

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED  
March 31, 2004

Commission File No. 0-5128

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

Colorado  
State of Incorporation

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

As of May 6, 2004, the Registrant had 10,356,000 of its \$0.10 par value common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended March 31,	
	2004	2003
Net sales	\$ 5,209,000	\$ 5,735,700
Operating costs and expenses:		
Cost Of Sales	2,750,600	2,858,000
Advertising	463,700	809,000
Selling	1,323,900	1,420,400
General and administrative	986,500	1,024,000
	5,524,700	6,111,400
Loss from operations	(315,700)	(375,700)
Interest income	10,700	16,300
Interest expense	(45,800)	(56,900)
	(350,800)	(416,300)
Income tax expense (benefit)	-	-
Net loss	\$ (350,800)	\$ (416,300)
Net loss per common share (Note 2):		
Basic	\$ (0.03)	\$ (0.04)
Diluted	\$ (0.03)	\$ (0.04)
Weighted average shares outstanding:		
Basic	10,356,000	10,153,100
Diluted	10,356,000	10,153,100

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

	March 31, 2004	December 31, 2003
	----- (Unaudited)	-----
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 2,786,300	\$ 3,498,600
Investment securities	306,100	305,300
Trade receivables, net of allowance for doubtful accounts of \$68,400 and \$82,000, respectively	1,646,300	1,108,600
Other receivables	35,800	35,400
Inventories	3,726,400	3,122,600
Prepaid expenses	371,800	256,400
Deferred tax assets	533,000	525,000
	-----	-----
Total current assets	9,405,700	8,851,900
Property, plant and equipment, net	14,750,400	14,909,300
Deferred tax assets	634,000	658,000
Other assets	30,700	33,400
	-----	-----
TOTAL ASSETS	\$24,820,800	\$24,452,600
	=====	=====
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 2,261,200	\$ 1,256,900
Accrued payroll and benefits	1,070,900	1,106,300
Other accrued expenses	533,300	552,500
Current maturities of long-term debt	887,000	878,000
	-----	-----
Total current liabilities	4,752,400	3,793,700
Long-term debt, net of current maturities	2,583,100	2,807,300
Deferred tax liabilities	1,167,000	1,183,000
	-----	-----
Total liabilities	8,502,500	7,784,000
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Common stock; \$.10 par value, authorized 50,000,000 shares; issued and outstanding 10,356,000 shares	1,035,600	1,035,600
Capital in excess of par	4,927,200	4,927,200
Accumulated comprehensive income	6,100	5,600
Retained earnings	10,349,400	10,700,200
	-----	-----
Shareholders' equity	16,318,300	16,668,600
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$24,820,800	\$24,452,600
	=====	=====

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

	Three Months Ended March 31,	
	2004	2003
<b>Cash flows from operating activities:</b>		
Net loss	\$ (350,800)	\$ (416,300)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	184,500	188,900
Changes in assets and liabilities:		
Trade and other receivables, net	(538,100)	753,300
Inventories	(603,800)	(657,900)
Prepaid expenses and other assets	(115,500)	(69,900)
Accounts payable and accrued expenses	949,700	1,014,700
Total adjustments to net income (loss)	(123,200)	1,229,100
Net Cash Provided (Used) by Operating Activities	(474,000)	812,800
<b>Cash flows from investing activities:</b>		
Purchase of investment securities	-	(495,600)
Proceeds from sale or maturity of investment securities	-	500,000
Purchase of property, plant & equipment	(23,100)	(9,700)
Net Cash Provided (Used) by Investing Activities	(23,100)	(5,300)
<b>Cash flows from financing activities:</b>		
Principal payments on long-term borrowings	(215,200)	(204,200)
Net Cash Used by Financing Activities	(215,200)	(204,200)
Net Increase (Decrease) in Cash and Cash Equivalents	(712,300)	603,300
Cash and Cash Equivalents, beginning of period	3,498,600	2,786,400
Cash and Cash Equivalents, end of period	\$ 2,786,300	\$ 3,389,700
Supplemental disclosures:		
Cash Paid during period for:		
Interest	\$ 46,000	\$ 57,200
Income taxes	\$ 1,700	\$ 1,000

