

SKINVISIBLE INC
Form 10-Q
November 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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

For the transition period to _____

Commission File Number: 000-25911

Skinvisible, Inc.
(Exact name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

88-0344219
(IRS Employer
Identification No.)

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

702-433-7154
(Issuer's telephone number)

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

Check whether the issuer (1) 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 issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Edgar Filing: SKINVISIBLE INC - Form 10-Q

Large accelerated filer Accelerated filer Non-accelerated filer
 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 No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 93,459,745 Common Shares as of September 30, 2009.

TABLE OF CONTENTS

		Page
PART I – FINANCIAL INFORMATION		
<u>Item 1:</u>	<u>Financial Statements</u>	3
<u>Item 2:</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	4
<u>Item 3:</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	12
<u>Item 4T:</u>	<u>Controls and Procedures</u>	12
PART II – OTHER INFORMATION		
<u>Item 1:</u>	<u>Legal Proceedings</u>	13
<u>Item 1A:</u>	<u>Risk Factors</u>	13
<u>Item 2:</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	13
<u>Item 3:</u>	<u>Defaults Upon Senior Securities</u>	14
<u>Item 4:</u>	<u>Submission of Matters to a Vote of Security Holders</u>	14
<u>Item 5:</u>	<u>Other Information</u>	14
<u>Item 6:</u>	<u>Exhibits</u>	14

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

- (a) Consolidated Balance Sheets as of September 30, 2009 (unaudited) and December 31, 2008 (audited);
- (b) Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and 2008;
- (c) Unaudited Consolidated Statements of Cash Flow for the nine months ended September 30, 2009 and 2008;
- (d) Notes to Consolidated Financial Statements.

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, 2009 are not necessarily indicative of the results that can be expected for the full year.

Table of ContentsSKINVISIBLE, INC
Balance Sheets

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS		
Current assets		
Cash	\$ 2,301	\$ 6,062
Accounts receivable	8,305	9,553
Inventory	23,064	17,796
Due from related party	12,025	986
Financing costs	5,155	55,562
Prepaid royalty fees	--	180,000
Prepaid expense and other current assets	29,615	4,182
Total current assets	80,464	274,141
Fixed assets, net	11,668	16,593
Intangible and other assets		
Patents and trademarks, net	115,992	23,333
License and distributor rights	50,000	50,000
Total assets	\$ 258,124	\$ 364,067
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	\$ 758,245	\$ 469,151
Accrued interest payable	21,561	23,209
Loans from related party	3,500	2,136
Convertible notes payable related party	220,051	120,627
Unearned revenue	-	50,000
Total current liabilities	1,003,357	665,123
Total liabilities	1,003,357	665,123
Commitments and contingencies	--	--
Stockholders' deficit		

Edgar Filing: SKINVISIBLE INC - Form 10-Q

Common stock; \$0.001 par value; 100,000,000 shares authorized; and 93,459,745 and 84,095,888 shares issued and outstanding, respectively	93,462	84,098
Additional paid-in capital	17,295,676	16,552,571
Accumulated deficit	(18,134,371)	(16,937,725)
Total stockholders' deficit	(745,233)	(301,056)
 Total liabilities and stockholders' deficit	 \$ 258,124	 \$ 364,067

F-1

Table of ContentsSKINVISIBLE, INC.
Statements of Operations
(Unaudited)

	For the three months ended		For the nine months ended	
	September	September	September	September
	30, 2009	30, 2008	30, 2009	30, 2008
Revenues	\$ 43,086	\$ 244,440	\$ 190,063	\$ 575,804
Cost of revenues	838	9,133	16,397	14,932
Gross profit	42,249	235,307	173,666	560,872
Operating expenses				
Depreciation and amortization	8,206	5,356	16,214	15,135
Selling general and administrative	328,427	425,597	1,155,558	1,606,238
Total operating expenses	336,633	430,953	1,171,772	1,621,373
Loss before provision for income taxes	(294,385)	(195,646)	(998,107)	(1,060,501)
Other income (expense)				
Interest income	--	--	17	--
Other income	--	--	5,570	3,000
Interest expense	(22,640)	(49,292)	(204,127)	(309,148)
Total other income (expense)	(22,640)	(49,292)	(198,539)	(306,148)
Provision for income taxes	--	--	--	--
Net loss	\$ (317,024)	\$ (244,938)	\$ (1,196,645)	\$ (1,366,649)
Basic loss per common share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.02)
Basic weighted average common shares outstanding	89,991,281	79,417,586	88,828,552	75,792,582

Table of Contents

SKINVISIBLE, INC.

Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Deficit
Balance, December 31, 2008	84,095,888	\$ 84,098	\$ 16,552,571	\$ (16,937,725)	\$ (301,056)
Issuance of stock for cash	300,000	300	14,700	--	15,000
Issuance of stock for services	5,173,500	5,174	334,241	--	339,415
Issuance of stock for conversion of debts	3,590,357	3,590	269,088	--	272,678
Issuance of stock for accounts payable, \$0.10 per share	300,000	300	22,200	--	22,500
Employee stock option grants	--	--	81,922	--	81,922
Issuance of stock options for services	--	--	20,954	--	20,954
Net loss	--	--	--	(1,196,645)	(1,196,645)
Balance, September 30, 2009	93,459,745	\$ 93,462	\$ 17,295,676	\$ (18,134,370)	\$ (745,233)

F-3

Table of ContentsSKINVISIBLE, INC.
Statements of Cash Flows
(Unaudited)

	For the nine months ended	
	September 30, 2009	September 30, 2008
Cash flows from operating activities:		
Net loss	\$ (1,196,645)	\$ (1,366,649)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	16,214	15,135
Stock based compensation	446,481	372,626
Interest expense paid with common stock	334,195	238,512
Loss on disposal of assets	1,682	--
Changes in operating assets and liabilities:		
(Increase) in inventory	(5,268)	822
(Increase) decrease in accounts receivable	1,248	23,188
Decrease in prepaid expenses and other current assets	(25,433)	3,312
(Increase) decrease in related party receivable	(11,039)	--
Decrease in prepaid royalty fees	180,000	180,000
Increase in accounts payable and accrued liabilities	311,294	118,528
Increase in accrued interest	(1,648)	13,081
Decrease in unearned revenue	(50,000)	(300,000)
Net cash used in operating activities	1,081	(701,445)
Cash flows from investing activities:		
Purchase of fixed assets and intangible assets	(105,631)	--
Net cash used in investing activities	(105,631)	--
Cash flows from financing activities:		
Proceeds from (Payments to) related party loans	1,364	(45,119)
Proceeds from convertible notes payable	99,424	165,199
Proceeds from convertible notes payable related party	--	410,792
Proceeds from loan payable	--	122,500
Net cash provided by financing activities	100,788	653,372
Net change in cash	(3,761)	(48,073)
Cash, beginning of period	6,062	63,168
Cash, end of period	\$ 2,301	\$ 15,095

Table of Contents

SKINVISIBLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

Basis of presentation – The accompanying unaudited Consolidated Financial Statements of Skinvisible, Inc. (the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q. The financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements.

These Consolidated Financial Statements should be read in conjunction with the audited financial statements and footnotes included in Skinvisible, Inc.’s Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Description of business - Skinvisible, Inc., (referred to as the “Company”) is focused on the development and manufacture of innovative topical 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. The Company’s antibacterial/antimicrobial hand sanitizer formulations, available for private label commercialization opportunities, offer skincare solutions for the healthcare, food service, industrial, cosmetic and salon industries, as well as for personal use in the retail marketplace. The Company maintains manufacturing, 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 \$18,134,371 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 raise 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.

F-5

Table of Contents

SKINVISIBLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT POLICIES (continued)

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.

Revenue recognition

Product sales - Revenues from the sale of products 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 patent and trademarks, only when earned, with 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, with 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, 2009, the Company had not recorded a reserve for doubtful accounts.

