

SKINVISIBLE INC
Form 10-Q
August 11, 2011

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 June 30, 2011

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

(State or other jurisdiction of incorporation or organization)

88-0344219

(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)

Edgar Filing: SKINVISIBLE INC - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes No

Indicate by 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.

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:
102,253,759 common shares as of June 30, 2010.

Table of Contents

TABLE OF CONTENTS

Page

PART I – FINANCIAL INFORMATION

| | |
|--|---|
| Item 1: <u>Financial Statements</u> | 3 |
| Item 2: <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 4 |
| Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 9 |
| Item 4T: <u>Controls and Procedures</u> | 9 |

PART II – OTHER INFORMATION

| | |
|--|----|
| Item 1: <u>Legal Proceedings</u> | 10 |
| Item 1A: <u>Risk Factors</u> | 10 |
| Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 10 |
| Item 3: <u>Defaults Upon Senior Securities</u> | 10 |
| Item 4: <u>Removed and Reserved</u> | 10 |
| Item 5: <u>Other Information</u> | 10 |
| Item 6: <u>Exhibits</u> | 10 |

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

F-1 Consolidated Balance Sheets as of June 30, 2011 (unaudited) and December 31, 2010 (audited);

F-2 Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010 (unaudited);

F-3 Consolidated Statements of Cash Flow for the six months ended June 30, 2011 and 2010 (unaudited);

F-4 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 June 30, 2011 are not necessarily indicative of the results that can be expected for the full year.

Table of Contents

SKINVISIBLE, INC.

CONSOLIDATED BALANCE SHEETS

| ASSETS | June 30, 2011 (Unaudited) | December 31, 2010 (Audited) |
|--|------------------------------|-----------------------------------|
| Current assets | | |
| Cash | \$730 | \$2,481 |
| Accounts receivable | 210,000 | — |
| Inventory | 16,157 | 16,595 |
| Due from related party | 1,145 | 1,145 |
| Prepaid expense and other current assets | 41,965 | 14,003 |
| Total current assets | 269,997 | 34,224 |
| Fixed assets, net of accumulated depreciation of \$329,295 and \$328,369, respectively | 6,424 | 7,349 |
| Intangible and other assets | | |
| Patents and trademarks, net of accumulated amortization of \$134,459 and \$107,941, respectively | 256,030 | 231,441 |
| Total assets | \$532,451 | \$273,014 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$650,764 | \$638,717 |
| Accrued interest payable | 45,719 | 5,150 |
| Loans from related party | 6,647 | — |
| Loans payable | 25,456 | — |
| Convertible notes payable, net of unamortized debt discount of \$-0- and \$3,477, respectively | 61,404 | 108,965 |
| Convertible notes payable related party, net of unamortized discount of \$269,149 and \$538,295, respectively | 518,528 | 249,383 |
| Unearned revenue | 444,792 | 302,815 |
| Total current liabilities | 1,753,310 | 1,305,030 |
| Total liabilities | 1,753,310 | 1,305,030 |
| Stockholders' deficit | | |
| Common stock; \$0.001 par value; 200,000,000 shares authorized 102,253,759 and 97,518,259 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively | 102,255 | 97,520 |
| Additional paid-in capital | 18,862,343 | 18,628,922 |
| Accumulated deficit | (20,185,457) | (19,758,458) |
| Total stockholders' deficit | (1,220,859) | (1,032,016) |

Table of Contents

SKINVISIBLE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three months ended | | Six months ended | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| | June 30, 2011 (Unaudited) | June 30, 2010 (Unaudited) | June 30, 2011 (Unaudited) | June 30, 2010 (Unaudited) |
| Revenues | \$55,915 | \$28,984 | \$146,270 | \$187,214 |
| Cost of revenues | — | 12,662 | 438 | 16,859 |
| Gross profit | 55,915 | 16,322 | 145,832 | 170,355 |
| Operating expenses | | | | |
| Depreciation and amortization | 12,299 | 15,529 | 27,443 | 22,315 |
| Selling general and administrative | \$192,955 | \$199,104 | \$501,813 | \$398,716 |
| Total operating expenses | 205,254 | 214,633 | 529,256 | 421,031 |
| Loss from operations | (149,339) | (198,311) | (383,424) | (250,676) |
| Other expense | | | | |
| Interest expense | (20,625) | (25,993) | (43,575) | (96,336) |
| Total operating expenses | (20,625) | (25,933) | (43,575) | (96,336) |
| Provision for income taxes | — | — | — | — |
| Net loss | \$(169,964) | \$(224,304) | \$(426,999) | \$(347,012) |
| Basic loss per common share | \$(0.00) | \$(0.00) | \$(0.00) | \$(0.00) |
| Basic weighted average common shares outstanding | 100,710,034 | 95,723,157 | 100,504,035 | 89,487,069 |