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

Note 1. Summary Of Significant Accounting Policies

(a) Company Background

Scott's Liquid Gold-Inc. (a Colorado corporation) was incorporated on February 15, 1954. Scott's Liquid Gold-Inc. and its wholly owned subsidiaries (collectively, the "Company") manufacture and market quality household and skin care products. In the first quarter of 2001, the Company began acting as a distributor in the United States of beauty care products contained in individual sachets and manufactured by Montagne Jeunesse. The Company's business is comprised of two segments, household products and skin care products.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

(c) Use of Estimates

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

(d) Cash Equivalents

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

(e) Investments in Marketable Securities

The Company accounts for investments in marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities", which requires that the Company classify investments in marketable securities according to management's intended use of such investments. The Company invests its excess cash and has established guidelines relative to diversification and maturities in an effort to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. The Company considers all investments as available for use in its current operations and, therefore, classifies them as short-term, available-for-sale investments. Available-for-sale investments are stated at fair value, with unrealized gains and losses, if any, reported net of tax, as a separate component of shareholders' equity and comprehensive income (loss). The cost of the securities sold is based on the specific identification method. Investments in corporate and government securities as of March 31, 2004, are scheduled to mature within one year.

(f) Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. The Company records a reserve for slow moving and obsolete products and raw materials.

(g) Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost. Depreciation is provided using the straight-line method over estimated useful lives of the assets ranging from three to forty-five years. Maintenance and repairs are expensed as incurred. Improvements that extend the useful lives of the assets or provide improved efficiency are capitalized.

(h) Financial Instruments

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents, investments in marketable securities, and trade receivables. The Company maintains its cash balances in the form of bank demand deposits with financial institutions that management believes are creditworthy. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. The Company has no financial instruments with off-balance sheet risk of accounting loss.

The recorded amounts for cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximate fair value due to the short-term nature of these financial instruments. The fair value of investments in marketable securities is based upon quoted market value. The Company's long-term debt bears interest at a variable rate, the lender's base rate, which approximates the prime rate. The carrying value of long-term debt approximates fair value as of March 31, 2004 and December 31, 2003.

(i) Long-Lived Assets

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

(j) Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which related temporary differences become deductible. Deferred tax assets and liabilities are measured using

enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(k) Revenue Recognition

Revenue is generally recognized upon delivery of products to customers, which is when title passes. Reserves for estimated market development support, pricing allowances and returns are provided in the period of sale as a reduction of revenue. Reserves for returns and allowances are recorded as a reduction of revenue, and are maintained at a level that management believes is appropriate to account for amounts applicable to existing sales. Reserves for coupons and certain other promotional activities are recorded as a reduction of revenue at the later of the date at which the related revenue is recognized or the date at which the sales incentive is offered. At March 31, 2004 and December 31, 2003 approximately \$532,300 and \$873,400, respectively, had been reserved as a reduction of accounts receivable, and approximately \$185,000 and \$175,000, respectively, had been reserved as current liabilities. Co-op advertising, marketing funds, slotting fees and coupons are deducted from gross sales and total \$515,100 and \$491,300 at March 31, 2004 and December 31, 2003, respectively.

(l) Advertising Costs

The Company expenses advertising costs as incurred.

(m) Stock-based Compensation

The Company has elected to follow Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options. Under APB No. 25, employee stock options are accounted for based upon the intrinsic value, which is the difference between the exercise price and fair value of the underlying common stock. Generally, if the exercise price of employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recorded. The Company has adopted the disclosure only provisions of SFAS No. 123, "Accounting for Stock-based Compensation".