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 - Beginning January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". 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 SFAS No. 142, the carrying value of assets are calculated at the lowest level for which there are identifiable cash flows.

SFAS 142 requires the Company to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Upon adoption and during 2002, the Company completed an impairment review and did not recognize any impairment of goodwill and other intangible assets already included in the financial statements. The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time. Accordingly, beginning January 1, 2002, the Company has foregone all related amortization expense. Prior to January 1, 2002, the Company amortized goodwill over an estimated useful life ranging from 3 to 15 years using the straight-line method.

F-6

Table of Contents

SKINVISIBLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT POLICIES (continued)

Income taxes - The Company accounts for its income taxes in accordance with Statement of Financial Accounting Standards No. 109, 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 - On January 1, 2005, the Company adopted SFAS No. 123 (R) "Share-Based Payment" 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.

The Company adopted SFAS No. 123(R) using the modified prospective transition method, which required the application of the accounting standard as of January 1, 2005. The accompanying consolidated financial statements as of and for the three months ended March 31, 2008 reflect the impact of SFAS No. 123(R). In accordance with the modified prospective transition method, the Company's accompanying consolidated financial statements for the prior periods have not been restated, and do not include the impact of SFAS No. 123(R). Stock based compensation expense recognized under SFAS No. 123(R) for the nine months ended September 30, 2009 and 2008 totaled \$334,195 and \$372,626, respectively.

Earnings (loss) per share - The Company reports earnings (loss) per share in accordance with SFAS No. 128, "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.

Reclassification – The financial statements from 2008 reflect certain reclassifications, which will have no effect on net income, to conform to classifications in the current year.

2. INTANGIBLE AND OTHER ASSETS

Patents and trademarks are capitalized at its historical cost and are amortized over their useful lives. As of September 30, 2009, patents and trademarks total \$14,678, and amortization expense for the three and nine months ended September 30, 2009 and 2008 were \$2,885 and \$2,885, and \$2,885 and \$2,885, respectively.

License and distributor rights ("agreement") was acquired by the Company in January 1999 and provides 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, 2009.

Prepaid royalties fees are amounts prepaid by the Company related to the license and distributor rights. The future royalties payments required by the Company total \$2,000,000. The royalties fees are to be paid in an amount equal to the greater of (a) \$6,000 per month; or (b) 1.5% of net revenues realized by the sale of the associated polymer products subject to a cap of \$2,000,000. The Company will make payments of \$6,000 per month, and by a payment on any royalties in excess of \$72,000 in each year payable on an annual basis calculated within 60 days of each anniversary date of the agreement. The future royalties payments are to be amortized over eight years, which is the life of the agreement. As of September 30, 2009, the Company has paid a total of \$2,000,000 of which \$2,000,000 has been expensed.

Table of Contents

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

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Company Overview

We develop innovative polymer delivery vehicles and related compositions that hold active ingredients on the skin for extended periods of time when applied topically. We designed a process for combining water soluble and insoluble polymers that is specifically formulated to carry water insoluble active ingredients in water-based products without the use of alcohol, silicones, waxes, or other organic solvents. This enables active agents the ability to perform their intended functions for an extended period of time. Our polymer delivery vehicles, trademarked Invisicare®, allow normal skin respiration and perspiration. The polymer compositions we develop wear off as part of the natural exfoliation process of the skin's outer layer cells.

We believe Invisicare® offers the following benefits:

- § Displays superior skin adherence for extended time periods
- § Non-occlusive yet resists water wash-off, respiration and perspiration
 - § Increased efficacy of active ingredients
- § Allows for lower use levels of actives with increased persistence of effect
 - § Offers advantage of controlled and/or sustained time-release
 - § Highly compatible with a variety of actives and bases
 - § Easy to emulsify
 - § Formulates well at a cream, lotion, or spray viscosity
 - § Non-irritating emulsion dries quickly with no greasy after-feel

Edgar Filing: SKINVISIBLE INC - Form 10-Q

- § Non-occlusive film forms protective barrier against environmental irritants
 - § Broad polymer selection to meet application requirements
- § Offers “Life Cycle” management to core products with potential for new patent
 - § Simplified manufacturing process

Table of Contents

Products that successfully incorporate Invisicare to date include antimicrobial hand sanitizer lotions, suncare products, skincare moisturizers, sunless tanning products as well as various dermatology products for various skin disorders. On an ongoing basis, we are seeking to develop polymer formulations that can successfully be incorporated into other products.

