

SKINVISIBLE INC  
Form 10QSB  
May 15, 2006

**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 March 31, 2006

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

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

Commission File Number: 000-25911

Skinvisible, Inc.

(Exact name of small business issuer as specified in its charter)

Nevada 88-0344219  
(State or other jurisdiction of incorporation or (IRS Employer  
organization) Identification No.)

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

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

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

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

Indicate by check mark whether the registrant 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: 60,077,748 common shares as of March 31, 2006.

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



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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

|            |  |
|------------|--|
| <u>F-1</u> | <u>Unaudited Consolidated Balance Sheet as of March 31, 2006:</u>  |
| <u>F-2</u> | <u>Unaudited Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005:</u> |
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| <u>F-4</u> | <u>Notes to Unaudited Consolidated Financial Statements:</u>   |

These unaudited 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-QSB. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended March 31, 2006 are not necessarily indicative of the results that can be expected for the full year.

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**SKINVISIBLE, INC.**  
**CONSOLIDATED BALANCE SHEET**  
**(UNAUDITED)**

| ASSETS  | March 31,<br>2006 |
|---|-------------------|
| Current assets  |                   |
| Cash  | \$ 79,993         |
| Accounts receivable   | 179,147           |
| Inventory   | 59,871            |
| Due from related party  | 214               |
| Prepaid expense and other current assets  | 5,962             |
| Total current assets  | 325,187           |
| Fixed assets, net   | 22,608            |
| Intangible and other assets   |                   |
| Patents and trademarks, net   | 48,874            |
| License and distributor rights  | 50,000            |
| Prepaid royalty fees  | 840,000           |
| Total assets  | \$ 1,286,669      |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                   |
| Current liabilities   |                   |
| Accounts payable and accrued liabilities  | \$ 272,386        |
| Unearned revenue  | 1,036,000         |
| Total current liabilities   | 1,308,386         |
| Long-term liabilities   | --                |
| Total liabilities   | 1,308,386         |
| Commitments and contingencies   | --                |
| Stockholders' deficit   |                   |
| Common stock; \$0.001 par value; 100,000,000 shares<br>60,077,748 shares issued and outstanding | 60,078            |
| Additional paid-in capital  | 12,480,171        |
| Stock subscription receivable   | 4,500             |
| Accumulated deficit   | (12,566,466)      |
| Total stockholders' deficit   | (21,717)          |
| Total liabilities and stockholders' deficit   | \$ 1,286,669      |

See accompanying Notes to Consolidated Financial Statements

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**SKINVISIBLE, INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**(UNAUDITED)**

|   | For the three<br>months ended<br>March 31,<br>2006 | For the three<br>months ended<br>March 31,<br>2005 |
|---|--|--|
| Revenues  | \$ 235,167   | \$ 254,730   |
| Cost of revenues                                    | 21,321   | 70,065   |
| Gross profit  | 213,846  | 184,665  |
| Operating expenses                                  |  |  |
| Depreciation and amortization                       | 66,692   | 68,683   |
| Stock based compensation                            | 723,399  | 198,000  |
| Selling general and administrative                  | 397,899  | 314,771  |
| Total operating expenses                            | 1,187,990  | 581,454  |
| Loss before provision for income taxes              | (974,144)  | (396,789)  |
| Other income (expense)                              | --   | --   |
| Total other income (expense)                        | --   | --   |
| Provision for income taxes                          | --   | --   |
| Net loss  | \$ (974,144)                                       | \$ (396,789)                                       |
| Basic income (loss) per common share                | \$ (0.02)  | \$ (0.01)  |
| Diluted income (loss) per common share              | \$ (0.02)  | \$ (0.01)  |
| Basic weighted average common<br>shares outstanding | 59,141,998   | 56,725,248   |

See accompanying Notes to Consolidated Financial Statements

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**SKINVISIBLE, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**