The Company granted 35,000 options for shares of the Company's common stock during the three months ended March 31, 2004 with an exercise price equal to \$0.76. Had compensation cost been recorded based on the fair value of options granted by the Company, the Company's pro-forma net loss and net loss per share for the quarters ended March 31, 2004 and 2003 would have been as follows:

	2004		2003	
	As Reported	Pro Forma	As Reported	Pro-Forma
Net loss	\$ (350,800)	\$ (367,100)	\$ (416,300)	\$ (462,800)
Basic loss per share	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.05)
Diluted loss per share	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.05)

The fair value of options granted has been estimated as of the date of grant using the following assumptions as of March 31:

	<b>2004</b>	<b>2003</b>
	-----	-----
Dividend rate	\$ -	\$ -
Expected volatility	169%	170%
Risk-free interest rate	3.04%	3.06%
Expected life	4.5 years	4.5 years

(n) Comprehensive Income

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

The following table is a reconciliation of the Company's net loss to its total comprehensive loss for the quarters ended March 31, 2004 and 2003:

	<b>2004</b>	<b>2003</b>
	-----	-----
Net loss	\$(350,800)	\$(416,300)
Unrealized gain on investment securities	500	100
	-----	-----
Comprehensive loss	\$(350,300)	\$(416,200)
	=====	=====

(o) Shipping and Handling

The Company classifies amounts billed to a customer in a sale transaction related to shipping and handling as revenue and classifies shipping and handling costs as a component of selling expense on the accompanying Consolidated Statement of Operations. Shipping and handling costs totaled \$323,300 and \$344,100 for the quarters ended March 31, 2004 and 2003, respectively.

Note 2.

Basis of Preparation of Financial Statements

These unaudited interim consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles as long as the statements are not misleading. In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal recurring nature. These interim financial statements should be read in conjunction with the financial statements of the Company included in its 2003 Annual Report on Form 10-K.

Note 3.

Per share data was determined by using the weighted average number of common shares outstanding. Potentially dilutive securities, including stock options, are considered only for diluted earnings per share, unless considered anti-dilutive. The potentially dilutive securities, which are comprised of outstanding stock options of 1,134,000 and 1,121,100 at March 31, 2004 and 2003, were excluded from the computation of weighted average shares outstanding due to the anti-dilutive effect.

A reconciliation of the weighted average number of common shares outstanding for the three months ended March 31 follows:

	2004	2003
	-----	-----
Common shares outstanding, beginning of the year	10,356,000	10,153,100
Stock options exercised	-	-
	-----	-----
Weighted average number of common shares outstanding	10,356,000	10,153,100
Dilutive effect of common share equivalents	-	-
	-----	-----
Diluted weighted average number of common shares outstanding	10,356,000	10,153,100
	=====	=====

At March 31, 2004, there were authorized 50,000,000 shares of the Company's \$.10 par value common stock and 20,000,000 shares of preferred stock issuable in one or more series. None of the preferred stock was issued or outstanding at March 31, 2004.

On February 22, 2001, the Company's Board of Directors adopted a shareholder rights plan for its common stock. One right was issued for each share of common stock issued and outstanding on March 2, 2001. One right will also be issued for each share of common stock that is issued or sold after that date and prior to the "Distribution Date." The Distribution Date means generally a date which is ten days after a person becomes an "Acquiring Person" or the commencement of a tender offer that would make a person a beneficial owner of 15% or more of the Company's common stock. An Acquiring Person means generally a person or group owning beneficially 15% or more of the outstanding shares of common stock, with certain exceptions.

Each right entitles shareholders to buy one share of the Company's common stock at an exercise price of \$8.00 per share, subject to adjustments; however, the rights are not exercisable until the Distribution Date. The rights will expire on February 21, 2011 or upon earlier redemption of the rights. If any person becomes an Acquiring Person, or certain other events relating to an Acquiring Person occur, the right will entitle each holder to receive shares of common stock (or stock of the acquiring party after a merger or business combination) having a market value of two times the exercise price of the right. The Board of Directors may redeem the rights at a redemption price of \$.01 per right at any time prior to a Distribution Date or the expiration date of the rights on February 21, 2011.

Note 4.

