SKINVISIBLE INC
Form 10-Q
November 19, 2012

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, 2012**
[ ] 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: 108,736,909 common shares as of September 30, 2012.

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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, 2012 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, 2012	December 31, 2011 (Restated)
ASSETS		
Current assets		
Cash	$67,143	$1,218
Accounts receivable	10,000	1,105
Inventory	5,955	14,953
Due from related party	1,145	1,145
Prepaid expense and other current assets	18,304	8,613
Total current assets	102,547	27,034
Fixed assets, net of accumulated depreciation of $330,994 and $330,001, respectively	4,774	5,717
Intangible and other assets:		
Patents and trademarks, net of accumulated amortization of $205,670 and $162,621, respectively	277,150	264,166
Total assets	$384,471	$296,917
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$719,527	$623,972
Accrued interest payable	23,174	—
Loans from related party		12,400
Loans payable	22,661	27,661
Convertible notes payable, net of unamortized debt discount of $89,868 and $-0-, respectively	383,298	62,475
Convertible notes payable related party, net of unamortized discount of $979,812 and $1,145,867, respectively	468,288	84,789
Unearned revenue	179,792	229,792
Total current liabilities	1,796,740	1,041,089
Total liabilities	1,796,740	1,041,089
Stockholders' deficit		
Common stock; $0.001 par value; 200,000,000 shares authorized 108,736,909 and 106,592,159 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	108,738	106,594
Additional paid-in capital	20,611,698	20,268,177
Accumulated deficit	(22,132,705)	(21,118,943)
Total stockholders' deficit	(1,412,269)	(744,172)

Total liabilities and stockholders' deficit	$384,471	$296,917

See Accompanying Notes to Consolidated Financial Statements.

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SKINVISIBLE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Revenues	$22,920	$31,232	$83,548	$177,502
Cost of revenues	—	328	1,944	766
Gross profit	22,920	30,904	81,604	176,736
Operating expenses				
Depreciation and amortization	8,068	12,686	43,982	40,129
Selling general and administrative	316,856	352,683	996,189	854,896
Total operating expenses	324,924	365,369	1,040,171	895,025
Loss from operations	(302,004)	(334,465)	(958,567)	(718,289)
Other income and (expense)				
Other income	25,000	—	25,000	—
Interest expense	(11,866)	(27,156)	(81,886)	(70,731)
Gain on extinguishment of Debt	(36)	—	1,691	—
Total other expense	13,098	(27,156)	(55,195)	(70,731)
Net loss	$(288,906)	$(361,621)	$(1,013,762)	$(789,020)
Basic loss per common share	$(0.00)	$(0.00)	$(0.01)	$(0.01)
Basic weighted average common shares outstanding	105,073,960	102,554,925	102,694,597	101,125,757

See Accompanying Notes to Consolidated Financial Statements.

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SKINVISIBLE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Cash flows from operating activities:		
Net loss	$(1,013,762)	$(426,999)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	43,982	27,443
Stock based compensation	—	104,100
Amortization of debt discount	432,602	277,487
Stock issued for conversion of accounts payable		—
Debt paid with common stock	78,361	—
Accrued expenses converted to notes	223,868	—
Gain on extinguishment of debt	(1,691)	—
Changes in operating assets and liabilities:		
Decrease in inventory	8,998	438
Increase in accounts receivable	(8,895)	(210,000)
Increase in prepaid expenses and other current assets	(9,691)	(27,961)
Increase in accounts payable and accrued liabilities	97,283	12,046
Increase in accrued interest	23,174	40,978
Increase (decrease) in unearned revenue	(50,000)	141,977
Net cash used in operating activities	(175,771)	(60,491)
Cash flows from investing activities:		
Purchase of fixed assets and intangible assets	(56,023)	(51,107)
Net cash used in investing activities	(56,023)	(51,107)
Cash flows from financing activities:		
Proceeds from issuance of stock	—	78,000
Proceeds from, net of payments to, related parties for loans	(2,681)	6,647
Proceeds from convertible notes payable	312,900	—
Payments on convertible notes payable	(7,500)	
Proceeds from loans	—	25,200
Payments on loans	(5,000)	—
Net cash provided by financing activities	297,719	109,847
Net change in cash	65,925	(1,751)
Cash, beginning of period	1,218	2,481
Cash, end of period	$67,143	$730

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Non-cash investing and financing activities:		
Loan payable converted to convertible loan	$(9,719)	$—
Common stock issued on conversion of debts	$78,361	$56,056
Beneficial conversion feature	$326,510	$—

See Accompanying Notes to Consolidated Financial Statements.

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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 $22,132,705 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.

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.

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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;

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, 2012 and December 31, 2011, 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 – 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.

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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, 2012 and 2011 totaled $0 and $135,000 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.

Restatement

Upon completion of the Company's September 30, 2012 financial statements, accounting errors were discovered that required the restatement of amounts previously reported as of December 31, 2011. The Company's financial statements as of December 31, 2011 included amounts related to convertible note debt discount that were improperly calculated

The following is a summary of the impact of these restatements on the Company's Consolidated Balance Sheet at December 31, 2011:

	December 31, 2011			
	As previously reported	Error correction		As restated
Convertible notes payable related party, net of unamortized discount	$531,810	$(447,021)	(a)	$84,789
Total current liabilities	$1,488,110	$(447,021)	(a)	$1,041,089

Additional paid-in capital	$19,821,156	$447,021	(a)	$20,268,177
Total stockholders' deficit	$(1,191,193)	$447,021	(a)	$(744,172)

(a) To correct errors in debt discount of convertible notes payable related party.

The following is a summary of the impact of these restatements on the Company's Consolidated Statements of Equity for the fiscal year ended December 31, 2011:

	December 31, 2011			
	As previously reported	Error correction		As restated
Balance Additional Paid-in Capital	$19,821,156	$447,021	(a)	$20,268,177
Balance September 30, 2011 - Total Stockholder's Equity	$(1,360,485)	$447,021	(a)	$(744,172)

(a) To correct errors in debt discount of convertible notes payable related party.

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following is a summary of the impact of these restatements on the Company's Supplemental Disclosure of Cash Flow Information Statement for the fiscal year ended December 31, 2011:

	December 31, 2011			
	As previously reported	Error correction		As restated
Non-cash investing and financing activities				
Beneficial conversion feature	$741,632	$447,024	(a)	$1,188,653

(a) To correct errors in debt discount of convertible notes payable related party.

The Error corrections for the year ending December 31, 2011 had no impact on the Statement of Operations and therefore no effect on earnings per share.

2. FIXED ASSETS

Fixed assets consist of the following as of September 30, 2012 and December 31, 2011:

	2012	2011
Machinery and equipment	$55,463	$55,463
Furniture and fixtures	113,635	113,635
Computers, equipment and software	38,105	38,105
Leasehold improvements	12,569	12,596
Lab equipment	115,946	115,946
Total	335,718	335,718
Less: accumulated depreciation	330,944	330,001
Fixed assets, net of accumulated depreciation	$4,774	$5,717

Depreciation expense for the nine months ended September 30, 2012 and 2011 was $943 and $1,304, 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, 2012, patents and trademarks total $277,150, net of $205,670 of accumulated amortization. Amortization expense for the nine months ended September 30, 2012 and 2011 was $43,039 and $22,689, respectively.

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, 2012.