|   | For the three<br>months ended<br>March 31,<br>2006 | For the three<br>months ended<br>March 31,<br>2005 |
|---|--|--|
| Cash flows from operating activities:   |  |  |
| Net loss  | \$(974,144)  | \$(396,789)  |
| Adjustments to reconcile net loss to net<br>cash provided (used) by operating activities: |  |  |
| Depreciation and amortization   | 66,393   | 68,683   |
| Stock based compensation  | 723,399  | 198,000  |
| Changes in operating assets and liabilities:  |  |  |
| Change in inventory   | 13,923   | 29,572   |
| Change in accounts receivable   | (51,159)   | (70,229)   |
| Change in prepaid expenses and other current<br>assets                                    | 382  | 653  |
| Change in related party receivable  | 4,551  | (5,429)  |
| Change in accounts payable and accrued liabilities  | 65,669   | (2,629)  |
| Change in unearned revenue  | 58,000   | 148,000  |
| Net cash provided (used) by operating activities  | (92,986)   | (30,168)   |
| Cash flows from investing activities:   |  |  |
| Purchase of fixed assets and intangible assets  | --   | (1,599)  |
| Net cash used by investing activities   | --   | (1,599)  |
| Cash flows from financing activities:   |  |  |
| Proceeds from stock subscription payable  | 4,500  | --   |
| Proceeds from issuance of common stock  | 137,750  | --   |
| Net cash provided by financing activities   | 142,250  | --   |
| Net change in cash  | 49,264   | (31,767)   |
| Cash, beginning of period   | 30,729   | 92,434   |
| Cash, end of period   | \$ 79,993  | \$ 60,667  |

See accompanying Notes to Consolidated Financial Statements



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SKINVISIBLE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 polymer-based delivery system technologies and formulations incorporating its patent-pending formula/process for combining hydrophilic and hydrophobic polymer emulsions. The technologies and formulations have broad industry applications within the pharmaceutical, over-the-counter, personal skincare and cosmetic arenas. The Company’s antibacterial/antimicrobial hand sanitizer formulations, available for private label commercialization opportunities, offer skincare solutions for the healthcare, food service, industrial, cosmetic and salon industries, as well as for personal use in the retail marketplace. The Company maintains manufacturing, executive and sales offices in Las Vegas, Nevada.

History - Skinvisible, Inc. ( referred to as the “Company”) was incorporated in Nevada on March 6, 1998 under the name of Microbial Solutions, Inc. The Company underwent a name change on February 26, 1999, when it changed its name to Skinvisible, Inc. The Company’s subsidiary’s name of Manloe Labs, Inc. was also changed to Skinvisible Pharmaceuticals, Inc.

During 1999, the Company also formed a subsidiary titled Skinvisible International, Inc. and Skinvisible Pharmaceuticals (Canada), Inc. On January 1, 2000, the Company decided to discontinue operations of its subsidiary, Skinvisible International, Inc.

Skinvisible, Inc. together with its subsidiaries 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 approximately \$12,566,500 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 the common stock is unknown. The obtainment of additional financing, the successful development of the Company’s contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company’s ability to continue as a going concern. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

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

Definition of fiscal year - The Company’s fiscal year end is December 31.

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

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

Inventory - Substantially all inventory consist 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.

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SKINVISIBLE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Goodwill and intangible assets - Beginning January 1, 2002, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets”. According to this statement, goodwill and intangible assets with indefinite lives are no longer subject to amortization, but rather an annual assessment of impairment by applying a fair-value based test. Fair value for goodwill is based on discounted cash flows, market multiples and/or appraised values as appropriate. Under SFAS No. 142, the carrying value of assets are calculated at the lowest level for which there are identifiable cash flows.

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

Fair value of financial instruments - Financial accounting standards Statement No. 107, “Disclosure About Fair Value of Financial Instruments”, requires the Company to disclose, when reasonably attainable, the fair market values of its assets and liabilities which are deemed to be financial instruments. The carrying amounts and estimated fair values of the Company’s financial instruments approximate their fair value due to the short-term nature.

Earnings (loss) per share - Basic earnings (loss) per share exclude any dilutive effects of options, warrants and convertible securities. Basic earnings (loss) per share is computed using the weighted-average number of outstanding common stocks during the applicable period. Diluted earnings per share is computed using the weighted-average number of common and common stock equivalent shares outstanding during the period. Common stock equivalent shares are excluded from the computation if their effect is antidilutive.

Income taxes - The Company accounts for its income taxes in accordance with Statement of Financial Accounting Standards No. 109, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be

recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Comprehensive income (loss) - The Company has no components of other comprehensive income. Accordingly, net loss equals comprehensive loss for all periods.

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SKINVISIBLE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Segment information - The Company discloses segment information in accordance with Statements of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," which uses the Management approach to determine reportable segments. The Company operates under one segment.

Advertising costs - Advertising costs incurred in the normal course of operations are expensed as incurred. During the years ended March 31, 2006 and 2005, the Company incurred advertising costs totaling \$15,860 and \$1,549, respectively.

