

Edgar Filing: SKINVISIBLE INC - Form 10-Q

SKINVISIBLE INC
Form 10-Q
August 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2002

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

For the transition period from _____ to _____

Commission File Number 0-25911

SKINVISIBLE, INC.

(Exact name of Small Business Issuer as specified in its charter)

Nevada

88-0344219

(State or other jurisdiction of
incorporation)

(IRS Employer
Identification No.)

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

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 27,566,808 shares of Common Stock as of July 31, 2002.

Transitional Small Business Disclosure Format (check one): Yes No

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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GENERAL

The Company's unaudited financial statements for the six months ended June 30, 2002 are included with this Form 10-QSB. The unaudited financial statements for the six months ended June 30, 2002 include:

- (a) Consolidated Balance Sheet as of June 30, 2002, June 30, 2001 and December 31, 2001;
- (b) Consolidated Statement of Operations and Accumulated Deficit - Six months ended June 30, 2002 and June 30, 2001;
- (c) Consolidated Statement of Changes in Shareholders' Equity - Six months ended June 30, 2002 and June 30, 2001;
- (d) Consolidated Statement of Cash flows - Six months ended June 30, 2002 and June 30, 2001

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B, and therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the six months ended June 30, 2002 are not necessarily indicative of the results that can be expected for the year ending December 31, 2002.

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SKINVISIBLE, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET

	JUNE 30 2002 (unaudited)	JUNE 30 2001 (unaudited)	DECEMBER 31 2001 (audited)
	-----	-----	-----
Current Assets			
Cash	\$ 583	\$ 1,400	\$ 2,335
Accounts Receivable	33,482	3,268	7,904
Inventory	114,946	138,973	124,328
Prepaid Expenses	1,385	5,590	3,321
Prepaid License Fee	50,000	50,000	50,000
	-----	-----	-----
Total Current Assets	200,396	199,231	187,888
Property and Equipment			
Furniture and Equipment	134,999	135,434	135,434
Laboratory Build-Out	268,754	323,518	332,318
	-----	-----	-----
Total Property and Equipment	403,153	458,952	467,752
Less Accumulated Depreciation	(186,611)	(174,846)	(214,634)
	-----	-----	-----
Net Property and Equipment	216,542	284,106	253,118

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Other Assets - Exclusive Distribution			
Rights	200,000	200,000	200,000
- Patents & Trademarks	23,003	0	17,532
- Prepaid Royalty	1,000,000	1,000,000	1,000,000
- Deposits	225	725	725
	-----	-----	-----
	1,223,228	1,200,725	1,218,257
	-----	-----	-----
TOTAL ASSETS	\$ 1,640,166	\$ 1,684,062	\$ 1,659,263
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable			
and Accrued Expenses	\$ 542,785	\$ 213,129	\$ 424,094
Loan Payable	232,622	213,291	242,992
	-----	-----	-----
Total Current Liabilities	775,407	426,420	667,086
Stockholders' Equity			
Common Stock, \$0.001 par value			
100,000,000 shares authorized,			
27,566,808, 16,832,033 and			
21,052,033 shares issued	27,567	16,832	21,052
Additional paid in capital	8,893,911	8,135,648	8,561,448
Accumulated Deficit	(8,056,719)	(6,894,858)	(7,590,323)
	-----	-----	-----
Total Stockholders' Equity	864,759	1,257,642	992,177
	-----	-----	-----
TOTAL LIABILITIES AND			
STOCKHOLDERS' EQUITY	\$ 1,640,166	\$ 1,684,062	\$ 1,659,263
	=====	=====	=====

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SKINVISIBLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT
(unaudited)

	SIX MONTHS ENDED	
	JUNE 30	
	2002	2001
	-----	-----
Revenues	\$ 106,859	\$ 19,733
Cost of Sales		
Beginning Inventory	124,328	141,354
Purchases	17,538	6,048
	-----	-----
Total Available	141,866	147,402

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Less: Ending Inventory	(114,946)	(138,973)
Sample Distribution & Inventory Adjustments	(137)	(2,318)
Total Cost of Sales	<u>26,783</u>	<u>6,111</u>
Gross Profit	80,076	13,622
Operating Expenses	(546,472)	(876,849)
Loss Before Provision for Income Taxes	(466,396)	(863,227)
Provision for Income Taxes	(0)	(0)
Net Loss	(466,396)	(863,227)
Accumulated Deficit, Beginning Of Period	(7,590,323)	(6,031,631)
Accumulated Deficit, End of Period	<u>\$ (8,056,719)</u>	<u>\$ (6,894,858)</u>
Net Loss per Share	<u>\$ (.02)</u>	<u>\$ (.06)</u>
Weighted Average Shares Outstanding	<u>23,439,241</u>	<u>15,332,033</u>

