

SKINVISIBLE INC  
Form 10-Q  
November 13, 2013

**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, 2013**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-25911**

**Skinvisible, Inc.**

(Exact name of Registrant as specified in its charter)

**Nevada**

(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)

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

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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:  
110,729,969 common shares as of October 1, 2013

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

F-1 Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012 (audited);

F-2 Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012 (unaudited);

F-3 Consolidated Statements of Cash Flow for the nine months ended September 30, 2013 and 2012 (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 September 30, 2013 are not necessarily indicative of the results that can be expected for the full year.

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SKINVISIBLE, INC.

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

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## SKINVISIBLE, INC. CONSOLIDATED

## STATEMENTS OF OPERATIONS

(Unaudited)

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

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SKINVISIBLE, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

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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 \$23,601,123 since its inception and requires capital for its contemplated operational and marketing activities to take place. The Company’s ability to raise additional capital through the future issuances of common stock is unknown. The obtainment of additional financing, the successful development of the Company’s contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raises substantial doubt about the Company’s ability to continue as a going concern. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

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

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and cash equivalents

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

#### Fair Value of Financial Instruments

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

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

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

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

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

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Revenue recognition

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

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

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

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

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

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

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

Income taxes – The Company accounts for its income taxes in accordance with FASB Codification Topic ASC 740-10, “*Income Taxes*”, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

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

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

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 2. FIXED ASSETS

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

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

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

## 3. INTANGIBLE AND OTHER ASSETS

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

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

#### 4. UNEARNED REVENUE

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

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 5. STOCK OPTIONS AND WARRANTS

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

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

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

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

Stock warrants -

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

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

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|                             |           |        |
|-----------------------------|-----------|--------|
| Balance, September 30, 2013 | 4,673,980 | \$0.06 |
|-----------------------------|-----------|--------|

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

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

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

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 6. RELATED PARTY TRANSACTIONS

On September 23, 2013, the Company granted stock options for 300,000 shares of its common stock to an employee. See Note 5 for additional information.

During the three months ended September 30, 2013 the Company advanced \$40,143 to employees of the Company for business related expenses. The advance is non-interest bearing and due upon demand.

## 7. CONVERTIBLE NOTES PAYABLE

| Convertible Notes Payable consists of the following:  | September<br>30,<br>2013 | December<br>31,<br>2012 |
|---|--------------------------|-------------------------|
| \$52,476 face value, 10% unsecured note payable to an investor, note interest and payment are due on demand. The note could be converted to option rights for Skinvisible, Inc. shares at ten cents per share (\$0.10), these rights expired January 12, 2010. Note is currently in default, no penalties occur due to default. | \$40,476                 | \$52,476                |

During the nine months ended September 30, 2013, the Company made \$12,000 in cash payment to reduce the note balance.

|  |        |        |
|--|--------|--------|
| \$27,000 face value 10% unsecured \$27,000 notes payable to investors, due October, 2012. At the investor's written request, until the repayment date the note may be converted at the investors option to shares of the Company's common stock at a fixed price of \$0.05 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.07 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 notes to be \$19,385. The aggregate beneficial conversion feature has been fully accreted and was charged to general and administrative expenses during the year ended December 31, 2012. The beneficial conversion feature is valued under the intrinsic value method. Interest due to lender can also be converted at a rate of (\$0.05) per share into warrants. | 10,000 | 27,000 |
|--|--------|--------|

During the nine months ended September 30, 2013, the Company made a \$2,000 cash payment to reduce the note balance and converted principal of \$15,000 plus accrued interest of \$1,277 to 542,560 shares of common stock and granted 271,280 warrants with the exercise price of \$0.07 per shares for two years.