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

The following provides information on the Company's segments for the three months ended March 31:

	2004		2003	
	Household Products	Skin Care Products	Household Products	Skin Care Products
Net sales to external customers	\$ 2,303,200	\$ 2,905,800	\$ 2,233,200	\$ 3,502,500
Loss before profit sharing, bonuses and income taxes	\$ (390,800)	\$ 40,000	\$ (405,000)	\$ (11,300)
Identifiable assets	\$ 3,915,200	\$ 7,306,600	\$ 3,578,200	\$ 6,840,200

The following is a reconciliation of segment information to consolidated information for the three months ended March 31:

	2004	2003
Net sales to external customers	\$ 5,209,900	\$ 5,735,700
Loss before profit sharing, bonuses and income taxes	\$ (350,800)	\$ (416,300)
Identifiable assets	\$11,221,800	\$10,418,400
Corporate activities	13,599,000	16,055,100
Consolidated total assets	\$24,820,800	\$26,473,500

Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations

Results of Operations

During the first quarter of 2004 we experienced a small increase in our Scott's Liquid Gold for wood sales while experiencing a decrease in our skin care products including the Montagne Jeunesse line of products. Our net loss for the first quarter of 2004 was \$350,800 versus a loss of \$416,300 in the first quarter of 2003. The loss for 2004 was primarily due to slower sales of Montagne Jeunesse products as explained below.

**Summary of Results as a Percentage of Net Sales**

	<b>Year Ended December 31, 2003</b>	<b>Three Months Ended March 31, 2004</b>	<b>2003</b>
	-----	-----	-----
Net sales			
Scott's Liquid Gold household products	36.8%	44.2%	38.9%
Neoteric Cosmetics	63.2%	55.8%	61.1%
	-----	-----	-----
Total Net Sales	100.0%	100.0%	100.0%
Cost of Sales	52.6%	52.8%	49.8%
	-----	-----	-----
Gross profit	47.4%	47.2%	50.2%
Other revenue	.2%	.2%	.3%
	-----	-----	-----
	47.6%	47.4%	50.5%
	-----	-----	-----
Operating expenses	47.5%	53.2%	56.7%
Interest	.9%	.9%	1.0%
	-----	-----	-----
	48.4%	54.1%	57.7%
	-----	-----	-----
Loss before income taxes	(0.8%)	(6.7%)	(7.2%)
	=====	=====	=====

### Comparative Net Sales

	2004	2003	Percentage Increase (Decrease)
	-----	-----	-----
Scott's Liquid Gold	\$ 1,660,100	\$ 1,563,700	6.2%
Touch of Scent	643,100	669,500	(3.9%)
	-----	-----	-----
Total household chemical products	2,303,200	2,233,200	3.1%
	-----	-----	-----
Alpha Hydrox and other skin care	1,241,600	1,458,100	(14.8%)
Montagne Jeunesse skin care	1,664,200	2,044,400	(18.6%)
	-----	-----	-----
Total skin care products	2,905,800	3,502,500	(17.0%)
	-----	-----	-----
Total Net Sales	\$ 5,209,000	\$ 5,735,700	(9.2%)
	=====	=====	=====

Three Months Ended March 31, 2004  
Compared to Three Months Ended March 31, 2003

Consolidated net sales for the first quarter of the current year were \$5,209,000 vs. \$5,735,700 for the first three months of 2003, a decrease of \$526,700. Average selling prices for the first three months of the year 2004 were relatively unchanged over the comparable period of 2003. "Off-sales promotions" comprised of co-op advertising, marketing funds, slotting fees and coupon expenses paid to retailers were recorded as a reduction of gross sales and totaled \$515,100 in the first quarter of 2004 versus \$491,300 in the same quarter in 2003, an increase of \$23,800 or 4.8%.