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SKINVISIBLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)
SIX MONTHS ENDED
JUNE 30
2002 2001

Shares of Common Stock Issued:		
Beginning Balance	21,052,033	14,122,033
Issuance Pursuant to:		
Stock Offering	6,250,000	2,730,000
Stock Option Plan	264,775	0
Ending Balance	<u>27,566,808</u>	<u>16,852,033</u>

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Common Stock Par Value		
Beginning Balance	\$ 21,052	\$ 14,122
Issuance Pursuant to:		
Stock Offering	6,250	2,730
Stock Option Plan	265	0
	-----	-----
Ending Balance	27,567	16,852
	-----	-----
Additional Paid in Capital		
Beginning Balance	8,561,448	7,361,778
Issuance Pursuant to:		
Stock Offering	306,250	773,870
Stock Option Plan	26,213	0
	-----	-----
Ending Balance	8,893,911	8,135,648
	-----	-----
Accumulate Deficit		
Beginning Balance	(7,590,323)	(6,031,631)
Net Loss	(466,396)	(863,227)
	-----	-----
Ending Balance	(8,056,719)	(6,894,858)
	-----	-----
Total Stockholders' Equity	\$ 864,759	\$ 1,257,642
	=====	=====

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SKINVISIBLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

SIX MONTHS ENDED
JUNE 30
2002 2001

Cash Flows from Operating Activities:

Net Loss	\$ (466,396)	\$ (863,227)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	36,148	39,010
Loss on Disposal of Fixed Assets	428	0
(Increase) Decrease in:		
Accounts Receivable	(24,366)	7,284
Inventory	9,382	2,381
Advances	(1,212)	(111)

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Other Assets - Prepaid Expenses	1,936	7,182
- Deposits	500	0
Increase (Decrease) in:		
Accounts Payable and		
Accrued Expenses	118,691	(53,626)
	-----	-----
Net Cash Used by Operating Activities	(324,889)	(753,855)
Cash Flows from Investing Activities:		
Patents & Trademarks	(5,471)	0
Purchases of Property and Equipment	0	(135)
	-----	-----
Net Cash Used by Investing Activities	(5,471)	(135)
Cash Flows from Financing Activities:		
Payment of Loan Principal	(10,370)	(30,083)
Net Proceeds from the Issuance of Common Stock	338,978	776,600
	-----	-----
Net Cash Provided by Financing Activities	328,608	746,517
	-----	-----
Net Increase (Decrease) in Cash	(1,752)	(7,473)
Cash at Beginning of Period	2,335	8,873
	-----	-----
Cash at End of Period	\$ 583	\$ 8,873
	=====	=====
Supplemental Disclosure:		
Interest Paid	\$ 21,551	\$ 14,941
	=====	=====

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

GENERAL

Skinvisible, Inc. (the "Company") is focused on the development of innovative topical polymer-based delivery systems and technologies, incorporating its proprietary process for combining hydrophilic and hydrophobic polymers into stable water emulsions. The Company's primary marketing objectives are to license its technologies and/or sell its delivery systems to established brand manufacturers and marketers of topical prescription Rx, over-the-counter, cosmetic and skincare products to provide enhanced performance capabilities.

When topically applied, products incorporating the Company's delivery systems adhere to the skin's outer layers, forming a protective bond, resisting wash-off, and delivering targeted levels of therapeutic or cosmetic skincare agents to the skin. Proven or potential applications identified to date include antimicrobial hand sanitizers, suncare and lipcare formulations, skincare moisturizers, anti-fungals, insect repellents, and acne, eczema and psoriasis

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treatment applications.

The Company's short-term strategy includes revenue generation from private label business opportunities for its antimicrobial hand sanitizer formulations. The Company is also offering private label opportunities for its clinically tested sunscreen formulation which allows labeling as "Very Water Resistant with an SPF of 30" in accordance with FDA Final Sunscreen Monograph requirements.

In January 2002 the Company received trademark approval in the U.S. for the name "Invisicare" to identify its family of polymer delivery systems. The Company is currently in the process of filing this trade name with the Cosmetic, fragrance and Toiletries Association ("CFTA") as an ingredient for use in skincare and cosmetic formulations.

It is the Company's intention to direct its ongoing energies and resources towards:

Expanding research and development of its Invisicare delivery systems and related technologies;

Identifying additional applications and opportunities for its Invisicare delivery systems, either independently or in collaboration with established manufacturing and/or marketing companies;

Maximizing efforts for the licensing of its technologies and/or sale of its Invisicare delivery systems to manufacturers/marketers of topically administered Rx prescription, over-the-counter, cosmetic, and skincare products.

