

Edgar Filing: SCOTTS LIQUID GOLD INC - Form 10-K405

SCOTTS LIQUID GOLD INC  
Form 10-K405  
March 30, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2000 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 0-5128

SCOTT'S LIQUID GOLD-INC.

-----  
(Exact name of Registrant as specified in its charter)

Colorado  
-----  
(State or other jurisdiction of  
incorporation or organization)

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

4880 Havana Street, Denver, CO  
-----  
(Address of principal executive offices)

80239  
-----  
(Zip Code)

Registrant's telephone number: (303) 373-4860

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

\$0.10 Par Value Common Stock

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 /X/ 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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III

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of this Form 10-K or any amendment to this Form 10-K. [x]

The aggregate market value of the Registrant's voting stock held as of March 7, 2001, by non-affiliates of the Registrant was \$4,218,368. This calculation assumes that certain parties may be affiliates of the Registrant and that, therefore, 6,113,577 shares of voting stock are held by non-affiliates.

As of March 7, 2001, the Registrant had 10,103,058 shares of its \$0.10 par value common stock outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's 2000 Annual Report to shareholders is incorporated by reference in Parts I, II and IV. The Registrant's definitive Proxy Statement for the Annual Meeting of shareholders to be held on May 2, 2001, is incorporated by reference in Part III.

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SCOTT'S LIQUID GOLD-INC.

ANNUAL REPORT ON

FORM 10-K

FOR YEAR ENDED DECEMBER 31, 2000

PART I

#### ITEM 1. BUSINESS.

Portions of the 2000 Annual Report to shareholders of Scott's Liquid Gold-Inc. (the "Company" or "Registrant") are attached to this Report as Exhibit 13 and are called in this Report the "Annual Report". The information set forth under the headings "Description of Business," "Management Discussion and Analysis of Financial Condition and Results of Operations" and Note 8 of Notes to Consolidated Financial Statements of the Annual Report hereby is incorporated by reference into this Report.

In the third quarter of 1998, the Company added a retinol product to its skin care products. This product, sold as Alpha Hydrox Retinol Night ResQ, includes microsphere-entrapped retinol. It is manufactured by a third party who is the sole supplier of the product to the Company under a supply and license agreement. The agreement has a term which continues until the earlier of (1) the expiration of the last to expire patent relating to the product or (2) June 9, 2008. The supplier may also terminate the agreement if the Company does not meet minimum purchase requirements.

#### ITEM 2. PROPERTIES.

The information set forth under "Description of Business - Properties," "Management Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" and Note 5 of Notes to Consolidated Financial Statements of the Annual Report hereby is incorporated by reference into this Report.

#### ITEM 3. LEGAL PROCEEDINGS.

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As previously reported, a lawsuit was commenced in May of 1996 against Neoteric Cosmetics, Inc. and others not related to the Company alleging infringement of certain patents. Neoteric Cosmetics is the Company's wholly-owned subsidiary which manufactures and sells skin care products under the name Alpha Hydrox. The lawsuit was brought by TriStrata Technology, Inc. in the United States District Court for the District of Delaware. The plaintiff in the lawsuit alleged that Neoteric Cosmetics contributes to and/or induces infringement of the patents owned by the plaintiff by selling and promoting Neoteric Cosmetics skin care products for the purpose of visibly reducing a human skin wrinkle and/or fine lines and for the purpose of treating and/or preventing cosmetic conditions and dermatologic disorders of the human skin such as wrinkles and fine lines. In December of 2000 the Company settled the lawsuit. This settlement is contained in a license agreement between TriStrata and Neoteric Cosmetics, Inc. Under the license agreement,

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TriStrata grants to Neoteric Cosmetics and its affiliates a non-exclusive license to make and sell skin care products using certain alpha hydroxy acids for, among other things, the reduction of the appearance of skin wrinkles and the reduction in the appearance of skin changes associated with aging. The license agreement covers a territory which includes the United States and certain foreign countries. In accordance with the license agreement, Neoteric Cosmetics has issued a fixed payment for alleged past infringements and will pay a royalty on future net sales of products covered by the license agreement.

As previously reported, the Company had been a defendant in an environmental lawsuit brought by the United States Justice Department at the request of the United States Army, alleging contribution by the Company to contamination in a groundwater aquifer underlying a portion of the Rocky Mountain Arsenal. In October of 1996, the Company and the United States, on behalf of the Department of the Army, negotiated a settlement of this dispute. The Settlement Agreement, which admits no wrong doing by the Company and which was approved by the Court on November 6, 1996, required the payment to the United States of \$6 million of which \$2.4 million was paid at once by the Company's insurers (with an additional \$600,000 paid in January of 1997) and \$1 million was paid by the Company. The additional \$2 million, by the terms of the Agreement, was to be paid by the Company in equal installments of \$250,000 over eight years, beginning on October 31, 1997, together with interest approximating the Treasury Bill rate. Due to income tax considerations, the Company decided to liquidate its entire indebtedness to the Army and did so in October of 1997. In December, 1996, the Company filed lawsuits, now pending in the United States District Court for the District of Colorado, against three insurers (which did not participate in the settlement) to recover at least amounts paid to the Army by the Company, plus punitive damages and attorneys' fees. The Company has settlements with all but one of its insurers, and as a result of the insurance settlements in 1996 and 1997, most of the costs incurred to resolve environmental claims relating to the Rocky Mountain Arsenal have been recovered. Claims for recovery of the remainder of the costs are pending against one insurance company.

