SKINVISIBLE INC
Form 10-Q
November 13, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **September 30, 2013**

[ ] Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission File Number: **000-25911**

Skinvisible, Inc.

(Exact name of Registrant as specified in its charter)

Nevada	**88-0344219**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6320 South Sandhill Road, Suite 10, Las Vegas, NV 89120
(Address of principal executive offices)

702.433.7154
(Registrant's telephone number)

____
(Former name, former address and former fiscal year, if changed since last report)

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 (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [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.

[ ] Large accelerated filer Accelerated filer [ ] Non-accelerated filer
[X] Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 110,729,969 common shares as of October 1, 2013

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Our consolidated financial statements included in this Form 10-Q are as follows:

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended September 30, 2013 are not necessarily indicative of the results that can be expected for the full year.

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SKINVISIBLE, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash	$674,315	$450,507
Accounts receivable	10,000	27,299
Inventory	22,437	18,769
Due from related party	41,188	1,145
Prepaid expense and other current assets	1,015	515
Total current assets	748,955	498,235
Fixed assets, net of accumulated depreciation of $322,477 and $318,519, respectively	3,891	4,459
Intangible and other assets:		
Patents and trademarks, net of accumulated amortization of $239,208 and $213,205, respectively	345,690	251,553
Total assets	$1,098,536	$754,247
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$584,536	$636,314
Accrued interest payable	131,499	25,264
Loans from related party	134	7,661
Loans payable	1,000,000	1,991
Convertible notes payable, net of unamortized debt discount of $61,724 and $102,200, respectively	1,099,862	1,088,386
Convertible notes payable related party, net of unamortized discount of $919,956 and $1,036,956, respectively	803,905	593,227
Unearned revenue	—	19,792
Total current liabilities	3,619,936	2,372,635
Total liabilities	3,619,936	2,372,635
Stockholders' deficit		
Common stock; $0.001 par value; 200,000,000 shares authorized; 110,729,969 and 109,507,409 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	110,730	109,507
Additional paid-in capital	20,968,993	20,841,670
Stock payable	—	1,800
Accumulated deficit	(23,601,123)	(22,571,365)
Total stockholders' deficit	(2,521,400)	(1,618,388)
Total liabilities and stockholders' deficit	$1,098,536	$754,247

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SKINVISIBLE, INC. CONSOLIDATED

STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Revenues	$13,635	$22,920	$48,370	$83,548
Cost of revenues	565	—	1,754	1,944
Gross profit	13,070	22,920	46,616	81,604
Operating expenses				
Depreciation and amortization	9,824	8,068	27,006	43,982
Selling general and administrative	220,021	316,856	616,167	996,189
Total operating expenses	229,845	324,924	643,173	1,040,171
Loss from operations	(216,775)	(302,004)	(596,557)	(958,567)
Other income and (expense)				
Other income	97	25,000	97	25,000
Interest expense	(125,825)	(11,866)	(436,398)	(81,886)
Gain on extinguishment of debt	2,400	(36)	3,100	1,691
Total other expense	(123,328)	13,098	(433,201)	(55,195)
Net loss	$(340,103)	$(288,906)	$(1,029,758)	$(1,013,762)
Basic loss per common share	$(0.00)	$(0.00)	$(0.01)	$(0.01)
Basic weighted average common shares outstanding	110,683,012	105,073,960	110,374,484	102,694,597

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SKINVISIBLE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Cash flows from operating activities:		
Net loss	$(1,029,758)	$(1,013,762)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	27,006	43,982
Stock-based compensation	21,200	—
Amortization of debt discount	228,244	432,602
Accrued expenses converted to notes	—	223,868
Stock issued for interest expense	422	—
Debt paid with common stock	—	78,361
Gain on extinguishment of debt	3,100	(1,691)
Changes in operating assets and liabilities:		
(Increase) decrease in inventory	(3,668)	8,998
Decrease in accounts receivable	17,299	(8,895)
Increase in prepaid expenses and other current assets	(500)	(9,691)
Increase in accounts payable and accrued liabilities	69,776	97,283
Increase in accrued interest	105,099	23,174
Decrease in unearned revenue	(19,792)	(50,000)
Net cash used in operating activities	(581,572)	(175,771)
Cash flows from investing activities:		
Purchase of fixed assets and intangible assets	(120,575)	(56,023)
Net cash used in investing activities	(120,575)	(56,023)
Cash flows from financing activities:		
Proceeds from, net of payments to, related parties for loans	(7,527)	(2,681)
Payments on related parties convertible notes payable	(12,475)	—
Proceeds from convertible notes payable	—	312,900
Advances to related parties	(40,043)	
Payments on convertible notes payable	(14,000)	(7,500)
Proceeds from loans payable	1,000,000	(5,000)
Net cash provided by (used in) financing activities	925,955	297,719
Net change in cash	223,808	65,925
Cash, beginning of period	450,507	1,218
Cash, end of period	$674,315	$67,143
Supplemental disclosure of cash flow information:		
Cash paid for interest	$97,194	$—