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The Company is pursuing potential business opportunities, strategic alliances and collaborations directly and through sales agents/brokers. In this activity, the Company has targeted Rx pharmaceutical, over-the-counter, cosmetic, healthcare, and other brand manufacturers.

The Company has entered into a number of Confidentiality/Non-Disclosure Agreements during 2001 and is presently undergoing negotiations or actively working with a variety of existing or potential customers for the purpose of developing or selling its products.

Patent Applications:

The Company filed a patent application in August 2001 for its Invisicare topical compositions and its methodology for manufacturing and utilization of numerous delivery systems and related applications.

In January 2000 the Company filed a patent application for its antimicrobial dermal barrier formulation, which utilized one of the Invisicare delivery systems. This initial application was intended to obtain patent protection for the Company's original finished skin protector product.

Background & History of Operations:

At its inception, the Company's strategy was to develop and market a line of antimicrobial protective hand-care products that incorporated its proprietary polymer emulsion invention. These finished products were intended for a variety of industries, including medical, food service, industrial, salon, and personal-care markets. The Company also marketed and sold its antibacterial/antimicrobial skincare sanitizers under the trade name Safe4Hours to the retail/commercial market.

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After extensive ongoing market investigations, analysis of regulatory requirements and strategic planning and evaluation, the Company subsequently determined that the highest and best use of its resources would be achieved by focusing on development of topical polymer-based delivery systems and related technologies, rather than pursuing the commercialization of its own antimicrobial and/or dermal barrier formulations that would require extensive lead-times and regulatory processes for each product application, significant human and financial resources for a variety of specialized markets, and extensive marketing efforts to compete in a saturated marketplace dominated by large established suppliers.

The Company redefined its long-term strategies and objectives to focus on independent and collaborative research & development of its Invisicare polymer delivery systems and related technologies for a variety of product applications.

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RESULTS OF OPERATIONS

Net revenue for the six months ended June 30, 2002 increased to \$106,859 from \$19,733 for the six months ended June 30, 2001. This increase in revenue was mainly due to private label sales, product development fees charged to other pharmaceutical companies, and polymer sales to cosmetic manufacturers through the Company's sales agent/broker network. This is in line with the Company's re-directed focus of directly pursuing private label business opportunities with existing retail suppliers/distributors, as well as selling or licensing its delivery systems to established manufacturers for enhanced product formulations and applications in the cosmetic, over-the-counter, and pharmaceutical skincare markets.

Gross profit for the six months ended June 30, 2002 increased to \$80,076 from \$13,622 for the six months ended June 30, 2001.

The Company's operating expenses decreased to \$546,472 for the six months ended June 30, 2002 from \$876,849 for the six months ended June 30, 2001. This decrease in expenses was due to management's continuing efforts to reduce costs. The Company incurred marketing and selling expenses in the amount of \$68,245 for the six months ended June 30, 2002 compared with \$225,756 for the six months ended June 30, 2001.

The Company incurred general and administrative costs in the amount of \$478,227 for the six months ended June 30, 2002 compared with \$651,093 for the six months ended June 30, 2001. Some of these general and administrative costs included the following: Professional fees in the amount of \$21,011 for the six months ended June 30, 2002 compared to \$25,468 for the same period in 2001; Salaries and Wages which decreased to \$237,526 for the six months ended June 30, 2002, compared with \$340,266 for the six months ended June 30, 2001; and Outside Management Consultant costs in the amount of \$16,347 for the six months ended June 30, 2002, compared to \$188,237 for the six months ended June 30, 2001.

The Company had net losses of \$466,396 for the six months ended June 30, 2002, down from \$863,227 for the same period ended June 30, 2001. The losses were funded by various financings and short-term loans obtained during the period. Generally, the reduction in net losses was the result of the cost savings realized by the Company's change in marketing focus and its continuing efforts to trim operating expenditures. The loss per share for the six months ended June 30, 2002, was \$0.02, down from a loss of \$0.06 per share for the same period in 2001.

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During the period ended June 30, 2002 the Company retired and abandoned leasehold improvements and an outdated computer system with an original cost of \$64,599 and accumulated depreciation of \$64,171 resulting in a net loss of \$428.

The Company anticipates that losses will likely continue into the foreseeable future, until sufficient revenues are generated to cover its reduced operating expenditures.

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LIQUIDITY AND CAPITAL RESOURCES

The Company's operations have been financed principally through a combination of private sales of the Company's equity securities and short-term loans.