Our primary objective is to license Invisicare to established brand manufacturers and marketers of prescription and over-the-counter products in the dermatological, medical, cosmetic, and skincare markets. With the exception of sales to one vendor, our management's policy is to only sell Invisicare to vendors that have executed a license agreement with us. We conduct our research and development in-house. We engage an outside party that currently handles all of our manufacturing and distribution needs.

Recent Developments

Our core business is the research and development of products formulated with our patented technology Invisicare. This year we have added a strategic focus on the sale and marketing of these products and developing new Invisicare technologies. Our focus has allowed us to expand our reputation amongst key dermatology, consumer goods and medical/surgical companies around the globe. It has also allowed us to branch out beyond dermatology into other medical areas that require topically delivered products.

Product Developments

We intend to expand our product offerings. Currently we have over 30 topical products formulated with Invisicare available for licensing. Our products range from acne formations to sunscreens to surgical products.

On April 28th we announced that we have developed a hand sanitizing lotion that has proven effective in killing the H1N1 swine flu virus. Retroscreen Virology of London England conducted the studies with our hand sanitizer lotion called DermSafe. The product demonstrated it had a greater than 99.99 % inactivation/kill on the H1N1 swine flu virus.

We have a series of studies demonstrating that DermSafe kills a host of viruses and bacteria, including several influenza viruses such as H1N1 ("swine flu"), H3N2 and H5N1 ("avian bird flu virus"). The active ingredient in DermSafe is chlorhexidine gluconate, which has been used in hospitals worldwide for over fifty years as a pre-surgical hand scrub. DermSafe is available for licensing both commercially in healthcare and food services as well as for personal use (retail) worldwide. DermSafe has been approved for distribution by Health Canada and the company is implementing a plan to seek FDA approval in the US and worldwide.

To assist with our approvals in the US, Canada and Europe we are conducting further human studies on the H1N1 virus. We successfully completed a new clinical study proving that our hand sanitizer lotion DermSafe kills/inactivates the H1N1 virus on humans. This in-vivo study proves that DermSafe meets the criteria set-out by internationally accepted study guidelines to show efficacy against the H1N1 "swine flu" virus.

Table of Contents

The study, performed at the independent testing laboratory Bioscience Laboratories, Inc., required that the subjects' finger pads be contaminated with the H1N1 virus and then examined according to the American Society for Testing and Materials (ASTM) Standards. The results of the study proved that DermSafe killed the virus to the same detection level as 70% alcohol. In some countries, this study allows us to submit data for approval to include "Kills H1N1" on our product labels. This further confirms the efficacy of DermSafe as previously announced in an in-vitro study conducted at Retroscreen Virology, where DermSafe also achieved a 99.99% kill / inactivation of the H1N1 virus.

Furthermore, DermSafe was also successfully tested in an in-vivo bacterial hand disinfection study using the European Standard Method. This study method is used in a number of countries in Europe and also in Canada for approval in the healthcare and food services industries. The results proved the efficacy of DermSafe against bacteria on artificially contaminated hands as compared to the reference product of 60% isopropanol, a typical alcohol used in hand sanitizers.

Patent Developments

We intend to continually generate new patents (intellectual property) on our Invisicare technology as well as on the dermatology and medical products we have formulated. To date we have received Patent approval for the Invisicare technology in the US (3), Australia, India, Japan and China with approvals expected shortly in Canada, Korea and Hong Kong. In addition to the Invisicare technology patent protection we also seek protection on certain finished product formulations initially in the US and then internationally. All patents with Invisicare are owned by Skinvisible.