\$1,000,000 face value 9% notes payable to investors, due two years from the anniversary date of execution. The notes mature at various times from September 2014 to December 2014. At the investor's option until the repayment date, the note and related interest may be converted to shares of the Company's common stock a discount of 90% of the current share price after the first anniversary of the note. The Notes are secured by the accounts receivable of a license agreement the Company has with Women's Choice Pharmaceuticals, LLC on its proprietary prescription product, ProCort®. The Company has determined the value associated with the beneficial conversion feature in connection with the notes and interest to be \$111,110. The aggregate original issue discount feature has been accreted and charged to general and administrative expenses as a financing expense in the amount of \$40,476 and \$8,910 during the periods ending September 30, 2013 and December 31, 2012, respectively. The original issue discount feature is valued under the intrinsic value method.

|                           |              |              |
|---------------------------|--------------|--------------|
|                           | 1,000,000    | 1,000,000    |
|                           |              |              |
|                           | 1,050,476    | 1,079,476    |
| Original issue discount   | 111,110      | 111,110      |
| Unamortized debt discount | (61,724 )    | (102,200 )   |
|                           | \$ 1,099,862 | \$ 1,088,386 |

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

8. CONVERTIBLE NOTES PAYABLE RELATED PARTY

On December 31, 2011, the Company re-negotiated accrued salaries and interest for three employees. Under the terms of the agreements, the notes dated before December 31, 2010 and all salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$802,864 face value promissory notes are unsecured, due five years 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 \$538,295 for the notes negotiated on December 31, 2010, \$45,557 for the notes negotiated on July 1, 2011 and \$1,123,078 for the notes negotiated December 31, 2011. The beneficial conversion feature is valued under the intrinsic value method. The aggregate beneficial conversion feature has been accreted and charged to general and administrative expenses as a financing expense in the amount of \$124,818 for the nine months ended September 30, 2013. As of September 30, 2013, the aggregate convertible notes payable are \$568,638, net of unamortized beneficial conversion feature of \$541,965.

On June 30, 2012, the Company re-negotiated accrued salaries and interest for three employees. Under the terms of the agreements, the notes dated before July 1, 2011 and all salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$325,023 face value promissory notes are unsecured, due five years 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 \$209,809. The beneficial conversion feature is valued under the intrinsic value method. The aggregate beneficial conversion feature has been accreted and charged to general and administrative expenses as a financing expense in the amount of \$32,161 for the nine months ended September 30, 2013. As of September 30, 2013, the aggregate convertible notes payable are \$169,080, net of unamortized beneficial conversion feature of \$155,942.

On December 30 and 31, 2012, the Company re-negotiated accrued salaries and interest for three employees. Under the terms of the agreements, \$182,083 of related party notes accrued interest and salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$182,083 face value promissory notes are unsecured, due five years 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

\$0.04 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 \$182,083. The beneficial conversion feature is valued under the intrinsic value method. The aggregate beneficial conversion feature has been accreted and charged to general and administrative expenses as a financing expense in the amount of \$27,223 for the nine months ended September 30, 2013. As of September 30, 2013, the aggregate convertible notes payable are \$27,236, net of unamortized beneficial conversion feature of \$154,847.

On June 30, 2013, the Company re-negotiated accrued salaries and interest for two employees. Under the terms of the agreements, \$106,153 of related party notes accrued interest and salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$106,153 face value promissory notes are unsecured, due five years 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 \$0.04 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 \$70,768. The beneficial conversion feature is valued under the intrinsic value method. The aggregate beneficial conversion feature will be accreted and charged to general and administrative expenses as a financing expense. As of September 30, 2013, the aggregate convertible notes payable are \$38,950, net of unamortized beneficial conversion feature of \$67,202.

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SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

9. NOTES PAYABLE

On May 22, 2013 the Company approved a financing plan to offer accredited investors up to \$1,000,000 in secured promissory notes. During the nine months ended September 30, 2013 the Company entered into twenty-four 9% notes payable to investors and received total proceeds of 1,000,000. The notes are due two years from the anniversary date of execution. The Notes are secured by the US Patent rights granted for the Company's Sunscreen Products: US patent number #8,128,913: "Sunscreen Composition with Enhanced UV-A Absorber Stability and Methods".

10. STOCKHOLDERS' DEFICIT

The Company is authorized to issue 200,000,000 shares of \$0.001 par value common stock. The Company has 110,729,969 and 109,507,409 issued and outstanding shares of common stock as of September 30, 2013 and December 31, 2012, respectively.