During the first quarter of 2004, net sales of skin care products accounted for 55.8% of consolidated net sales compared to 61.1% for the same quarter of 2003. Net sales of these products for that period were \$2,905,800 in 2004 compared to \$3,502,500 in 2003, a decrease of \$596,700 or 17.0%. The Company has continued to experience a drop in unit sales of the Company's earlier-established alpha hydroxy acid products due at least in part to maturing in the market for alpha hydroxy acid-based skin care products and intense competition from producers of similar or alternative products, many of which are considerably larger than Neoteric Cosmetics, Inc. Sales of the Company's Alpha Hydrox products (with and without alpha hydroxy acid) have also decreased during 2003 and the first quarter of 2004, due to reduced distribution of those products at retail stores, including the Company's largest and other customers having reduced in prior quarters the number of types of those products carried on their shelves and discontinuation in 2003 of these products at certain retail chains. In addition, increased television advertising for Alpha Hydrox products in the first half of 2003 was not cost effective in terms of the impact on sales. In the second quarter of 2003, the Company's largest customer (which accounted for 23.6% of sales of Alpha Hydrox skin care products in 2002) decreased significantly the number of stores carrying Alpha Hydrox products of the Company. This change has resulted, and is likely to result in the future, in lower sales of those products. For the first quarter of 2004, the sales of the Company's Alpha Hydrox products accounted for 29.3% of net sales of skin care products and

16.4% of total net sales, compared to 33.3% of net sales of skin care products and 20.3% of total net sales in the first quarter of 2003.

For 2004, sales of Montagne Jeunesse products comprised a majority of net sales of the Company's skin care products. Net sales of Montagne Jeunesse were approximately \$1,664,200 in 2004 compared to \$2,044,400 in 2003. The Company believes that this decrease in sales of Montagne Jeunesse is attributable primarily to a decrease in the number of display promotions at retailers in the first quarter of 2004 versus 2003 and to 2003 products that had not sold through the retail stores until 2004 thus resulting in fewer first quarter re-sales.

As part of its sales efforts in the first half of 2003, the Company used direct response television (infomercial) commercials for the sale of its Alpha Hydrox products. The Company has not used television advertisements for the Montagne Jeunesse products. The Company did not introduce new products during 2003 nor in the first quarter of 2004, except different items in Montagne Jeunesse sachets.

Sales of household products for the first quarter of this year accounted for 44.2% of consolidated net sales compared to 38.9% for the same period of 2003. These products are comprised of Scott's Liquid Gold for wood, a wood cleaner which preserves as it cleans, and Touch of Scent, a room air freshener. During the quarter ended March 31, 2004, sales of household products were \$2,303,200 as compared to sales of \$2,233,200 for the same quarter of 2003. Sales of Scott's Liquid Gold for wood, were up by \$96,400, an increase of 6.2%, which the Company believes is the result primarily of advertising in the fourth quarter of 2003 and the first quarter of 2004. Sales of Touch of Scent were down by \$26,400 or 3.9%, primarily due to a decrease in orders for, and distribution of, the Company's Touch of Scent dispenser package.

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

On a consolidated basis, cost of goods sold was \$2,750,600 during the first three months of 2004 compared to \$2,858,000 for the same period of 2003, a decrease of \$107,400 or 3.8%, on a sales decrease of 9.2%. As a percentage of consolidated net sales, cost of sales was 52.8% in 2004 versus 49.8% in 2003, an increase of about 6.0%, which was essentially due to a greater percentage of off-sales promotions in 2004 versus 2003, and spreading the ongoing manufacturing costs over the lower number of units of products manufactured at the Company's facility.

### Operating Expenses, Interest Expense and Other Income

	2004	2003	Percentage Increase (Decrease)
	-----	-----	-----
Operating Expenses			
Advertising	\$ 463,700	\$ 809,000	(42.7%)
Selling	1,323,900	1,420,400	(6.8%)
General & Administrative	986,500	1,024,000	(3.7%)
	-----	-----	-----
Total operating expenses	\$ 2,774,100	\$ 3,253,400	(14.7%)
	=====	=====	=====
Interest Income	\$ 10,700	\$ 16,300	(34.4%)
Interest Expense	\$ 45,800	\$ 56,900	(19.5%)

Operating expenses, comprised primarily of advertising, selling and general and administrative expenses, decreased by \$479,300 in the first quarter of 2004 when compared to first quarter of 2003. The various components of operating expenses are discussed below.