The Company applied for federal registration of the trademark "Alpha Hydrox" with U.S. Patent and Trademark Office. The issuance of this trademark was challenged on the basis that the name of the Company's product is a description of the type of acid used as an ingredient. This challenge was denied by the United States Patent and Trademark Office in 1999. No appeal was filed. The Company has received the federal registration of "Alpha Hydrox" from the U.S. Patent and Trademark Office.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

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Not applicable.

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## EXECUTIVE OFFICERS OF THE REGISTRANT.

Name of Nominee and Position in the Company -----	Age ---	Director Since -----	Principal Occ Last Five -----
Mark E. Goldstein (Chairman of the Board, President and Chief Executive Officer)	44	1983	Chairman of the Board of the Com President and Chief Executive Of From 1982 to 1990, Vice Presiden Employed by the Company since 19
Carolyn J. Anderson (Executive Vice President, Chief Operating Officer and Corporate Secretary)	62	1974	Executive Vice President since 1 of the Company since 1982 and Co Employed by the Company since 19
Jeffrey R. Hinkle	47	2000	Vice President-Marketing of the From 1995 to February 2000, Vice Company's subsidiaries. Employed
Jeffry B. Johnson (Treasurer and Chief Financial Officer)	55	2000	Treasurer and Chief Financial Of November 2000. From 1981 to 200 Employed by the Company since 19

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information set forth under "Corporate Data" and "Market Information" of the Annual Report hereby is incorporated by reference into this Report.

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### ITEM 6. SELECTED FINANCIAL DATA.

The information set forth under "Selected Financial Data" of the Annual Report hereby is incorporated by reference into this Report.

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

The information set forth under "Management Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report hereby is incorporated by reference into this Report.

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

The information set forth under "Management Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures about Market Risks" of the Annual Report hereby is incorporated by reference into this Report.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information set forth under "Consolidated Financial Statements," "Notes to Consolidated Financial Statements," "Report of Independent Public Accountants" and "Selected Financial Data - Selected Quarterly Financial Data" of the Annual Report hereby is incorporated by reference into this Report.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

### PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

### ITEM 11. EXECUTIVE COMPENSATION.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

For Part III, the information set forth in the Company's definitive Proxy Statement for the Company's Annual Meeting of Shareholders to be held on May 2, 2001, hereby is incorporated by reference into this Report.

### PART IV

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### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

#### (a) (1) Financial Statements:

Consolidated Statements of Operations -  
Years ended December 31, 2000, 1999 and 1998

Consolidated Balance Sheets -  
December 31, 2000 and 1999

Consolidated Statements of Cash Flows -  
Years ended December 31, 2000, 1999 and 1998

Consolidated Statements of Shareholders' Equity -  
Years ended December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

Report of Independent Public Accountants

#### (2) Financial Statement Schedules:

II - Valuation and Qualifying Accounts -  
Years ended December 31, 2000, 1999 and 1998

Inasmuch as Registrant is primarily a holding company and all subsidiaries are wholly-owned, only consolidated statements are being filed. Schedules other than those listed above are omitted because of the absence of the conditions under which they are required or because the information is included in the financial statements or notes to the financial statements.

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(b) Reports on Form 8-K:

The following report was filed by the Company on Form 8-K during the quarter ended December 31, 2000: None.

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(c) Exhibits:

EXHIBIT NO. -----	DOCUMENT -----
3.1	Restated Articles of Incorporation, as amended and restated through May 1, 1996, incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996.
3.2	Bylaws, as amended through February 27, 1996, incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999.
4.1	Promissory Note, dated November 21, 2000, payable to Citywide Banks; Assignment of Rents, dated November 21, 2000, between the Company and Citywide Banks; Deed of Trust, dated November 21, 2000, by the Company for Citywide Banks; and Business Loan Agreement, dated November 21, 2000, between the Company and Citywide Banks.
10.1*	Scott's Liquid Gold-Inc. Fourth Amended Health and Accident Plan effective January 1, 1995, incorporated by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999.
10.2*	Amended Key Executive Disability Plan--Scott's Liquid Gold-Inc., incorporated by reference to Exhibit 10.2 of Annual Report on Form 10-K for the year ended December 31, 1997, incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999
10.3*	2001 Key Executive Bonus Plan.
10.4*	Indemnification Agreements dated May 6, 1987, between the Registrant and Mark E. Goldstein and Carolyn J. Anderson, incorporated by reference to Exhibit 10.4 of Annual Report on Form 10-K for the year ended December 31, 1998. An Indemnification Agreement dated December 23, 1991, between the Registrant and Dennis H. Field, and an Amendment to Indemnification Agreement dated January 17, 1992, between the Registrant and Dennis H. Field, incorporated by reference to Exhibit 10.5 of Annual Report on Form 10-K for the year ended December 31, 1997. Indemnification Agreement dated February 23, 1993, between the Registrant and James F. Keane, incorporated by reference to Exhibit 10.4 of Annual Report on Form 10-K for the year ended December 31, 1998. Indemnification Agreement, dated July 12, 2000, between the Company and Jeffrey R. Hinkle; Indemnification Agreement, dated August 16, 2000, between the Company and Carl A. Bellini; and Indemnification Agreement, dated November 2, 2000, between the Company and Jeffrey B. Johnson.

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- 10.5\* Scott's Liquid Gold-Inc. Employee Stock Ownership Plan and Trust Agreement, effective January 1, 1989, and First and Second Amendments thereto, incorporated by reference to Exhibit 10.5 of the Company's Annual Report of Form 10-K for the year ended December 31, 2000.
- 10.6\* Scott's Liquid Gold-Inc. 1993 Stock Option Plan for Outside Directors, incorporated by reference to Exhibit 4.7 of the Company's Registration Statement No. 33-63254 on Form S-8, filed with the Commission on May 25, 1993.

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- 10.7\* Scott's Liquid Gold-Inc. 1998 Stock Option Plan, incorporated by reference to Exhibit 4.3 of the Company's Registration Statement No. 333-51710, filed with the Commission on December 12, 2000.
- 13 Portions of 2000 Annual Report to Security Holders.
- 21 List of Subsidiaries, incorporated by reference to Exhibit 21 of Annual Report on Form 10-K for the year ended December 31, 1998.
- 23 Consent of Arthur Andersen LLP.
- 24 Powers of Attorney.

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\* Management contract or compensatory plan or arrangement

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### SUPPORTING SCHEDULES

#### Supporting Schedules

Valuation and Qualifying Accounts                      Scott's Liquid Gold-Inc. and Subsidiaries  
Schedule II

Column A	Column B	Column C	Column D	Column
Description	Balance at Beginning of Period	Additions 1 Charge to Costs and Expenses	Deductions 2 Charges to other Accounts (1)	Balance End of Period
-----	-----	-----	-----	-----
Year Ended December 31, 2000				
Allowance for doubtful accounts	\$645,500	\$27,800	\$78,300	\$595,0
Year Ended December 31, 1999				
Allowance for doubtful accounts	\$679,200	--	\$33,700	\$645,5

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Year Ended December 31, 1998

Allowance for doubtful accounts	\$635,700	\$43,500	-0-	\$679,2
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(1) Uncollectible accounts written off, net of recoveries.

Report of Independent Public Accountants

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

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in Scott's Liquid Gold-Inc.'s 2000 Annual Report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 26, 2001. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The supplemental Schedule II is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Arthur Andersen LLP  
Denver, Colorado,  
January 26, 2001

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SIGNATURES

Pursuant to the requirements of Section 13 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.

Date: March 30, 2001.

SCOTT'S LIQUID GOLD-INC.  
a Colorado corporation

By: /s/ Mark E. Goldstein

-----  
Mark E. Goldstein, President  
Principal Executive Officer

By: /s/ Jeffrey B. Johnson

-----  
Jeffrey B. Johnson, Treasurer  
Principal Financial Officer

By: /s/ Brian L. Boberick

-----  
Brian L. Boberick, Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this

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report has been signed below by the following persons of the Registrant and in the capacities and on the dates indicated:

Date ----	Name and Title -----	Signature -----
March 30, 2001	Carolyn J. Anderson, Director	) ) ) /s/ Jeffry B. Johnson ) -----
March 30, 2001	Dennis H. Field, Director	) ) ) Jeffry B. Johnson, for himself and ) as Attorney-in-Fact for the named ) directors who together constitute ) all of the members of Registrant's ) Board of Directors
March 30, 2001	Mark E. Goldstein, Director	) ) )
March 30, 2001	James F. Keane, Director	) ) )
March 30, 2001	Jeffry B. Johnson, Director	) ) )
March 30, 2001	Jeffrey R. Hinkle, Director	) ) )
March 30, 2001	Carl A. Bellini, Director	) ) )

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10-K for the year ended December 31, 1997, incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999

- 10.3\* 2001 Key Executive Bonus Plan.
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