Cash paid for tax	$—	$—
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Non-cash investing and financing activities:		
Loan payable converted to convertible loan	$23,554	$(9,719)
Common stock issued on conversion of debts	$23,554	$78,361
Beneficial conversion feature	$—	$326,510
Common stock issued for extinguishment of debts	$16,100	$—

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. DESCRIPTION OF BUSINESS, HISTORY AND SUMMARY OF SIGNIFICANT POLICIES

Description of business – Skinvisible, Inc., (referred to as the "Company") is focused on the development and manufacture of innovative topical, transdermal and mucosal polymer-based delivery system technologies and formulations incorporating its patent-pending formula/process for combining hydrophilic and hydrophobic polymer emulsions. The technologies and formulations have broad industry applications within the pharmaceutical, over-the-counter, personal skincare and cosmetic arenas. Additionally, the Company's non-dermatological formulations, offer solutions for a broad spectrum of markets women's health, pain management, and others. The Company maintains executive and sales offices in Las Vegas, Nevada.

History – Skinvisible, Inc. (referred to as the "Company") was incorporated in Nevada on March 6, 1998 under the name of Microbial Solutions, Inc. The Company underwent a name change on February 26, 1999, when it changed its name to Skinvisible, Inc. The Company's subsidiary's name of Manloe Labs, Inc. was also changed to Skinvisible Pharmaceuticals, Inc.

Skinvisible, Inc. together with its subsidiary shall herein be collectively referred to as the "Company".

Going concern – The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred cumulative net losses of $23,601,123 since its inception and requires capital for its contemplated operational and marketing activities to take place. The Company's ability to raise additional capital through the future issuances of common stock is unknown. The obtainment of additional financing, the successful development of the Company's contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

Principles of consolidation – The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany balances and transactions have been eliminated.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments and short-term debt instruments with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts reflected in the balance sheets for cash, accounts payable and accrued expenses approximate the respective fair values due to the short maturities of these items.

As required by the Fair Value Measurements and Disclosures Topic of the FASB ASC, fair value is measured based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Revenue recognition

Product sales – Revenues from the sale of products (Invisicare® polymers) are recognized when title to the products are transferred to the customer and only when no further contingencies or material performance obligations are warranted, and thereby have earned the right to receive reasonably assured payments for products sold and delivered.

Royalty sales – The Company also recognizes royalty revenue from licensing its patented product formulations only when earned, when no further contingencies or material performance obligations are warranted, and thereby have earned the right to receive and retain reasonably assured payments.

Distribution and license rights sales – The Company also recognizes revenue from distribution and license rights only when earned (and are amortized over a five year period), when no further contingencies or material performance obligations are warranted, and thereby have earned the right to receive and retain reasonably assured payments.

Costs of Revenue – Cost of revenue includes raw materials, component parts, and shipping supplies. Shipping and handling costs is not a significant portion of the cost of revenue.

Accounts Receivable – Accounts receivable is comprised of uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The carrying amount of accounts receivable is reviewed periodically for collectability. If management determines that collection is unlikely, an allowance that reflects management’s best estimate of the amounts that will not be collected is recorded. Management reviews each accounts receivable balance that exceeds 30 days from the invoice date and, based on an assessment of creditworthiness, estimates the portion, if any, of the balance that will not be collected. As of September 30, 2013, the Company had not recorded a reserve for doubtful accounts. The Company has $1,000,000 in convertible notes payable which are secured by the accounts receivable of a license agreement the Company has with Women's Choice Pharmaceuticals, LLC on its proprietary prescription product, ProCort®.

Inventory – Substantially all inventory consists of finished goods and are valued based upon first-in first-out ("FIFO") cost, not in excess of market. The determination of whether the carrying amount of inventory requires a write-down is based on an evaluation of inventory.

Goodwill and intangible assets – The Company follows Financial Accounting Standard Board's (FASB) Codification Topic 350-10 ("ASC 350-10"), "*Intangibles – Goodwill and Other*". According to this statement, goodwill and intangible assets with indefinite lives are no longer subject to amortization, but rather an annual assessment of impairment by applying a fair-value based test. Fair value for goodwill is based on discounted cash flows, market multiples and/or appraised values as appropriate. Under ASC 350-10, the carrying value of assets are calculated at the lowest level for which there are identifiable cash flows.