Table of Contents

SKINVISIBLE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | Six months ended | |
|---|-------------------------|------------------|
| | June 30, 2011 | June 30, 2010 |
| | (Unaudited) (Unaudited) | |
| Cash flows from operating activities: | | |
| Net loss | \$(426,999) | \$(347,012) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 27,443 | 22,315 |
| Stock based compensation | 104,100 | 60,653 |
| Amortization of debt discount | 277,487 | — |
| Interest expense paid with common stock | — | 69,000 |
| Changes in operating assets and liabilities: | | |
| Decrease in inventory | 438 | 2,618 |
| Increase in accounts receivable | (210,000) | (249,927) |
| Decrease in prepaid expenses and other current assets | (27,961) | (6,386) |
| Decrease in related party receivable | — | 3,061 |
| Increase in accounts payable and accrued liabilities | 12,046 | 192,663 |
| Increase in accrued interest | 40,978 | 28,036 |
| Decrease in unearned revenue | 141,977 | 235,523 |
| Net cash used in operating activities | (60,491) | 10,544 |
| Cash flows from investing activities: | | |
| Purchase of fixed assets and intangible assets | (51,107) | (91,105) |
| Net cash used in investing activities | (51,107) | (91,105) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of stock | 78,000 | — |
| Proceeds from, net of payments to, related parties for loans | 6,647 | 73,000 |
| Proceeds from convertible notes payable | | 5,385 |
| Proceeds from loans | 25,200 | — |
| Net cash provided by financing activities | 109,847 | 78,385 |
| Net change in cash | (1,751) | (2,176) |
| Cash, beginning of period | 2,481 | 25,868 |
| Cash, end of period | \$730 | \$23,692 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Non-cash investing and financing activities:

| | | |
|--|----------|-----|
| Common stock issued on conversion of debts | \$56,056 | \$— |
|--|----------|-----|

F-3

Table of Contents

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 womens 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 \$20,185,457 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.

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, 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 (and are amortized over a five year period), 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.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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 June 30, 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.

ASC 350-10 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. During 2010, 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.

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 six months ended June 30, 2011 and 2010 totaled \$104,100 and \$60,653, 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.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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.

Recent Accounting Pronouncements –

In January 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-07 (ASU 2010-07), Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions. This amendment to Topic 958 has occurred as a result of the issuance of FAS 164. The Company does not expect the provisions of ASU 2010-07 to have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-08 (ASU 2010-08), Technical Corrections to Various Topics. This amendment eliminated inconsistencies and outdated provisions and provided the needed clarifications to various topics within Topic 815. The amendments are effective for the first reporting period (including interim periods) beginning after issuance (February 2, 2010), except for certain amendments. The amendments to the guidance on accounting for income taxes in reorganization (Subtopic 852-740) should be applied to reorganizations for which the date of the reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. For those reorganizations reflected in interim financial statements issued before the amendments in this Update are effective, retrospective application is required. The clarifications of the guidance on the embedded derivatives and hedging (Subtopic 815-15) are effective for fiscal years beginning after December 15, 2009, and should be applied to existing contracts (hybrid instruments) containing embedded derivative features at the date of adoption. The Company does not expect the provisions of ASU 2010-08 to have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, the FASB issued Accounting Standards Update 2010-09 (ASU 2010-09), Subsequent Events (Topic 855), amending guidance on subsequent events to alleviate potential conflicts between FASB guidance and SEC requirements. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and we adopted these new requirements for the period ended May 31, 2010. The adoption of

this guidance did not have a material impact on our financial statements.

In April 2010, the FASB issued ASU No. 2010-17, "Revenue Recognition - Milestone Method (Topic 605): Milestone Method of Revenue Recognition" (codified within ASC 605 - Revenue Recognition). ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. ASU 2010-17 is effective for interim and annual periods beginning after June 15, 2010. The adoption of ASU 2010-17 is not expected to have any material impact on our financial position, results of operations or cash flows.