Advertising expenses for the first three months of 2004 were \$463,700 compared to \$809,000 for the comparable quarter of 2003, a decrease of \$345,300 or 42.7%. Advertising expenses applicable to household products decreased by \$24,800 (6.2%) during the first quarter of 2004, whereas, advertising expenses for Alpha Hydrox products decreased from the comparative three-month period by \$320,500 (76.2%) due primarily to a decrease in direct response television advertising.

Selling expenses for the first quarter of 2004 were \$1,323,900 compared to \$1,420,400 for the comparable three months of 2003, a decrease of \$96,500 or 6.8%. That decrease was comprised of a decrease in depreciation and royalty expense of \$31,600, a decrease in internet and direct television sales expense of \$78,900, offset by a net increase in other selling expenses, none of which by itself is significant, of \$14,000.

General and administrative expenses for the first three months of 2004 were \$986,500 compared to \$1,024,000 for the comparable period of 2003, a decrease of \$37,500 or 3.7%. Such decrease was attributable to the reduction of legal and professional fees of \$72,400, a decrease in bad debt expense of \$22,500, a net decrease in other expenses of \$8,000, offset by an increase in salaries and fringe benefits of \$65,400.

Interest expense for the first quarter of 2004 was \$45,800 versus \$56,900 for the comparable quarter of 2003. Interest expense decreased because of the reduced principal of the Company's bank loan. Interest income for the three months ended March 31, 2004 was \$10,700 compared to \$16,300 for the same period of 2003, which consists of interest earned on the Company's cash reserves in 2004 and 2003.

During the first quarter of 2004 and of 2003, expenditures for research and development were not material (under 2% of revenues).

## Liquidity and Capital Resources

The Company has a bank loan for approximately \$3.5 million at the bank's base rate, adjustable yearly (4.75% at March 31, 2004), secured by the Company's land and buildings, with principal and interest payable monthly through November 2007. The loan agreement contains a number of covenants, including the requirement for maintaining a current ratio of at least 1:1 and a ratio of consolidated long-term debt to consolidated net worth of not more than 1:1. The Company may not declare any dividends that would result in a violation of either of these covenants. The foregoing requirements were met at the end of the first quarter of 2004.

During the first quarter of 2004 the Company's working capital decreased by \$404,900, and concomitantly, its current ratio (current assets divided by current liabilities) decreased from 2.3:1 at December 31, 2003 to 2.0:1 at March 31, 2004. This decrease in working capital is attributable to a net loss in the first three months of 2004 of \$350,800, and a reduction in long-term debt of \$224,200, a decrease in deferred tax liabilities of \$16,000, offset by depreciation in excess of capital additions of \$158,900, a decrease in non-current deferred tax assets of \$24,000, a decrease in other assets of \$2,700, and an increase in accumulated comprehensive income of \$500. At March 31, 2004, the ratio of consolidated long-term debt to consolidated net worth was .16:1.

At March 31, 2004, trade accounts receivable were \$1,646,300 versus \$1,108,600 at year-end, largely because sales in March of 2004 were greater than those of December of 2003. Accounts payable increased from the end of 2003 through March of 2004 by \$1,004,300 corresponding primarily with the increase in inventory over that period, as well as, an increase in advertising activity during the first quarter of 2004 when compared to the fourth quarter of 2003. At March 31, 2004 inventories were \$603,800 more than at December 31, 2003, largely due to the increase in Montagne Jeunesse inventory to support sales of these products in the upcoming quarters. Accrued expenses decreased by \$54,600 from December 31, 2003 to March 31, 2004 primarily from a decrease in accrued salaries and related items of \$35,400.

The Company has no significant capital expenditures planned for 2004 and expects that its available cash and cash flows from operating activities will fund the next twelve months cash requirements.

The Company's dependence on operating cash flow means that risks involved in its business can significantly affect its liquidity. Any loss of a significant customer, any further decreases in distribution of its skin care or household chemical products, any new competitive products affecting sales levels of the Company's products, or any significant expense not included in the Company's internal budget could result in the need to raise cash, such as through a bank financing. The Company has no arrangements for an external financing of debt or equity, and the Company is not certain whether any such financing would be available on acceptable terms. Please also see other risks summarized in "Forward Looking Statements" below.

### Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss due to adverse changes in financial and commodity market prices and rates. The Company is not materially exposed to market risks regarding interest rates because the interest on the Company's outstanding debt is at the lender's base rate, which approximates the prime rate, adjustable yearly. The Company's investments in debt and equity securities are short-term and not subject to significant fluctuations in fair value. If interest rates were to rise 10% from year-end levels, the fair value of the Company's debt and equity securities would have decreased by approximately \$11,800. Further, the Company does not use foreign currencies in its business. Currently, it receives payments for sales to parties in foreign countries in U.S. dollars. Additionally, the Company does not use derivative instruments or engage in hedging activities. As a result, the Company does not believe that near-term changes in market risks will have a material effect on results of operations, financial position or cash flows of the Company.

### Forward-Looking Statements

This report may contain "forward-looking statements" within the meaning of U.S. federal securities laws. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and the Company's performance inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products in the marketplace; the degree of success of any new product or product line introduction by the Company; competitive factors; any decrease in distribution of (i.e., retail stores carrying) the Company's significant products; continuation of the Company's distributorship agreement with Montagne Jeunesse; the need for effective advertising of the Company's products; limited resources available for such advertising; new competitive products and/or technological changes; dependence upon third party vendors and upon sales to major customers; changes in the regulation of the Company's products, including applicable environmental regulations; adverse developments in pending litigation; the loss of any executive officer; and other matters discussed in the Company's periodic filings with the Securities and Exchange Commission. The Company undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Please see "Market Risks" in Item 2 of Part I of this Report which information is incorporated herein by this reference.

#### Item 4. Controls and Procedures

As of March 31, 2004, the Company conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to

be disclosed by the Company in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms as of March 31, 2004. There was no change in our internal control over financial reporting during the quarter ended March 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Not Applicable

Item 2. Not Applicable

Item 3. Not Applicable

Item 4. Not Applicable

Item 5. Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K

The following report was filed by the Company on Form 8-K during the first quarter of 2004: A current report on Form 8-K filed on January 29, 2004 reporting on Item 5, Other Events; and a current report of Form 8-K filed on March 9, 2004 regarding Item 12, Results of Operations and Financial Condition.

(b) Exhibits

- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer
- 32.1 Section 1350 Certification

SIGNATURES

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

SCOTT'S LIQUID GOLD-INC.

May 6, 2004  
Date

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

May 6, 2004  
Date

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

EXHIBIT INDEX

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

**EXHIBIT 31.1**

**CERTIFICATION**

I, Mark E. Goldstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2004 of Scott's Liquid Gold-Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATED: May 6, 2004

/s/ Mark E. Goldstein

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Mark E. Goldstein  
President, Chief Executive Officer,  
and Chairman of the Board  
Principal Executive Officer

**EXHIBIT 31.2**

CERTIFICATION

I, Jeffry B. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2004 of Scott's Liquid Gold-Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATED: May 6, 2004

/s/ Jeffry B. Johnson

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Jeffry B. Johnson  
Treasurer and Chief Financial Officer  
Principal Financial Officer

**EXHIBIT 32.1**

CERTIFICATION OF 10-Q REPORT  
OF  
SCOTT'S LIQUID GOLD-INC.

FOR THE QUARTER MARCH 31, 2004

1. The undersigned are the Chief Executive Officer and the Chief Financial Officer of Scott's Liquid Gold-Inc. ("Scott's Liquid Gold"). This Certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This Certification accompanies the 10-Q Report of Scott's Liquid Gold for the quarter ended March 31, 2004.

2. We certify that such 10-Q Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of Scott's Liquid Gold.

This Certification is executed as of May 6, 2004.

/s/ Mark E. Goldstein

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Mark E. Goldstein  
President, Chief Executive Officer  
and Chairman of the Board  
Principal Executive Officer

/s/ Jeffry B. Johnson

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Jeffry B. Johnson  
Treasurer and Chief Financial Officer  
Principal Financial Officer