Research and development costs - Research and development costs are charged to expense when incurred. Costs incurred to internally develop the product, including costs incurred during all phases of development, are charged to expense as incurred.

Expenses of offering - The Company accounts for specific incremental costs directly to a proposed or actual offering of securities as a direct charge against the gross proceeds of the offering.

Stock-based compensation - The Company applies Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and Related Interpretations, in accounting for stock options issued to employees. Under APB No. 25, employee compensation cost is recognized when estimated fair value of the underlying stock on date of the grant exceeds exercise price of the stock option. For stock options and warrants issued to non-employees, the Company applies SFAS No. 123, Accounting for Stock-Based Compensation, which requires the recognition of compensation cost based upon the fair value of stock options at the grant date using the Black-Scholes option pricing model.

The following table represents the effect on net loss and loss per share if the Company had applied the fair value based method and recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation:

|   | March 31,<br>2005 | March 31,<br>2006 |
|---|-------------------|-------------------|
| Net loss, as reported   | \$ (396,789)      | \$ (974,144)      |
| Add:  |                   |                   |
| Stock-based employee compensation expense included in reported loss, net of related tax effects | -0-               | -0-               |
| Deduct: Total stock-based employee  | -0-               | -0-               |

|  |              |    |           |
|--|--------------|----|-----------|
| compensation<br>expense<br>determined<br>under<br>fair value<br>based<br>methods for<br>all awards,<br>net of related<br>tax effects |              |    |           |
| Pro forma net<br>loss  | \$ (396,789) | \$ | (974,144) |
| Net loss per<br>common share   |              |    |           |
| Basic and<br>diluted loss, as<br>reported  | \$ (0.01)    | \$ | (0.02)    |
| Basic and<br>diluted loss, pro<br>forma  | \$ (0.01)    | \$ | (0.02)    |

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SKINVISIBLE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

As required, the pro forma disclosures above include options granted for periods ended March 31, 2005 and 2006. Consequently, the effects of applying SFAS 123 for providing pro forma disclosures may not be representative of the effects on reported net income for future years until all options outstanding are included in the pro forma disclosures.

In December 2003, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends the transition and disclosure provisions of SFAS No. 123. The Company is currently evaluating SFAS No. 148 to determine if it will adopt SFAS No. 123 to account for employee stock options using the fair value method and, if so, when to begin transition to that method.

New accounting pronouncements - In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and spoilage. This statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of "so abnormal" which was the criterion specified in ARB No. 43. In addition, this Statement requires that allocation of fixed production overheads to the cost of production be based on normal capacity of the production facilities. This pronouncement is effective for the Company beginning October 1, 2005. The Company does not believe adopting this new standard will have a significant impact to its financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004). Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The new standard will be effective for the Company in the first interim or annual reporting period beginning after December 15, 2005. The Company expects the adoption of this standard will have a material impact on its financial statements assuming employee stock options are granted in the future.

In May 2005, The Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 154, "Accounting Changes and Error Corrections." The Statement applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement that do not include explicit transition provisions. SFAS No. 154 requires that changes in accounting principle be retroactively applied, instead of including the cumulative effect in the income statement. The correction of an error will continue to require financial statement restatement. A change in accounting estimate will continue to be accounted for in the period of change and in subsequent periods, if necessary. SFAS No. 154 is effective for fiscal years beginning after December 31, 2005. We do not expect the adoption of this Statement to have a material impact on our financial condition or results of operations.

Reclassification - The financial statements from 2004 reflect certain reclassifications, which have no effect on net income, to conform to classifications in the current year.

2. FIXED ASSETS

Fixed assets consist of the following as of March 31, 2006:

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|                                   |           |
|-----------------------------------|-----------|
| Machinery and equipment           | \$ 55,463 |
| Furniture and fixtures            | 113,635   |
| Computers, equipment and software | 40,620    |
| Lab equipment                     | 115,946   |
|                                   | 325,664   |
| Less: accumulated depreciation    | 303,056   |
| Fixed assets, net                 | \$ 22,608 |

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SKINVISIBLE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INTANGIBLE AND OTHER ASSETS

Patents and trademarks are capitalized at its historical cost and are amortized over their useful lives. As of March 31, 2006, patents and trademarks total \$70,233, net of accumulated amortization of \$21,359.

License and distributor rights (“agreement”) was acquired by the Company in January 1999 and provides exclusive use distribution of polymers and polymer based products. The Company has a non-expiring term on the license and distribution rights. Accordingly, the Company annually assesses this license and distribution rights for impairment and has determined that no impairment write-down is considered necessary as of March 31, 2006.