During the nine months ended September 30, 2013, the Company issued a total of 680,000 shares of common stock, with a fair value of \$16,100 for the conversion of debts totaling \$18,000. The Company recorded a gain of \$3,100 on extinguishment of debts.

On February 11, 2013, the Company issued a total of 300,000 shares of common stock for conversion of principal on convertible notes payable of \$15,000 plus \$1,277 accrued interest. The Company issued an additional 242,560 shares of common stock for this conversion of convertible notes payable, which the shares were fair valued at \$7,277.

11. 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 September 30, 2013 are as follows:

Fiscal year ending 2013 14,050

Fiscal year ending 2014 3,156

Fiscal year ending 2015 5,526

Rental expense, resulting from operating lease agreements, approximated \$14,942 and \$40,434 for the nine months ended September 30, 2013 and 2012, respectively.

## 12. SUBSEQUENT EVENTS

The Company has evaluated events subsequent to the balance sheet through the issuance date of these financial statements in accordance with FASB ASC 855 and has determined that there are no such events that would require adjustment to, or disclosure in, the financial statements.

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**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, through our wholly owned subsidiary Skinvisible Pharmaceuticals Inc., are a pharmaceutical research and development (“R&D”) company that has developed and patented an innovative polymer delivery system, Invisicare® and formulated over forty topical skin products, which we out-license globally. We were incorporated in 1998, and target an estimated \$80 billion global skincare and dermatology market and a \$30 billion global over-the-counter market as well as other healthcare / medical and consumer goods markets.

With the research and development complete on forty products and numerous patents issued (technology and product patents), we are ready to monetize our investment. Our business model is to out-license our patented prescription, over-the-counter (“OTC”) and cosmeceutical products featuring Invisicare to established manufacturers and marketers of brands internationally and to maximize profits from the products we have already out-licensed. We have also recently developed a product for Netherton syndrome, for which we are seeking “orphan drug” status in both the United States and Europe. This designation has the potential to be highly lucrative, with more global companies seeing the value of an orphan drug.

The opportunity for us to license our products has recently increased due to improving market conditions and the need for pharmaceutical companies to access external R&D companies for new products due to their own down-sizing or elimination of internal R&D departments. The demand for our products is enhanced due to the granting of key US and international patents and the completed development of a number of unique products.



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Our Plan for the Next Twelve Months

Our growth strategy is to:

1. Capitalize on the success of current licensees;
2. Increase the value of our current pipeline; and
3. Boost licensing revenues by securing additional licensees globally and develop a robust royalty revenue stream that will finance our future growth.

***1. Capitalize On Current Licensees:***

We have licensees around the globe. Three of these licensees are currently in the marketplace: Avon Products globally, Women's Choice Pharmaceuticals in the United States and Alto Pharmaceuticals in Canada. Additionally, we have licensees that have products being prepared for launch. We work diligently with our licensees to ensure they have a smooth manufacturing process, ongoing R&D support and marketing feedback.

**Avon Products, Inc:**

Product: We have a long-term contract with Avon globally for over ten years to provide Invisicare polymer for their long-lasting lipsticks.

Sales: Invisicare polymers are purchased directly from Skinvisible.

**Alto Pharmaceuticals:**

Product: DermSafe®, long lasting hand sanitizer lotion launched in Canada in Q4 of 2011 for commercial / industrial use.

Sales and Royalties: Alto has received Health Canada marketing approval for DermSafe and is currently marketing the product directly and seeking distributors in the commercial marketplace.

**Women's Choice Pharmaceuticals:**

Product: ProCort®, long lasting prescription hemorrhoid cream launched in the United States in August of 2011.

Sales and Royalties: ProCort continues to increase sales every quarter. Skinvisible receives a royalty based on net sales. This past year Women's Choice Pharmaceuticals LLC partnered with Advanced Medical Enterprises, LLC to market ProCort® in Puerto Rico. With over thirty pharmaceutical sales reps calling on OBGYNs in the US, Women's Choice has been successfully growing their sales of ProCort® and we look forward to increased growth in 2013. Women's Choice is seeking to form other strategic alliances in 2013 in order to increase its sales efforts by targeting new territories and targeting medical specialists which previously were not called upon.