Patent protection is important to our company. Pharmaceutical companies are pursuing new or improved revenue streams along with protecting their own intellectual properties. Invisicare allows companies to sell a patent-protected product that has been revitalized with new benefits, giving them a new story to help combat generic competitors. A prescription dermatology product can generate sales of \$100 plus million per year; some even \$200 plus million – and that is why we believe the investment into a license with an Invisicare formulation is a very viable option for these companies.

We continue to submit for patent protection worldwide for products formulated with Invisicare.

License Agreements

Our current licensees: JD Nelson & Associates with Safe4Hours®, an antimicrobial hand sanitizer, have license rights for the US, Canada and Mexico. Presently they market Safe4Hours in both the US and Canada. The DRJ Group with Stopain® presently market only in the US while Sunless Beauty with Solerra® sunless tanning products market globally. In 2008, we licensed two acne prescription formulations made with the active ingredient adapalene to Panalab Internacional S.A. of Argentina for Latin America. Panalab are completing their regulatory approvals and expect to be marketing their product in Q2, 2010. In addition we licensed two prescription acne products (clindamycin and retinoic acid) to Embil Pharmaceuticals in Turkey for Turkey, parts of Asia (Indonesia, Malaysia, and the Philippines) and Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan. Embil is seeking regulatory approval now and expect to be marketing the products in 2010.

In addition JD Nelson has licensed a first aid antiseptic skin protectant formulated with Invisicare. They expect to begin marketing at retail in the first quarter of 2010, with purchase orders being received in the last quarter of 2009.

In January 2009, we signed an agreement with RHEI Pharmaceuticals NV, a Belgium based pharmaceutical company that in-licenses pharmaceutical products for sale in China. This agreement gives RHEI the first option to license the

exclusive rights for Skinvisible's dermatology products for the territory of China, Hong Kong and Taiwan.

6

Table of Contents

In September 2009, we licensed the rights to DermSafe, our antimicrobial hand sanitizer formula to Mayquest Pharmaceuticals PTE. Ltd. of Singapore. Mayquest has received regulatory approval to import the product into Singapore as well as to sell into the retail marketplace. They will be seeking further approvals to sell commercially in Singapore and the balance of their territory. Their territory includes Singapore, Indonesia, the Philippines, Thailand and Malaysia. Terms of the license call for Mayquest to pay a license fee (paid in milestones) plus pay a royalty payment based on sales in the territory.

We are discussions with several pharmaceutical companies for license rights to DermSafe in other countries including the US, Canada, China and Europe.

Status of Research and Development for New Applications

We believe that the enhancement and extension of our existing products and the development of new product categories have contributed significantly to our growth to date and are necessary for our continued growth. Our management evaluates new ideas and seeks to develop new products and improvements to existing products to satisfy industry requirements and changing consumer preferences. We seek to identify trends in consumer preferences and to generate new product ideas. Specific to the objective of generating new products, we are continuing our research and development toward developing additional applications with Invisicare. We are currently at various development stages for the following potential applications using Invisicare:

Skinvisible's Formulas with Invisicare:

ACTIVE INGREDIENT	TYPE	Availability	Patent
Acne			
Adapalene Cream & Gel (0.1% & 0.3%)	Rx	yes*	pending
Clindamycin Hydrochloride Cream (1%)	Rx	yes*	pending
Retinoic Acid Cream (0.1%)	Rx	yes*	pending
Benzoyl Peroxide (2.5%) Cream		In	
	Rx / OTC development		pending
Actinic Keratosis			
Imiquimod Lotion (2%, 3%)	Rx	yes	pending
Analgesics			
Topical Spray with Menthol (6% & 8%)	OTC	yes	technology
Topical Roll-On with Menthol (6% & 8%)	OTC	yes	technology
Topical Cream with Salicylate (10%)	OTC	yes	technology
Anti-Aging			
Retinol Cream (0.3%)	Cosmetic	yes	technology
Anti-Fungal			
Terbinafine Cream, Gel (1%)	OTC	yes	pending
Naftifine Cream (1%)	Rx	yes	pending