Prepaid royalties fees are amounts prepaid by the Company related to the license and distributor rights. The future royalties payments required by the Company total \$2,000,000. The royalties fees are to be paid at the equal to the greater of (a) \$6,000 per month; or (b) 1.5% of net revenues realized by the sale of the associated polymer products subject to a cap of \$2,000,000. The Company will make payments of \$6,000 per month, and by a payment on any royalties in excess of \$72,000 in each year payable on annual basis calculated within 60 days of each anniversary date of the agreement. As of March 31, 2006, the Company has paid a total of \$1,610,000 of which \$770,000 has been expensed and \$840,000 has been recorded as prepaid royalties which will expense in the future in accordance to the terms of the agreement. The remaining future royalties payments related to the agreement approximates \$390,000.

4. STOCK OPTIONS AND WARRANTS

Stock options - During the periods ended March 31, 2006 and 2005, the Company granted stock options totaling 6,787,525 and -0- shares of its common stock with a weighted average strike price of \$0.11 and \$-0- per share, respectively. Certain stock options were exercisable upon grant and have a life ranging from 3 months to 5 years. As of March 31, 2006, stock options outstanding totaled 1,810,000 with a weighted average strike price of \$0.11 per share.

Stock warrants - During the periods ended March 31, 2006 and 2005, the Company granted stock warrants totaling -0- and -0- shares of its common stock with a weighted average strike price of \$-0- and \$-0- per share, respectively. As of March 31, 2006, stock warrants outstanding totaled 5,460,000 with a weighted average strike price of \$0.11 per share.

5. MARKETING AND DISTRIBUTION AGREEMENTS

In March 2004, the Company entered into an agreement with Dermal Defense, Inc. for the exclusive marketing and distribution rights to its patented Antimicrobial Hand Sanitizer product for North America. Terms of the agreement require Dermal Defense, Inc. to pay a fee of \$1 million comprising of a non-refundable deposit of \$250,000 with the balance of \$750,000 payable as to \$75,000 per calendar quarter or 5% of product sales (whichever is greater) until the entire \$750,000 is received. The \$1 million fee will be recognized as revenue ratably over a five year period. As of March 31, 2006, the Company has received \$825,000 and has reflected \$475,000 as unearned revenue and \$50,000 as revenue in the accompanying consolidated financial statements. In addition and further to the payment fee of \$1 million, Dermal Defense, Inc. agrees to pay a royalty fee of 5% on product sales of the Antimicrobial Hand Sanitizer.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS5. MARKETING AND DISTRIBUTION AGREEMENTS(continued)

In June 2004, the Company entered into an agreement with Cross Global, Inc. (“Cross Global”) whereby, the Company would provide exclusive marketing and distribution rights to its proprietary "Sunless Tanning Spray Formulation" for Canada, the United States, Mexico, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom and Israel. In addition CGI is granted the right to use the name "Solerra(TM)" within the territory. Terms of the agreement require Cross Global to pay a fee of \$1 million comprising of a non-refundable deposit of \$200,000 with the balance of \$800,000 payable as \$200,000 due August 30, 2004, November 30, 2004, February 28, 2005 and May 30, 2005. The \$1 million fee will be recognized as revenue ratably over a five year period. As of March 31, 2006, the Company has received \$700,000 and has reflected \$425,000 as unearned revenue and \$50,000 as revenue in the accompanying consolidated financial statements. In addition and further to the payment fee of \$1 million Cross Global agrees to pay a royalty fee of 5% on product sales of the Sunless Tanning Spray Formulation.

In May 2005, the Company entered into a distribution agreement with Safe4Hours, Inc. (“Safe4Hours”) whereby, the Company would provide exclusive marketing and distribution rights to its proprietary antimicrobial hand sanitizer for all countries of the world except Canada, United States, and Mexico. Terms of the agreement require Safe4Hours to pay a fee of \$1 million comprising of a non-refundable deposit of \$25,000 with the balance of \$975,000 payable as recognized as revenue ratably over a five year period. As of March 31, 2006, the Company has received \$110,000 and has reflected \$50,000 as revenue in the accompanying consolidated financial statements. The Company has yet to receive \$110,000 as reflected under the contract. This amount that is due to the Company has been record as an accounts receivable. In addition and further to the payment fee of \$1 million Safe4Hours, Inc. agrees to pay a royalty fee of 5% on product sales of the antimicrobial hand sanitizer beginning in the 3<sup>rd</sup> quarter of 2005.