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*Product Launches for 2013:*

We have additional products which are anticipated to be in the market in 2013.

**DermSafe® Hand Sanitizer**

Skinvisible's hand sanitizer formulated with Invisicare® and chlorhexidine gluconate has received registration in Belgium on behalf of Skinvisible. This registration allows Skinvisible to make DermSafe® available in most of Europe through a simple registration process. The Company is currently seeking licensees and/or distributors to begin the sale of DermSafe in the EU.

**Triclosan Hand Sanitizer & First Aid Antiseptic**

Previously licensed as Safe4Hours® Antibacterial/Antimicrobial Hand Sanitizers (1% Triclosan) and Safe4Hours® First Aid Antiseptic & Skin Protectant for North America to Dermal Defense, Skinvisible has received the rights back for both products. Skinvisible anticipates setting up distributors for these products on an international basis.

**Embil Pharmaceuticals Co. Ltd.**

Licensed two prescription acne products: Clindamycin and Retinoic Acid for the countries of Turkey, Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan, as well as the S.E Asian countries of Indonesia, Malaysia, and the Philippines, for an upfront license fee and royalty.

The launch has been delayed due to company reorganization. It is anticipated that regulatory approval will begin in the latter half of 2013.

**Mayquest Pharmaceuticals PTY**

Licensed DermSafe chlorhexidine hand sanitizer for Singapore, Taiwan, Thailand, Indonesia and the Philippines for a license fee and royalty.

Received importation approval for DermSafe from Canada to Singapore. Launch pending.

Currently seeking distribution partner or sub- licensee to launch the product.



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**2. Increasing The Value Of Skinvisible's Pipeline: Clinical Enhancement Of Pipeline**

We have a pipeline of over forty products which are available for licensing. Testing is conducted in-house generating proof of concept including release of the active ingredient as well as long term shelf life (stability). Additional studies conducted on specific products including skin sensitivity, toxicity and product efficacy are outsourced to FDA compliant laboratories. These studies are critical in attracting potential licensees. Our clinical strategy is to:

Add new studies for our prescription products. Our clinical strategy is to increase the amount of outsourced studies, (1) specifically for our prescription products. Additional studies including skin penetration and skin irritation studies will add to the integrity and value of our products available for licensing.

Add new long-term efficacy studies for our DermSafe® hand sanitizer. Last year we commissioned an independent laboratory to further analyze the long-term effectiveness of DermSafe® when put in contact with two bacteria; the "super bug" MRSA and E. coli, the "restaurant bug" since it is often transmitted by food and food handlers. The (2) long-term effectiveness of two bacteria; Methicillin-resistant Staphylococcus aureus or MRSA (ATCC #33591) and Escherichia coli or E. coli (ATCC #43888") were tested up to four hours after application. The results showed that the individual arms of subjects which had DermSafe® applied and were even rinsed prior to each bacteria challenge, showed a 95.83% reduction at the 4 hour time point for MRSA and 99.38% for E. coli.

The regulatory approval in Europe has been transferred to Skinvisible. The objective for 2013 is to make DermSafe available internationally to the general public and also for use in hospitals, schools, law enforcement and the military through independent distributors or through an EU or international licensing agreement.

Obtain orphan drug status for our Netherton syndrome product. Along with our research and development of products to treat common skin conditions, we have also developed a patent pending product to treat a rare skin (3) condition called Netherton syndrome. This disease is caused by a genetic defect which causes the skin to continually exfoliate, never forming a skin bond. This leaves the patient highly susceptible to infection and dealing with a life-long condition that has no cure.

Our product has shown excellent results in lab studies blocking the enzyme that breaks down the skin and we are seeking "Orphan Drug" designation in both the US (FDA) and Europe (EMA).

The advantages of obtaining Orphan Drug designation is that it provides various incentives including a reduction or elimination of registration and market authorization fees, protocol assistance, and seven years of market exclusivity for the product in the US and ten years in Europe. These incentives are highly attractive to pharmaceutical companies targeting this market. We are currently in discussions with potential licensees and we are implementing a case report to study the moisturization effects of the product. This has begun and is expected to conclude in December 2013. This

report, if successful, will add greatly to our request for Orphan Drug designation with both the EMA and FDA. Our lab studies have shown positive results so we are encouraged to go forward with the human study, however there can be no assurances that our project will be successful.