Edgar Filing: SKINVISIBLE INC - Form 10-Q

Naftifine (1%) & Hydrocortisone (1%) Cream	Rx	yes	pending
Clotrimazole Cream (1%)	OTC	yes	pending
Anti-Inflammatory			
Hydrocortisone Cream (1%)	OTC	yes	technology
Triamcinolone (1%)	Rx	yes	technology
Triamcinolone Acetonide (1%)	Rx	yes	technology
Clobetasole Propionate (0.05%)	Rx	in-progress	technology
Betamethasone (1%)	Rx	yes	technology
Antimicrobial Lotions			
Triclosan Lotion (1%) with Nonoxynol-9	OTC	yes*	granted
Triclosan Lotion (1%) with Tomadol 901	OTC	yes*	granted
Benzalkonium Chloride Lotion (0.13%)	OTC	yes*	granted
Chlorhexidine Gluconate Lotion (4%)	OTC / NDA	yes	pending
Chlorhexidine Gluconate (2%) Pre-Surgical Prep	NDA	yes	pending
Atopic Dermatitis / Super Moisturizers			
Non-Steroidal Atopic Dermatitis Cream 1% Hyaluronic Acid	Rx / Cosmetic	yes	technology
Skin Protectant Lotion with Allantoin (1%)	OTC	yes	technology
Super Moisturizer with Ectoin	Cosmetic	yes	technology
Urea Moisturizer (25% & 30%)	Cosmetic	yes	technology
UVA / UVB Sunscreen			
Parsol 1789 - SPF 15 / 30 / 50 Lotion	OTC	yes	pending
Tinosorb S – SPF 15 / 30 / 50 Lotion	OTC	yes	pending
Other			
Scar Lotion with Onion Bulb Fragrance – Long Lasting Gel	Cosmetic	yes	technology
Long-lasting Sunless Tanner (2.5%, 5% & 9%)	Cosmetic	yes	technology
After Sun (Aloe) Cream	Cosmetic	yes	technology

*some territories already licensed

Table of Contents

Results of Operations for the Three and Nine Months Ended September 30, 2009 and 2008

Revenues

Our total revenue reported for the three months ended September 30, 2009 was \$43,086, compared to \$244,440 for the three months ended September 30, 2008. Our total revenue reported for the nine months ended September 30, 2009 was \$190,063, compared to \$575,804 for the nine months ended September 30, 2008. The decrease in revenues for the three and nine months ended September 30, 2009 from the prior periods is attributable to both the decreased sales of polymers to our licensees as well as any new license fees.

Cost of Revenues

Our cost of revenues for the three months ended September 30, 2009 decreased to \$838 from the prior period when cost of revenues was \$9,133. Our cost of revenues for the nine months ended September 30, 2009 increased to \$16,397 from the prior period when cost of revenues was \$14,932. The decrease in cost of revenues for the three months ended September 30, 2009 from the prior period is attributable to decreased sales of polymers to our licensees. The increase in our cost of revenues for the nine months ended September 30, 2009 from the prior periods is attributable to the revenue base being mainly polymer sales and not licence fees, which have no cost of goods to them.

Gross Profit

Gross profit for the three months ended September 30, 2009 was \$42,249, or approximately 98% of sales. Gross profit for the three months ended September 30, 2008 was \$235,307, or approximately 96% of sales. Gross profit for the nine months ended September 30, 2009 was \$173,666, or approximately 91% of sales. Gross profit for the nine months ended September 30, 2008 was \$560,872, or approximately 97% of sales.

Table of Contents

Operating Expenses

Operating expenses decreased to \$336,633 for the three months ended September 30, 2009 from \$430,953 for the three months ended September 30, 2008. Our operating expenses for the three months ended September 30, 2009 consisted of depreciation and amortization expenses of \$8,206 and selling, general and administrative expenses of \$328,427. Our operating expenses for the three months ended September 30, 2008 consisted of depreciation and amortization expenses of \$5,356, and selling, general and administrative expenses of \$425,597.