In October 2005, the Company entered into a distribution agreement with EMD Chemicals Inc. (“EMD”) whereby, the Company would provide exclusive marketing and distribution rights to its proprietary polymer delivery system “Invisicare” for all countries of the world. Terms of the agreement states that the Company would grant EMD options to purchase shares of their common stock. A stock option agreement was executed on February 27, 2006, where the Company granted EMD the option to purchase 5,817,525 shares of common stock at the exercise price of \$0.172 per share until December 31, 2006.

6. 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 March 31, 2006 are as follows:

2006 \$ 74,079

Rental expense, resulting from operating lease agreements, approximated \$23,967 for the year ended March 31, 2006.

7. STOCK SUBSCRIPTION PAYABLE

During March 2006, the Company received \$4,500 for the shares issued in the period ending June 30, 2006.



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**Item 2. Management’s Discussion and Analysis**

**Forward-Looking Statements**

Historical results and trends should not be taken as indicative of future operations. Management’s statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934 (the “Exchange Act”), as amended. Actual results may differ materially from those included in the forward-looking statements. We intend 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, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “prospects,” or similar expressions. 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 the operations and our 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 be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning our business, including additional factors that could materially affect our financial results, are included in this discussion as well as in our other filings with the Securities and Exchange Commission.

**Overview**

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

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

Our primary objective is to license our polymer delivery vehicles to established brand manufacturers and marketers of prescription and over-the-counter products in the dermatological, medical, cosmetic, and skincare markets. With the exception of sales to one vendor, our management’s policy is to only sell our polymers to vendors that have executed a license

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agreement with us. We conduct our research and development in-house.

**Description of Current Products and Agreements**

Cosmetics and Personal Care Markets

On October 7, 2005, we entered into a Master Sales, Collaboration and Distribution Agreement (“Agreement”) with EMD Chemicals Inc. (“EMD”), a New York corporation and affiliate of Merck KGaA of Darmstadt, Germany. Under the terms of this Agreement, we granted EMD the exclusive right to distribute and sell our patented polymer delivery system, Invisicare®, for the cosmetics and personal care markets in the entire world. EMD will be entitled to commission income based upon the gross revenues from the sale of sublicensing agreements as well as the polymers. The initial term of this Agreement is until December 31, 2008 and this Agreement will automatically renew for successive three year terms unless either party provides fourteen months advance notice of its intention to terminate or not renew the Agreement.

Part of the consideration of the Agreement is that we would grant EMD options to purchase shares of our common stock. The terms for the issuance of options were established and we executed a stock option agreement on February 27, 2006 where we granted EMD the option to purchase 5,817,525 shares of common stock at the exercise price of \$0.172 per share exercisable until December 31, 2006.

Antibacterial/Antimicrobial Hand Sanitizer

On February 21, 2005, we entered into a definitive distribution agreement with Dermal Defense, Inc. (“Dermal Defense”). Pursuant to this agreement, Dermal Defense acquired the exclusive marketing and distribution rights in the United States of America, Canada and Mexico for our antimicrobial hand sanitizer composition which utilizes the active ingredient Triclosan 1% and incorporates our patented Invisicare® polymer delivery system (the “Product”).

Dermal Defense acquired these rights for the purchase price of \$1,000,000. Dermal Defense has already paid \$775,000 of this purchase price. The remaining balance is due and payable quarterly through September 30, 2006 in the amount of \$75,000 or 5% of the gross revenues generated by Dermal Defense from sales of the Product in the Territory in the prior quarter, whichever is greater. Under the terms of this agreement, Dermal Defense is also obligated to pay us a royalty fee quarterly in the amount of \$20,000 or 5% of gross revenues generated by Dermal Defense from sales of the product in the quarter, whichever is greater.

During the second quarter of 2005 and with our approval, Dermal Defense entered into an exclusive sub-distribution agreement with JD Nelson & Associates of Columbus Ohio (“JD Nelson”) and transferred all of its rights to distribute, market, and sell our antimicrobial hand sanitizer in the United States of America, Canada and Mexico. Under the terms of the sub-distribution agreement, JD Nelson will pay a license fee and royalty on product sales to Dermal Defense and Dermal Defense will continue to pay us as agreed in the Distribution Agreement of February 21, 2005. As a result, the fees and royalties that we are due under this agreement remain unchanged. Currently, all required fees and royalties due in accordance with this

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agreement are paid and current. Dermal Defense and JD Nelson & Associates are prohibited under this agreement from manufacturing, marketing, distributing, or selling any competing product while the Distribution Agreement is in full force and effect.