Income taxes – The Company accounts for its income taxes in accordance with FASB Codification Topic ASC 740-10, "*Income Taxes*", which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carry-forwards. 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Stock-based compensation – The Company follows the guidelines in FASB Codification Topic ASC 718-10 "*Compensation-Stock Compensation*", which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to a Employee Stock Purchase Plan based on the estimated fair values.

Stock based compensation expense recognized under ASC 718-10 for the nine months ended September 30, 2013 and 2012 totaled $21,200 and $0 respectively.

Earnings (loss) per share – The Company reports earnings (loss) per share in accordance with FASB Codification Topic ASC 260-10 "*Earnings Per Share*", Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings (loss) per share has not been presented since the effect of the assumed exercise of options and warrants to purchase common shares (common stock equivalents) would have an anti-dilutive effect.

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

2. FIXED ASSETS

Fixed assets consist of the following as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Machinery and equipment	48,163	$45,208
Furniture and fixtures	113,635	113,635
Computers, equipment and software	38,540	38,105
Leasehold improvements	12,569	12,569
Lab equipment	113,461	113,461
Total	326,368	322,978
Less: accumulated depreciation	(322,477)	(318,519)
Fixed assets, net of accumulated depreciation	3,891	$4,459

Depreciation expense for the nine months ended September 30, 2013 and 2012 was $1,003 and $943, respectively.

3. INTANGIBLE AND OTHER ASSETS

Patents and trademarks are capitalized at its historical cost and are amortized over their useful lives. As of September 30, 2013, patents and trademarks total $584,898, net of $239,208 of accumulated amortization. Amortization expense for the nine months ended September 30, 2013 and 2012 was $26,003 and $43,039, respectively. The Company has secured $1,000,000 in notes payable with its US Patent rights granted for the Company's Sunscreen Products: US patent number #8,128,913: "Sunscreen Composition with Enhanced UV-A Absorber Stability and Methods".

License and distributor rights (“agreement”) were acquired by the Company in January 1999 and provide exclusive use distribution of polymers and polymer based products. The Company has a non-expiring term on the license and distribution rights. Accordingly, the Company annually assesses this license and distribution rights for impairment and has determined that no impairment write-down is considered necessary as of September 30, 2013.

4. UNEARNED REVENUE

On January 16, 2013, the company terminated its licensing agreement with Panalab dated January 23, 2008. The agreement provided Panalab the right to distribute, market, sell and promote Skinvisible's proprietary formulas made with Invisicare and Adapalene through-out Panalabs assigned territory. Panalab had failed to sell or sub-license the products in the territory, thereby not fulfilling the conditions as set forth in the agreement and allowing for immediate termination of the agreement. As a result of this cancelation, unearned revenue of $19,792 has been recognized as revenue during the nine months ended September 30, 2013.

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

5. STOCK OPTIONS AND WARRANTS

The following is a summary of option activity during the nine months ended September 30, 2013.

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2012	9,400,000	$0.05
Options granted and assumed	300,000	$0.03
Options expired	400,000	$0.05
Options canceled	—	—
Options exercised	—	—
Balance, September 30, 2013	9,300,000	$0.05

As of September 30, 2013, 9,300,000 stock options are exercisable.

On September 23, 2013, the Company granted stock options for 300,000 shares of its common stock with a strike price of $0.03. The stock options were exercisable upon grant and have a life of 5 years. The stock options were valued at $8,400 using the Black-Scholes option pricing model based upon the following assumptions: term of 5 years, risk free interest rate of 1.33%, a dividend yield of 0% and volatility rates of 443%. The Company recorded an expense of $8,400 for the nine months ended September 30, 2013.

Stock warrants -

The following is a summary of warrants activity during the nine months ended September 30, 2013.

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2012	6,765,200	$0.06
Warrants granted and assumed	471,280	$0.06
Warrants expired	2,562,500	$0.05
Warrants canceled	—	—
Warrants exercised	—	—

Balance, September 30, 2013	4,673,980	$0.06

All warrants outstanding as of September 30, 2013 are exercisable.

271,280 warrants were issued during the three months ended March 31, 2013 as part of a series of convertible notes with attached warrants. The warrants issued allow the holder to purchase one share for every two shares issued upon conversion at an exercise price of $0.07 cents per share.

On May 22, 2013 200,000 warrants were issued as compensation for consulting services. The warrants issued allow the holder to purchase one share at an exercise price of $0.04 cents per share.

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(UNAUDITED)