Operating expenses decreased to \$1,171,772 for the nine months ended September 30, 2009 from \$1,621,373 for the nine months ended September 30, 2008. Our operating expenses for the nine months ended September 30, 2009 consisted of depreciation and amortization expenses of \$16,214 and selling, general and administrative expenses of \$1,155,558. Our operating expenses for the nine months ended September 30, 2008 consisted of depreciation and amortization expenses of \$15,135, and selling, general and administrative expenses of \$1,606,238.

Other Expenses

We paid less in interest expenses for the three months ended September 30, 2009 than in the prior period ended 2008, resulting in total other expenses of \$22,640 as compared with \$49,292 for the prior period. We paid less in interest expenses for the nine months ended September 30, 2009 than in the prior period ended 2008, resulting in total other expenses of \$198,539 as compared with \$306,148 for the prior period.

Net Loss

Net loss for the three months ended September 30, 2009 was \$317,024, compared to net loss of \$244,938 for the three months ended September 30, 2008. Net loss for the nine months ended September 30, 2009 was \$1,196,645, compared to net loss of \$1,366,649 for the nine months ended September 30, 2008.

Liquidity and Capital Resources

As of September 30, 2009, we had total current assets of \$80,464 and total assets in the amount of \$258,124. Our total current liabilities as of September 30, 2009 were \$1,003,357. We had a working capital deficit of \$922,893 as of September 30, 2009.

Operating activities provided \$1,081 in cash for nine months ended September 30, 2009. Stock based compensation of \$446,481, increase in accounts payable and accrued liabilities of \$311,294, and interest expense paid with common stock of \$334,195 are the primary factors of our positive cash flow, offset mainly by our net loss of \$1,196,645. Investing activities during the nine months ended September 30, 2009 used \$105,631 as a result of the purchase of fixed and intangible assets. Cash flows provided by financing activities during the nine months ended September 30, 2009 amounted to \$100,788 and consisted of \$99,424 as proceeds from the issuance of convertible notes payable and \$1,364 as proceeds from related party loans.

In order to preserve needed cash to operate our business, we have sought to and have been successful in converting certain of our debt into equity of our company. During the three months ended September 30, 2008, a total of \$155,339 represented by loans, accrued compensation and expenses, and services rendered has been converted into equity under various rates and terms. We can provide no assurance that we will be able to convert other debt in our company under similar arrangements, or at all, in the future. If we are unable to convert our debt into equity, or raise capital to cover our liabilities, we may not be able to continue as a going concern.

Table of Contents

Based upon our current financial condition, we do not have sufficient cash to operate our business at the current level for the next twelve months. We intend to fund operations through increased sales and debt and/or equity financing arrangements, which may be insufficient to fund expenditures or other cash requirements. We plan to seek additional financing in a private equity offering to secure funding for operations. There can be no assurance that we will be successful in raising additional funding. If we are not able to secure additional funding, the implementation of our business plan will be impaired. There can be no assurance that such additional financing will be available to us on acceptable terms or at all.

Off Balance Sheet Arrangements

As of September 30, 2009, there were no off balance sheet arrangements.

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. We have incurred cumulative net losses of approximately \$18,134,371 since our inception and require capital for our contemplated operational and marketing activities to take place. Our ability to raise additional capital through the future issuances of the common stock is unknown. The obtainment of additional financing, the successful development of our contemplated plan of operations, and our transition, ultimately, to the attainment of profitable operations are necessary for us to continue operations. The ability to successfully resolve these factors raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants list their three to five most “critical accounting policies” in the Management Discussion and Analysis. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of a company’s financial condition and results, and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following accounting policies fit this definition.

Revenue Recognition

Revenues are recognized during the period in which the revenues are earned. Costs and expenses are recognized during the period in which they are incurred.

Product sales - Revenues from the sale of products 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.