In May 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-19 (ASU 2010-19), Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. The amendments in this Update are effective as of the announcement date of March 18, 2010. The Company does not expect the provisions of ASU 2010-19 to have a material effect on the Company's financial position, results of operations or cash flows of the Company.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

2. FIXED ASSETS

Fixed assets consist of the following as of June 30, 2011:

| | |
|---|----------|
| Machinery and equipment | \$55,463 |
| Furniture and fixtures | 113,635 |
| Computers, equipment and software | 38,105 |
| Leasehold improvements | 12,569 |
| Lab equipment | 115,946 |
| Total | 335,718 |
| Less: accumulated depreciation | 329,295 |
| Fixed assets, net of accumulated depreciation | \$6,424 |

Depreciation expense for the six months ended June 30, 2011 and 2010 was \$926 and \$2,499, respectively.

3. INTANGIBLE AND OTHER ASSETS

Patents and trademarks are capitalized at its historical cost and are amortized over their useful lives. As of June 30, 2011, patents and trademarks total \$256,030, net of \$203,796 of accumulated amortization. Amortization expense for the six months ended June 30, 2011 and 2010 were \$26,517 and \$19,816, 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 June 30, 2011.

4. UNEARNED REVENUE

Unearned revenue totaling \$444,792 as of June 30, 2011 relates to a marketing and distribution rights agreement entered into during 2010 for which monies were received and not considered earned. See note 9 “Definitive Agreements”.

5. STOCK OPTIONS AND WARRANTS

Stock options employees and directors – During the years ended December 31, 2010, the Company granted stock options to employees and directors totaling 1,610,000 shares of its common stock with a weighted average strike price of \$0.06. Certain stock options were exercisable upon grant and have a life ranging from 3 months to 5 years. The stock options were valued at \$91,460 using the Black-Scholes option pricing model based upon the following assumptions: term of 5 years, risk free interest rates ranging from 1.25% to 2.19%, a dividend yield of 0% and volatility rates ranging from 131% to 172%. The Company recorded an expense of \$91,460 for the year ended December 31, 2010. There were no stock options issued to employees or directors during the six months period ended June 30, 2011.

Stock options non-employees – During the year ended December 31, 2010, the Company granted stock options for services totaling 450,000 shares of its common stock with a weighted average strike price of \$0.06 per share. All stock options were exercisable upon grant. The stock options have been valued at \$25,563 using the Black-Scholes option pricing model based upon the following assumptions: term of 5 years, risk free interest rates ranging from 1.25% to 3.5%, a dividend yield of 0% and volatility rates ranging from 131% to 172%. There were no non-employee stock options issued during the six months period ended June 30, 2011.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

5. STOCK OPTIONS AND WARRANTS – (continued)

The following is a summary of option activity during the year ended December 31, 2010 and the six months period ended June 30, 2011:

| | Number of Shares | Weighted Average Exercise Price |
|-----------------------------|---------------------|--|
| Balance, December 31, 2010 | 10,280,000 | 0.05 |
| Options granted and assumed | — | — |
| Options expired | 300,000 | 0.04 |
| Options canceled | — | — |
| Options exercised | — | — |
| Balance, June 30, 2011 | 9,980,000 | 0.05 |

As of June 30, 2011, 9,980,000 stock options are exercisable.

Stock warrants -

The following is a summary of warrants activity during the year ended December 31, 2010 and the six months period ended June 30, 2011:

| | Number of Shares | Weighted Average Exercise Price |
|----------------------------|---------------------|--|
| Balance, December 31, 2010 | 5,844,347 | 0.10 |

Edgar Filing: SKINVISIBLE INC - Form 10-Q

| | | |
|------------------------------|-----------|------|
| Warrants granted and assumed | 1,344,750 | 0.06 |
| Warrants expired | 2,268,750 | 0.08 |
| Warrants canceled | — | — |
| Warrants exercised | 250,000 | 0.06 |
| Balance, June 30, 2011 | 4,670,347 | 0.10 |

All warrants outstanding as of June 30, 2011 are exercisable. The warrants issued during 2011 were issued as part of a series of common stock subscriptions for cash.

6. RELATED PARTY TRANSACTIONS

As of June 30, 2010, the Company had an unsecured loan payable due to an employee with an interest rate of 10% per annum, due on demand totaling \$241,070. As of December 31, 2010, all such notes have been extinguished or re-negotiated as convertible notes. See note 7.