The Company had cash of \$583 as of June 30, 2002, compared to \$1,400 as of June 30, 2001. The Company has outstanding loans payable with interest in the amount of \$232,622 as of June 30, 2002.

The Company had accounts payable and accrued expenses in the amount of \$542,785 as of June 30, 2002, compared to \$213,129 as of June 30, 2001. Until revenues increase or the Company receives additional funding, certain creditors and employees have agreed to defer receipt of payments or salaries, respectively. This accounts for the rise in our accounts payable and accrued expenses.

Cash used in operating activities for the six months ended June 30, 2002 decreased to \$324,889 down from \$753,855 for the six months ended June 30, 2001. This can be mainly attributed to a decrease in the use of outside consultants, a decrease in staffing, and an increase in accounts payable and accrued expenses as outlined in the previous paragraph.

Cash used in investing activities for the six months ended June 30, 2002 and 2001, was \$5,471 and \$135 respectively.

Future issuances of the Company's equity or debt securities will be required in order for the Company to clear up some of its debt and continue to finance its operations, as the Company's present revenues are insufficient to meet operating expenses. Present revenues have increased slightly due to the Company's re-directed focus of pursuing private label business opportunities, charging product development fees, as well as sales of its polymer delivery systems. The Company will continue with these efforts as well as pursue possible licensing of its delivery systems to established manufacturers in the cosmetic, over-the-counter, and pharmaceutical skincare markets. The Company periodically revises its plan of operations as new situations arise. Over the next six months remaining in the fiscal year ending December 31, 2002, the Company expects to realize approximately \$300,000 from operating revenues after deduction of costs of goods sold, and existing cash reserves. These projected revenues are comprised of private label sales of the polymer-based formulations, product development fees, as well as sales of its polymer-based delivery systems or licensing of its polymer-based delivery system technologies. In that same six-month period, the Company anticipates incurring approximately \$370,000 in operating expenses. Any revenues that fall short of these projections will need to be raised through additional debt or equity financing.

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The Company is presently undertaking a search for additional equity financing in the form of a private placement to cover these anticipated expenses and expected

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operational losses. The failure to obtain such financing in a timely manner would have a significant negative effect on the future operations and may result in the Company being forced to cease operations.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any material legal proceedings and, to the Company's knowledge, no such proceedings are threatened or contemplated.

Item 2. Changes in Securities and Use of Proceeds

In January 2002, the Company issued a total of 264,775 shares of common stock to four (4) employees and one (1) consultant upon the exercise of their stock options granted pursuant to the Company's incentive stock option plan. These shares were issued at a price of \$0.10 per share, for a total purchase price of \$26,477.50.

On April 26, 2002, in consideration for services provided to the Company, a total of 1,250,000 restricted common shares were issued to three (3) directors and three (3) employees of the Company.

On April 26, 2002, as part of a loan conversion agreement, the Company issued 2,000,000 restricted common shares to one (1) accredited investor at a price of \$0.05 per share as well as warrants for the purchase of 1,000,000 shares of common stock.

On June 7, 2002, as part of a loan conversion agreement, the Company issued 3,000,000 restricted common shares to one (1) accredited investor at a price of \$0.05 per share as well as warrants for the purchase of 1,500,000 shares of common stock.

Item 3. Defaults Upon Senior Securities: None

Item 4. Submission of Matters to a Vote of Security Holders: None

Item 5. Other Information: None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

10.1 Loan Conversion Agreement with Robert F. Lutz

(b) Reports on Form 8-K: None

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PART III - Certification of Financial Statements

The Company's President and CEO, Mr. Terry Howlett, hereby certifies the financial statements enclosed. Mr. Howlett also certifies that the enclosed financial statements comply with the requirements of the Securities Exchange Act of 1934 and that the information contained in the report fairly presents, in all material respects, the financial condition and results of the company. The signing officer, Mr. Terry Howlett, certifies that he has reviewed the report and to his knowledge does not contain any material misstatements or omissions. Mr. Howlett further certifies that the signing officers are responsible for

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establishing and maintaining internal controls, have designed such internal controls to ensure that material information relating to the issuer and its subsidiaries is made known to the officers by those within this entity. Mr. Howlett certifies that there have been no instances of fraud, whether or not material, that involves management or employees who have a significant role in the issuer's internal controls. Mr. Howlett further certifies that he will evaluate the effectiveness of the issuer's internal controls within 90 days of this report and report whether any deficiencies in the design or operation of internal controls could adversely affect the issuer's ability to report financial data.

SIGNATURES

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

SKINVISIBLE, INC.

Date: August 12, 2002

By: _____
Terry Howlett
President