Table of Contents

Royalty sales – The Company also recognizes royalty revenue from licensing its patent and trademarks, only when earned, with 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, with 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.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets, which are generally 3 to 10 years. The cost of repairs and maintenance is charged to expense as incurred. Expenditures for property betterments and renewals are capitalized. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other income (expense).

We periodically evaluate whether events and circumstances have occurred that may warrant revision of the estimated useful life of fixed assets or whether the remaining balance of fixed assets should be evaluated for possible impairment. We use an estimate of the related undiscounted cash flows over the remaining life of the fixed assets in measuring their recoverability.

Goodwill and Intangible Assets

Beginning January 1, 2002, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets”. 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 SFAS No. 142, the carrying value of assets are calculated at the lowest level for which there are identifiable cash flows.

SFAS 142 requires us to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Upon adoption and during 2002, we completed an impairment review and did not recognize any impairment of goodwill and other intangible assets already included in the financial statements. We expect to receive future benefits from previously acquired goodwill over an indefinite period of time. Accordingly, beginning January 1, 2002, we have foregone all related amortization expense. Prior to January 1, 2002, we amortized goodwill over an estimated useful life ranging from 3 to 15 years using the straight-line method.

Recently Issued Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133,” (SFAS “161”) as amended and interpreted, which requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. Disclosing the fair values of derivative instruments and their gains and losses in a tabular format provides a more complete picture of the location in an entity’s financial statements of both the derivative positions existing at

period end and the effect of using derivatives during the reporting period. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is permitted.

Table of Contents

At September 30, 2009, we did not have any derivative instruments or hedging activities. Management is aware of the requirements of SFAS 161 and will disclose when appropriate.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 will provide framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. SFAS 162 will be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board ("PCAOB") amendments to AU Section 411. We do not expect the adoption of SFAS 162 will have a material impact on our financial condition or results of operation.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60." SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement requires expanded disclosures about financial guarantee insurance contracts. The accounting and disclosure requirements of the Statement will improve the quality of information provided to users of financial statements. SFAS 163 will be effective for financial statements issued for fiscal years beginning after December 15, 2008. We do not expect the adoption of SFAS 163 will have a material impact on our financial condition or results of operation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information required by this Item.

Item 4T. Controls and Procedures

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2009. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Mr. Terry Howlett. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2009, our disclosure controls and procedures are effective. There have been no significant changes in our internal controls over financial reporting during the quarter ended September 30, 2009 that have materially affected or are reasonably likely to materially affect such controls.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Table of Contents

Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any pending legal proceeding. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us.

Item 1A: Risk Factors

A smaller reporting company is not required to provide the information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The information set forth below relates to our issuances of securities without registration under the Securities Act during the reporting period which were not previously included in a Current Report on Form 8-K.

During the three months ended September 30, 2009, we issued 252,857 restricted shares of our common stock as a result of entering into loan conversion agreements, to convert total principal balances of \$34,929 into equity. In connection with the loan conversions, we also issued warrants to purchase 96,429 shares of common stock at strike prices ranging from \$0.10 and \$0.12 per share for two years.

During the three months ended September 30, 2009, we issued 1,181,000 restricted shares of our common stock as a result of entering into debt conversion agreements and issuing stock for services with consultants and employees to convert \$120,410 into equity.

Table of Contents

During the three months ended September 30, 2009, we issued five-year options to purchase 220,000 shares of our common stock at an exercise price of \$0.04 per share.

These securities were issued pursuant to Section 4(2) of the Securities Act. The holders represented their intention to acquire the securities for investment only and not with a view towards distribution. The investors were given adequate information about us to make an informed investment decision. We did not engage in any general solicitation or advertising. We directed our transfer agent to issue the stock certificates with the appropriate restrictive legend affixed to the restricted stock.

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

No matters have been submitted to our security holders for a vote, through the solicitation of proxies or otherwise, during the quarterly period ended September 30, 2009.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Description of Exhibit
Number

- 31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Skinvisible, Inc.

Date: November 16, 2009

By: /s/Terry Howlett

Terry Howlett

Title: Chief Executive Officer, Chief Financial Officer, and Director