Seek clinical partnerships which will result in FDA approvals of our prescription products. There are three “Phases” involved in obtaining FDA approval. The completion of Phase 1 and/or Phase 2 will increase the value of the (4) license and royalty fees of our products significantly. We are also seeking partnerships with Clinical Research Organizations (CROs) in order to define and begin the regulatory pathway for one or more of our prescription products.

3. **Secure Additional Licensees:**

We are in discussions and undergoing internal studies with various global pharmaceutical and Consumer Goods companies for licenses. These negotiations are at various stages and some are expected to close at the end of 2013.

To facilitate further expansion, we have entered discussions with potential partners that are dermatology service providers and knowledgeable and connected in the dermatology market.

4. **New Products Available for Exclusive Licensing:**

During the past few months Skinvisible has developed a new sunless tanning mousse / foam which uses a unique foam with Invisicare®, developed specifically for its foaming properties. This adds to Skinvisible’s line of sunless tanning products which includes sunless tanning lotions (light, medium and dark), pre-sun moisturizer and after-sun moisturizer along with sunless tanning spray products for commercial use. The addition of a sunless tanning mousse enhances this line of products which are available for exclusive licensing.

Skinvisible completed its first production of its patented broad spectrum sunscreen. Skinvisible’s sunscreens (SPF 15, 30 and 50) are formulated with Avobenzone, the only UVA sun filter allowed under the US FDA monograph. This UVA/UVB sunscreen was granted a patent from the United States patent office last year. Avobenzone is known for breaking down in the sun after only two hours – thus the requirement to reapply every 2 hours. Skinvisible’s patent was granted based on Invisicare's® minimum 8 hour photo stability. For countries outside the United States, Skinvisible has additionally patented UVA/UVB sunscreens formulated with Tinosorb S that are available for licensing.

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5. ***Patents Pending:***

Skinvisible continues to expand its patent protection in the US for Invisicare®, its unique topical drug delivery technology as well as internationally for various products formulated with Invisicare®. Skinvisible Invisicare® patents protect Invisicare® in three areas: composition, manufacturing and use. Product patents include UVA stabilization in sunscreens (Invisicare® stabilizes avobenzone sunscreen for eight hours), retinoid stabilization and dermal barrier product protection. Patents pending include acne, anti-fungal, cationic actives (i.e. imiquimod), ichthyosis and others.

Skinvisible's patent portfolio includes a total of fourteen US and international patents specifically protecting Invisicare and the products formulated with it.

**Results of Operations for the Three and Nine Months Ended September 30, 2013 and 2012**

***Revenues***

Our total revenue reported for the three months ended September 30, 2013 was \$13,635, a decrease from \$22,920 for the same period ended September 30, 2012. The decrease in revenues for the three months ended September, 2013 from the prior year period is a result of the cancellation of a licensing agreement during the first quarter of 2013. Our revenue for the three months ended September 30, 2013 consisted of \$0 from product sales and \$13,635 from royalties on patent licenses, and our revenue for the three months ended September 30, 2012 consisted of \$0 from product sales, \$7,920 from royalties on patent licenses and \$15,000 as license fees.

Our total revenue reported for the nine months ended September 30, 2013 was \$48,370, a decrease from \$83,548 for the same period ended September 30, 2012. The decrease in revenues for the nine months ended September 30, 2013 from the prior year period is a result of the cancellation of a licensing agreement during the first quarter of 2013, \$19,873 in deferred revenue was recognized as a result of this cancelation. Our revenue for the nine months ended September 30, 2013 consisted of \$3,178 from product sales and \$25,400 from royalties on patent licenses and \$19,873 as license fees, and our revenue for the nine months ended September 30, 2012 consisted of \$5,755 from product sales, \$27,793 from royalties on patent licenses and \$50,000 as license fees.

We expect revenues to increase for the balance of 2013 as we are currently in discussions on license agreements for two of our products.