F-8

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

7. CONVERTIBLE NOTES PAYABLE

During the year ended December 31, 2010, the Company issued an additional \$23,000 of convertible debt to one individual. At the investor's option until the repayment date, the note may be converted to shares of the Company's common stock at a fixed price of \$0.08 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.12 per share for two years after the conversion date. The Company has determined the value associated with the beneficial conversion feature in connection with the note to be \$5,750. The beneficial conversion feature has been accreted and charged to interest expense in the amount of \$2,273 as of December 31, 2010. On February 10, 2011, this note and all accrued interest was converted into common stock. The remaining beneficial conversion feature in the amount of \$3,477 was amortized and expensed. The beneficial conversion feature was valued under the intrinsic value method.

On December 31, 2010, the Company re-negotiated accrued salaries and interest for three employees. Under the terms of the agreements, the salaries due were converted to promissory notes convertible into common stock with a warrant feature. The promissory notes are unsecured, due in one year from issuance, and bear an interest rate of 10%. At the investor's option until the repayment date, the note may be converted to shares of the Company's common stock at a fixed price of \$0.04 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.06 per share for three years after the conversion date. The Company has determined the value associated with the beneficial conversion feature in connection with the notes to be \$358,617. The beneficial conversion feature has been accreted and charged to interest expense in the amount of \$179,308 as of June 30, 2011. The beneficial conversion feature is valued under the intrinsic value method.

On December 31, 2010, the Company re-negotiated a related party note due to an employee of the Company. Under the terms of the agreement, the salaries due were converted to promissory notes convertible into common stock with a warrant feature. The promissory note are unsecured, due in one year from issuance, and bear an interest rate of 10%. At the investor's option until the repayment date, the note may be converted to shares of the Company's common stock at a fixed price of \$0.03 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.05 per share for three years after the conversion date. The Company has determined the value associated with the beneficial conversion feature in connection with the notes to be \$179,678. The beneficial conversion feature has been accreted and charged to interest expense in the amount of \$89,838 as of June 30, 2011. The beneficial conversion feature is valued under the intrinsic value method.

8. Commitments and contingencies

Lease obligations – The Company has operating leases for its offices. Future minimum lease payments under the operating leases for the facilities as of June 30, 2011 are as follows:

| | |
|------|--------|
| 2011 | 28,803 |
| 2012 | 57,606 |

Rental expense, resulting from operating lease agreements, approximated \$28,803 for the six months period ended June 30, 2011.

F-9

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

9. DEFINITIVE AGREEMENTS

During the quarter the Company amended two license agreements previously entered into with RHEI Pharmaceuticals HK Ltd. previously amended October 12, 2010. The amendment canceled what was previously referred to as the “Three Products Agreement” and modified the “DermSafe Agreement” to include license rights to Europe only. The DermSafe Agreement allows for the exclusive manufacturing, marketing and distribution rights to the Companies patent pending hand sanitizer using Chlorhexidine Gluconate as the active ingredient and trademarked DermSafe for Europe. All amounts previously paid for the license agreement were applied to the “DermSafe Agreement”. On July 26, 2011 the DermSafe Agreement was amended, deferring the remaining \$200,000 payment until December 15th, 2011 and all other agreements with RHEI were cancelled, with the option to renegotiate (provided the “Three Products” were not licensed to another company) once the balance payment for DermSafe was received. As of June 30, 2011, a total of \$300,000 has been received out of a total \$500,000 due for this license agreement. The cash received has been considered deferred revenue and is amortized over a 5 year period (the term of the license). As of June 30, 2011, \$80,000 had been amortized and recognized as revenue leaving the remaining \$200,000 as unearned revenue.

F-10

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.

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 and certain cationic 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
- § 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

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

Table of Contents

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 other pharmaceutical 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

In July of 2011, our licensee, Women's Choice Pharmaceuticals LLC, a specialty pharmaceutical company based in Gilbert, Arizona, launched ProCort, Skinvisible's first prescription product in the United States. ProCort is a topical treatment for hemorrhoids formulated with Skinvisible's patented polymer delivery system Invisicare. ProCort is made of a combination of hydrocortisone acetate and pramoxine hydrochloride. ProCort is a prescription product focused on the women's health market.

Women's Choice Pharmaceuticals has been granted the exclusive rights to commercialize Skinvisible's product within the United States. Skinvisible has received a development fee and now will receive a license fee paid in milestones plus on-going royalties based on product sales. Women's Choice Pharmaceuticals' revenue forecast for ProCort is \$20 million by its third year.

