restore product, which we introduced late in the fourth quarter of 2013.

During 2015, net sales of skin and hair care products accounted for 78.2% of consolidated net sales compared to 75.8% in 2014. The net sales of these products were $22,829,300 in 2015 compared to $18,453,400 in 2014, an increase of $4,375,900 or 23.7%.

The net sales of our Alpha Hydrox®, Neoteric Diabetic® and other manufactured skin care products were $4,668,600 in 2015 compared to $3,836,800 in 2014, an increase of $831,800 or 21.7%. This increase is primarily attributable to increased sales through our website and to other e-commerce customers.

The net sales of Montagne Jeunesse sachet products and Batiste Dry Shampoo were $18,160,700 in 2015 compared to $14,616,600 in 2014, an increase of $3,544,100 or 24.2%. This increase is primarily attributable to increased sales of Batiste Dry Shampoo among new and existing customers.

We paid our customers a total of $2,517,500 in 2015 for trade promotions to support price features, displays, slotting fees and other merchandising of our products, compared to total spending of $2,056,300 in 2014, an increase of $461,200 or 22.4%. The increase is due primarily to more trade promotions to obtain and support new distribution of our household products and more trade promotions related to higher sales of Batiste Dry Shampoo.

Typically, customers that return products to us take a credit on our invoice equal to the original sale price plus a handling charge ranging from 8-10% of the original sales price. Our product returns (as a percentage of net sales) were 0.33% in 2015 compared to 0.31% in 2014.

On a consolidated basis, cost of sales was $16,808,600 for 2015 compared to $13,691,700 for 2014, an increase of $3,116,900 or 22.8%, on a net sales increase of 19.9%. As a percentage of consolidated net sales, cost of sales was 57.6% in 2015 compared to 56.2% in 2014.

As a percentage of net sales of our household products, the costs of sales for our household products decreased to 47.0% of net sales in 2015 compared to 53.0% in 2014. This decrease is primarily attributable to a reduction in our costs of certain raw materials.

As a percentage of net sales of our skin and hair care products, the cost of sales for our skin and hair care products increased to 60.5% in 2015 compared to 57.3% in 2014. The increase reflects primarily a higher percentage of net sales of the skin and hair care products that we distribute for other companies, which have a higher cost than the skin care products that we manufacture.

Operating Expenses, Interest Expense and Other Income

	Year Ended December 31, 2015	2014	Percentage Increase (Decrease)	
Operating Expenses				
Advertising	$1,532,600	$812,700	88.6	%
Selling	5,311,200	4,848,900	9.5	%
General and administrative	3,258,200	2,876,000	13.3	%
Total operating expenses	$10,102,000	$8,537,600	18.3	%
Other Income	$26,900	$52,200	(48.5	%)
Interest Expense	$29,300	$29,200	0.3	%

Our operating expenses for 2015 were $10,102,000 compared to $8,537,600 for 2014, an increase of $1,564,400 or 18.3%. These expenses consisted primarily of advertising, selling, and general and administrative expenses, which are discussed below.

Advertising expenses for 2015 were $1,532,600 compared to $812,700 for 2014, an increase of $719,900 or 88.6%. This increase is primarily due to the investment we made in 2015 to reposition and grow our Alpha Hydrox® skin care products and Scott's Liquid Gold® household products in the marketplace. In 2015 we invested in consumer research, creative development and production of advertising and marketing assets for our new Alpha ™ Skin Care line of products (formerly our Alpha Hydrox® Skin Care line of products) and for our Scott's Liquid Gold® line of products. In 2016 our investments will be in the advertising and marketing of these products to consumers using the benefits of our investments in 2015. We do not expect to recognize in 2016 the full benefits of the investments that we are making in 2016. Instead, we anticipate seeing the positive benefits over future periods.

Selling expenses for 2015 were $5,311,200 compared to $4,848,900 for 2014, an increase of $462,300 or 9.5%. The increase is primarily attributable to: (1) an increase in the commissions that we paid our sales brokers in 2015 compared to 2014 due to higher sales in 2015; (2) adding personnel within our marketing organization starting in the third quarter of 2014; and (3) an increase in salaries, payroll taxes and health benefits for our sales organization.

General and administrative expenses for 2015 were $3,258,200 compared to $2,876,000 for 2014, an increase of $382,200 or 13.3%. The increase is primarily attributable to an increase in salaries, payroll taxes and health benefits for our executive and administrative staff as well as stock option compensation expense.

Other income in 2015 of $26,900 included $22,500 in interest earned on our cash reserves. This compares to other income in 2014 of $52,200 which included a $27,600 refund of an old and previously written off deposit and $14,400 in interest earned on our cash reserves.

Interest expense for 2015 was $29,300 for administrative fees paid to Summit. Interest expense for 2014 was $29,200 for administrative fees paid to Summit.

Income tax benefit (expense) was $2,504,500 and ($43,900) in 2015 and 2014, respectively. As discussed in Note 5 "Income Taxes," to our Consolidated Financial Statements in Item 8, as of December 31, 2014, we had a full valuation allowance against our net deferred tax assets. During the year ended December 31, 2015, we concluded that it was appropriate to reverse the valuation allowance. As a result of the release of our valuation allowance, our effective tax rate for the year ended December 31, 2015 differed significantly from the statutory federal income tax rate.

During 2015 and 2014, our expenditures for research and development were insignificant.