***Cost of Revenues***

Our cost of revenues for the three months ended September 30, 2013 increased to \$565 from the prior year period when cost of revenues was \$0. Our cost of revenues for the nine months ended September 30, 2013 decreased to \$1,754 from the prior year period when cost of revenues was \$1,944.

The increase in our cost of revenues for the three months ended September 30, 2013 from the prior year period is attributable to an increase in shipping and freight costs. The decrease in our cost of revenues for the nine months ended September 30, 2013 from the prior year period is attributable to a decrease in lab expenses.

### ***Gross Profit***

Gross profit for the three months ended September 30, 2013 was \$13,070, or approximately 95% of sales. Gross profit for three months ended September 30, 2012 was \$22,920, or approximately 100% of sales. Gross profit for the nine months ended September 30, 2013 was \$46,616, or approximately 96% of sales. Gross profit for nine months ended September 30, 2012 was \$81,604, or approximately 97% of sales.

### ***Operating Expenses***

Operating expenses decreased to \$229,845 for the three months ended September 30, 2013 from \$324,924 for the same period ended September 30, 2012. Our operating expenses for the three months ended September 30, 2013 consisted of \$9,824 in depreciation and amortization and \$220,021 in selling, general and administrative expenses. Our operating expenses for the three months ended September 30, 2012 consisted of \$8,068 in depreciation and amortization and \$316,856 in selling, general and administrative expenses.

Operating expenses decreased to \$643,173 for the nine months ended September 30, 2013 from \$1,040,171 for the same period ended September 30, 2012. Our operating expenses for the nine months ended September 30, 2013 consisted of \$27,006 in depreciation and amortization and \$616,167 in selling, general and administrative expenses. Our operating expenses for the nine months ended September 30, 2012 consisted of \$43,982 in depreciation and amortization and \$996,189 in selling, general and administrative expenses.

Our selling, general and administrative expenses decreased significantly in the three and nine months ended September 30, 2013 compared to the prior year periods as a result of decreased marketing expenses, accounting and audit fees, legal fees, amortization expenses.





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***Other Expenses***

We had other expenses of \$123,328 for the three months ended September 30, 2013, compared with other income of \$13,098 for the three months ended September 30, 2012. This was largely the result of \$125,825 we paid in interest expenses for the three months ended September 30, 2013 from \$11,866 in the prior period ended September 30, 2012.

We had other expenses of \$433,201 for the nine months ended September 30, 2013, compared with other expenses of \$55,195 for the nine months ended September 30, 2012. This was largely the result of \$436,398 we paid in interest expenses for the nine months ended September 30, 2013 from \$81,886 in the prior period ended September 30, 2012.

***Net Loss***

We recorded a net loss of \$340,103 for the three months ended September 30, 2013, as compared with a net loss of \$288,906 for the three months ended September 30, 2012. We recorded a net loss of \$1,029,758 for the nine months ended September 30, 2013, as compared with a net loss of \$1,013,762 for the nine months ended September 30, 2012.

**Liquidity and Capital Resources**

As of September 30, 2013, we had total current assets of \$748,955 and total assets in the amount of \$1,098,536. Our total current liabilities as of September 30, 2013 were \$3,619,936. We had a working capital deficit of \$2,870,981 as of September 30, 2013.

Operating activities used \$581,572 in cash for the nine months ended September 30, 2013. Our net loss of \$1,029,758 was the main component of our negative operating cash flow, offset mainly by amortization of debt discount of \$228,244, an increase of accrued interest of \$105,099 and an increase in accounts payable and accrued liabilities of \$69,766.

Cash flows used by investing activities during the nine months ended September 30, 2013 was \$120,575 as a result of the purchase of fixed and intangible assets.

Cash flows used by financing activities during the nine months ended September 30, 2013 amounted to \$925,955 and consisted of \$1,000,000 in proceeds on loans payable, offset mainly by \$40,043 in advances to related parties for business related expenses, \$14,000 in payments on convertible promissory notes, and \$12,475 in payments to related parties on convertible promissory notes.