In July of 2011, we entered into a revised agreement with RHEI Pharmaceuticals, NV, a global pharmaceutical business development firm, with special focus on bringing core medicines from the U.S., Europe and Japan into the fast-growing South-East Asian marketplace. We licensed the commercial rights to our patent pending DermSafe® hand sanitizer to RHEI for the commercial rights for the EU for \$500,000 of which \$300,000 has been received. RHEI received regulatory approval in Belgium this year to begin marketing in the EU. RHEI will now submit marketing applications for DermSafe (called HandSafe™ in Europe) under Europe's mutual recognition procedure which utilizes the marketing authorization already granted in Belgium. RHEI will also undertake clinical studies for the product in Belgium to use to promote HandSafe's benefits through the healthcare market. Due to the added expenses to be incurred for the clinical trial(s) the revised agreement allows RHEI to delay payment of the balance due of \$200,000 until December 15 of this year. We will have full access to this new data and it will leverage the data collected by RHEI in order to secure new licensees in other territories. Additionally, an agreement has been made allowing RHEI to import DermSafe® from Skinvisible's Canadian licensee, Alto Pharmaceuticals, Inc., which is now manufacturing product Alto has also agreed to supply other territories globally with finished product, giving new licensees a very quick to market option.

Table of Contents

Results of Operations for the Three and Six Months Ended June 30, 2011 and 2010

Revenues

Our total revenue reported for the three months ended June 30, 2011 was \$55,915, an increase from \$28,984 for the same period ended June 30, 2010. Our total revenue reported for the six months ended June 30, 2011 was \$146,270, a decrease from \$187,314 for the same period ended June 30, 2010. The increase in sales for the three months ended June 30, 2011 from the prior period is attributable to the amortized sale of licenses. The decrease in revenues for the six months ended June 30, 2011 from the prior periods is attributable to lower sales of polymers to our licensees.

Cost of Revenues

There was no cost to revenues for the three months ended June 30, 2011, as compared with \$12,662 for the three months ended June 30, 2010. Our cost of revenues for the six months ended June 30, 2011 decreased to \$438 from the same period ended June 30, 2010, when cost of revenues was \$16,859. The decrease in our cost of revenues for three and six months ended June 30, 2011 from the prior periods is attributable to lower sales of product materials.

Gross Profit

Gross profit for the three months ended June 30, 2011 was \$55,915, or 100% of sales. Gross profit for three months ended June 30, 2010 was \$16,322, or approximately 56% of sales. Gross profit for the six months ended June 30, 2011 was \$145,832, or approximately 99% of sales. Gross profit for six months ended June 30, 2010 was \$170,355, or approximately 90% of sales.

Operating Expenses

Operating expenses decreased to \$205,254 for the three months ended June 30, 2011 from \$214,633 for the same period ended June 30, 2010. Our operating expenses for the three months ended June 30, 2011 consisted of depreciation and amortization expenses of \$12,299 and selling, general and administrative expenses of \$192,955. Our operating expenses for the three months ended June 30, 2010 consisted of depreciation and amortization expenses of \$15,529, and selling, general and administrative expenses of \$199,104. Operating expenses during the three months ended June 30, 2011 were relatively the same as compared to the three months ended June 30, 2010.

Operating expenses increased to \$529,256 for the six months ended June 30, 2011 from \$421,031 for the same period ended June 30, 2010. Our operating expenses for the six months ended June 30, 2011 consisted of depreciation and amortization expenses of \$27,443 and selling, general and administrative expenses of \$501,813. Our operating expenses for the six months ended June 30, 2010 consisted of depreciation and amortization expenses of \$22,315, and selling, general and administrative expenses of \$398,716. Operating expenses during the six months ended June 30, 2011 were significantly higher as compared to the six months ended June 30, 2010 primarily due to amortization of debt discounts calculated on convertible notes payable.

Other Expenses

We paid less in interest expenses for the three months ended June 30, 2011 than in the prior period ended 2010, resulting in total other expenses of \$20,625 as compared with \$25,993 for the prior period. We had total other expenses of \$43,575 for the six months ended June 30, 2011 as compared with \$96,336 for the prior period ended 2010.

Net Loss

We recorded a net loss of \$169,964 for the three months ended June 30, 2011, as compared with a net loss of \$224,304 for the three months ended June 30, 2010. We recorded a net loss of \$426,999 for the six months ended June 30, 2011, as compared with a net loss of \$347,012 for the six months ended June 30, 2010.