Liquidity and Capital Resources

Financing Agreements

Please see Note 1(e) to our Consolidated Financial Statements in Item 8 for information on our financing agreements with Summit and Wells Fargo Bank, National Association ("Wells Fargo"). Note 1(e) also includes a discussion of the accounting treatment of the funds borrowed pursuant to these agreements.

Liquidity

At December 31, 2015, we had approximately $7.2 million in cash on hand and the full $1.5 million of capacity under our credit line with Summit was available for future borrowing. For 2015, the primary components of working capital (exclusive of cash that was $1,268,500 more at December 31, 2015 compared to December 31, 2014) that significantly affected operating cash flows are the following: (1) net trade receivables were $26,400 less at December 31, 2015 than at December 31, 2014 due primarily to the timing of receiving payment; (2) inventory at December 31, 2015 was $2,008,900 more than at December 31, 2014 due primarily to increased gross sales activity and the timing of receiving certain inventory from our vendors and shipping our products to our customers; and (3) accounts payable and other accrued expenses at December 31, 2015 were $725,300 more than at December 31, 2014 due primarily to increased inventory and the timing of payments on our inventory.

We believe that our cash on hand at any time during 2016 could be significantly less than at December 31, 2015 due primarily to the following: (1) the timing of receiving and paying for the significant amounts of Batiste Dry Shampoo that we purchase every month from Church & Dwight; (2) the payment of performance bonuses in the first quarter of 2016 to our management, sales, administrative support and operations personnel that where accrued for in 2015; and (3) our significant investments in 2016 for advertising and marketing the brands and products that we own.

We anticipate that our existing cash and our cash flow from operations, together with our current borrowing arrangement with Summit, will be sufficient to meet our cash requirements for the next 12 months. We expect to make approximately $100,000 in capital expenditures in 2016 to purchase production equipment that will improve our manufacturing capabilities and efficiencies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Scott's Liquid Gold-Inc.

Denver, Colorado

We have audited the accompanying consolidated balance sheets of Scott's Liquid Gold-Inc. and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2015. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Scott's Liquid Gold-Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ EKS&H LLLP

March 30, 2016

Denver, Colorado

Consolidated Statements of Operations

	Year Ended December 31, 2015	2014
Net sales	$29,188,400	$24,343,600
Operating costs and expenses:		
Cost of sales	16,808,600	13,691,700
Advertising	1,532,600	812,700
Selling	5,311,200	4,848,900
General and administrative	3,258,200	2,876,000
Total operating costs and expenses	26,910,600	22,229,300
Income from operations	2,277,800	2,114,300
Other income	26,900	52,200
Interest expense	(29,300)	(29,200)
Income before income taxes	2,275,400	2,137,300
Income tax benefit (expense)	2,504,500	(43,900)
Net income	$4,779,900	$2,093,400
Net income per common share :		
Basic	$0.41	$0.18
Diluted	$0.40	$0.18
Weighted average shares outstanding:		
Basic	11,634,515	11,507,944
Diluted	11,916,038	11,781,839

See accompanying notes to these Consolidated Financial Statements.

Consolidated Balance Sheets

	December 31, 2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$7,165,100	$5,896,600
Trade receivables, net	1,014,700	1,041,100
Inventories, net	4,698,600	2,689,700
Income taxes receivable	0	3,700
Prepaid expenses	227,200	346,000
Total current assets	13,105,600	9,977,100
Property, plant and equipment, net	430,000	400,800
Deferred tax asset	2,556,200	0
Other assets	51,000	51,000
Total assets	$16,142,800	$10,428,900
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$1,238,000	$616,300
Accrued payroll and benefits	780,300	665,900
Income taxes payable	5,300	0
Accrued property taxes	23,400	34,200
Total current liabilities	2,047,000	1,316,400
Total liabilities	2,047,000	1,316,400
Shareholders’ equity:		
Common stock; $0.10 par value, authorized 50,000,000 shares; issued and outstanding 11,710,745 shares (2015) and 11,549,789 shares (2014)	1,171,100	1,155,000
Capital in excess of par	5,901,100	5,713,800
Retained earnings	7,023,600	2,243,700
Total shareholders’ equity	14,095,800	9,112,500
Total liabilities and shareholders’ equity	$16,142,800	$10,428,900

See accompanying notes to these Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

	Common Stock		Capital in Excess of Par	Retained Earnings	Total
	Shares	Amount			
Balance, December 31, 2013	11,446,800	$1,144,700	$5,615,500	$150,300	$6,910,500
Stock-based compensation	0	0	66,700	0	66,700
Stock options exercised	102,989	10,300	31,600	0	41,900
Net income	0	0	0	2,093,400	2,093,400
Balance, December 31, 2014	11,549,789	1,155,000	5,713,800	2,243,700	9,112,500
Stock-based compensation	0	0	162,200	0	162,200
Stock options exercised	160,956	16,100	25,100	0	41,200
Net income	0	0	0	4,779,900	4,779,900
Balance, December 31, 2015	11,710,745	1,171,100	5,901,100	7,023,600	14,095,800

See accompanying notes to these Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2015	2014
Cash flows from operating activities:		
Net income	$4,779,900	$2,093,400
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	160,800	173,600
Stock-based compensation	162,200	66,700
Loss on disposal of assets	0	800
Deferred income taxes	(2,556,200)	0
Change in operating assets and liabilities:		
Trade receivables	26,400	141,200
Inventories	(2,008,900)	521,500
Prepaid expenses and other assets	118,800	(76,800)
Income taxes payable (receivable)	9,000	(3,700)
Accounts payable and accrued expenses	725,300	(131,200)
Total adjustments to net income	(3,362,600)	692,100