During the nine months ended September 30, 2013, we executed Promissory Notes (the “Notes”) in the aggregate principal amount of \$1,000,000 to several investors. The proceeds of the Notes are to be used for our general working capital purposes. The Notes bear interest at the rate of 9% per annum and mature at various times from May to August of 2015. We received net proceeds of \$900,000 from the Notes. We expect to service the Notes with income derived from license fees. If we are unable to generate revenue from license fees, we would be unable to service the Notes in the long term or we would be forced to try and renegotiate terms with the lenders. There can be no assurance, however, that we would be able to renegotiate any terms with the lenders. For the short term, however, we have sufficient capital available to service the Notes.

The Notes are secured by US Patent rights granted for our Sunscreen Products: US patent number #8,128,913: “Sunscreen Composition with Enhanced UV-A Absorber Stability and Methods.”

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, 2013, there were no off balance sheet arrangements.

### **Critical Accounting Policies**

In December 2001, the SEC requested that all registrants list their 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.



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*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 \$23,601,123 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 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. These consolidated financial statements do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

*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* – We also recognize royalty revenue from licensing our 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* – We also recognize 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.

*Accounts Receivable* – Accounts receivable is comprised of uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The carrying amount of accounts receivable is reviewed periodically for collectability. If management determines that collection is unlikely, an allowance that reflects management's best estimate of the amounts that will not be collected is recorded. Management reviews each accounts receivable balance that exceeds 30 days from the invoice date and, based on an assessment of creditworthiness, estimates the portion, if any, of the balance that will not be collected. As of September 30, 2013, we had not recorded a reserve for doubtful accounts.

**Recently Issued Accounting Pronouncements**

We do not expect the adoption of recently issued accounting pronouncements to have a significant impact on our results of operations, financial position or cash flow.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

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**Item 4. Controls and Procedures**

**Disclosure 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, 2013. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2013, our disclosure controls and procedures were not effective due to the presence of material weaknesses in internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has identified the following material weaknesses which have caused management to conclude that, as of September 30, 2013, our disclosure controls and procedures were not effective: (i) inadequate segregation of duties and effective risk assessment; and (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both US GAAP and SEC guidelines.

**Remediation Plan to Address the Material Weaknesses in Internal Control over Financial Reporting**

Our company plans to take steps to enhance and improve the design of our internal controls over financial reporting. During the period covered by this quarterly report on Form 10-Q, we have not been able to remediate the material weaknesses identified above. To remediate such weaknesses, we plan to implement the following changes during our fiscal year ending December 31, 2013: (i) appoint additional qualified personnel to address inadequate segregation of duties and ineffective risk management; and (ii) adopt sufficient written policies and procedures for accounting and financial reporting. The remediation efforts set out are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended September 30, 2013 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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.



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**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 of 1933 during the reporting period which were not previously included in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

On July 3, 2013, we issued 240,000 shares of our common stock as a result of entering into debt conversion agreements to convert a total principal balance and interest of \$7,200 into equity.

On September 23, 2013, we issued a five-year option to an employee to purchase 300,000 shares of our common stock at an exercise price of \$0.03 per share.

On October 2, 2013, we issued 180,000 shares of our common stock as a result of entering into debt conversion agreements to convert a total principal balance and interest of \$3,600 into equity.

During the nine months ended September 30, 2013, we executed Promissory Notes (the “Notes”) in the aggregate principal amount of \$1,000,000 to several investors. The proceeds of the Notes are to be used for our general working capital purposes. The Notes bear interest at the rate of 9% per annum and mature at various times from May to August of 2015.

The Notes are secured by US Patent rights granted for our Sunscreen Products: US patent number #8,128,913: “Sunscreen Composition with Enhanced UV-A Absorber Stability and Methods.”

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. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None

**Item 6. Exhibits**

| <b><u>Exhibit Number</u></b> | <b><u>Description of Exhibit</u></b>   |
|------------------------------|--|
| 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> |
| 101**                        | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 formatted in Extensible Business Reporting Language (XBRL).        |
| **Provided<br>herewith       |  |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Skinvisible, Inc.**

Date: November \_\_, 2013

By: /s/ Terry Howlett

Terry Howlett

Title: Chief Executive Officer, Chief Financial Officer and Director