Table of Contents

Liquidity and Capital Resources

As of June 30, 2011, we had total current assets of \$269,997 and total assets in the amount of \$532,451. Our total current liabilities as of June 30, 2011 were \$1,753,310. We had a working capital deficit of \$1,483,313 as of June 30, 2011.

Operating activities used \$60,491 in cash for the six months ended June 30, 2011. Our net loss of \$426,999 and an increase in accounts receivable of \$210,000 were the main components of our negative operating cash flow, offset mainly by amortization of debt discount of \$277,487, a decrease in unearned revenue of \$141,977, and stock based compensation of \$104,100.

Cash flows used by investing activities during the six months ended June 30, 2011 was \$51,107 as a result of the purchase of fixed and intangible assets.

Cash flows provided by financing activities during the three months ended June 30, 2011 amounted to \$109,847 and consisted primarily of \$78,000 in proceeds from the issuance of stock and \$25,200 in proceeds from loans.

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 June 30, 2011, there were no off balance sheet arrangements.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants list their most “critical accounting polices” 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.

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 \$20,185,457 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.

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.

Table of Contents

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 December 31, 2010, the Company had not recorded a reserve for doubtful accounts.

Recently Issued Accounting Pronouncements

In January 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-07 (ASU 2010-07), Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions. This amendment to Topic 958 has occurred as a result of the issuance of FAS 164. The Company does not expect the provisions of ASU 2010-07 to have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-08 (ASU 2010-08), Technical Corrections to Various Topics. This amendment eliminated inconsistencies and outdated provisions and provided the needed clarifications to various topics within Topic 815. The amendments are effective for the first reporting period (including interim periods) beginning after issuance (February 2, 2010), except for certain amendments. The amendments to the guidance on accounting for income taxes in reorganization (Subtopic 852-740) should be applied to reorganizations for which the date of the reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. For those reorganizations reflected in interim financial statements issued before the amendments in this Update are effective, retrospective application is required. The clarifications of the guidance on the embedded derivatives and hedging (Subtopic 815-15) are effective for fiscal years beginning after December 15, 2009, and should be applied to existing contracts (hybrid instruments) containing embedded derivative features at the date of adoption. The Company does not expect the provisions of ASU 2010-08 to have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, the FASB issued Accounting Standards Update 2010-09 (ASU 2010-09), Subsequent Events (Topic 855), amending guidance on subsequent events to alleviate potential conflicts between FASB guidance and SEC

requirements. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and we adopted these new requirements for the period ended May 31, 2010. The adoption of this guidance did not have a material impact on our financial statements.

In April 2010, the FASB issued ASU No. 2010-17, "Revenue Recognition – Milestone Method (Topic 605): Milestone Method of Revenue Recognition" (codified within ASC 605 – Revenue Recognition). ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. ASU 2010-17 is effective for interim and annual periods beginning after June 15, 2010. The adoption of ASU 2010-17 is not expected to have any material impact on our financial position, results of operations or cash flows.

In May 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-19 (ASU 2010-19), Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. The amendments in this Update are effective as of the announcement date of March 18, 2010. The Company does not expect the provisions of ASU 2010-19 to have a material effect on the Company's financial position, results of operations or cash flows of the Company.

Table of Contents

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 June 30, 2011. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Terry Howlett. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2011, our disclosure controls and procedures are effective. There have been no changes in our internal controls over financial reporting during the quarter ended June 30, 2011.

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.

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. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. 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.

Table of Contents

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

During the three months ended June 30, 2011, we issued 250,000 restricted shares of our common stock upon the exercise of a warrant at a strike price of \$0.06 per share for \$15,000.

During the three months ended June 30, 2011, we issued 150,000 shares of our common stock for services rendered.

During the three months ended June 30, 2011 we issued 180,000 restricted shares of our common stock as a result of entering into debt conversion agreements with lenders to convert total principal balances and interest of \$14,400 into equity.

These securities were issued pursuant to Section 4(2) of the Securities Act and/or Rule 506 promulgated thereunder. 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. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

| Exhibit Number | Description of Exhibit |
|----------------|--|
| 31.1 | <u>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</u> |
| 31.2 | <u>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</u> |
| 32.1 | <u>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</u> |

10

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: August 10, 2011

By: /s/ Terry Howlett

Terry Howlett

Title: Chief Executive Officer, Chief Financial Officer and Director