In May 2005, we entered into a Distribution Agreement ("Agreement") with Safe4Hours, Inc. ("Safe4Hours"), a Nevada corporation. Under the terms of this Agreement, we granted Safe4Hours the exclusive right to distribute, market, sell, and promote our antimicrobial hand sanitizer that utilizes the active ingredient Triclosan 1% in every country in the world except Canada, the United States, and Mexico. As set forth above, the rights to distribute, market, sell, and promote our antimicrobial hand sanitizer in Canada, the United States, and Mexico are held by Dermal Defense. Safe4Hours acquired these rights for an up-front fee of \$1,000,000, of which \$100,000 has been received and the remaining \$900,000 is payable in quarterly installments based upon a predetermined formula until the balance is received, and a royalty fee of no less than 5% of gross revenue of all sales. Currently, we are negotiating with Safe4Hours to revise the payment terms for the remaining \$900,000 due under this agreement. Safe4Hours is prohibited under this agreement from manufacturing, marketing, distributing, or selling any competing product while the Distribution Agreement is in full force and effect.

## Sunless Tanning Spray Product

On June 9, 2004, our wholly-owned subsidiary, Skinvisible Pharmaceuticals, Inc., entered into a Trademark License Agreement and Distribution Agreement ("Distribution Agreement") with Cross Global, Inc. ("Cross Global"), a Delaware corporation, to grant Cross Global the exclusive right to distribute, market, sell, and promote our proprietary sunless tanning spray products in Canada, the United States, Mexico, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom, and Israel. Cross Global is also utilizing our proprietary polymer formula to manufacture nine additional sun care related products.

Pursuant to the terms of the Distribution Agreement, Cross Global paid us the license fee of \$1,000,000. Under the terms of this agreement, we will receive a royalty fee of no less than 5% of gross revenue of all sales of our proprietary sunless tanning spray products. Cross Global is prohibited under this agreement from manufacturing, marketing, distributing, or selling any competing product while the Distribution Agreement is in full force and effect.

## Sunscreen and Skin Care Products

We developed and successfully tested the application of our polymer delivery vehicles in sunscreen products with SPF 15 and SPF 30, sunless tanning lotions, moisturizing creams, aloe after-sun products, and other skin care products. We currently offer our polymer delivery vehicles for incorporation into these products on a private label basis and have multiple agreements in place.

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**Status of Research and Development for New Applications**

We are continuing our research and development toward developing additional applications for our polymer delivery vehicles. We are currently researching whether the following potential applications are suitable to incorporate our polymer delivery vehicles:

- Insect repellents
  - Anti-fungal
  - Anti-inflammatory
- New antibacterial/antimicrobial hand sanitizer

Insect Repellents

We are in the process of developing an insect repellent with an active ingredient that incorporates our topical polymer-based delivery systems and are presently undergoing in-house research. We anticipate that our research will be completed during the second quarter of 2006. The active ingredient for the insect repellent was provided by EMD. In the event that we are successful in developing an effective insect repellent that incorporates our topical polymer-based delivery systems, the rights to distribute and sell the developed product will be subject to the terms of the Agreement with EMD entered into on October 7, 2005. There can be no assurance that we will be successful in developing a viable insect repellent that incorporates our topical polymer-based delivery systems and the active ingredient provided by EMD.

Anti-fungal

We have an oral agreement with a pharmaceutical company relating to the research and development of an anti-fungal product that incorporates our topical polymer-based delivery systems with an active compound they provided. This company paid for our research and development activities as it relates to this product in exchange for the ability to acquire the exclusive worldwide licensing rights to distribute and sell the product should our research and development prove successful. We have completed our initial research and development, but further testing remains to be conducted. The company is presently conducting certain skin sensitivity testing. In the event that the skin study is successfully completed and we execute a licensing agreement with the company, the company agreed to commence a filing with the FDA for a new drug approval in the United States. A definitive licensing agreement would require the company to pay us an upfront license fee plus ongoing royalty payments based on worldwide sales of the anti-fungal product. There can be no assurance that we will successfully complete the research and development of this product or that this product will receive FDA approval to market and sell this potential product in the United States.

Anti-inflammatory

During the reporting period, we entered into discussions with a pharmaceutical company to conduct the research and development relating to an anti-inflammatory product that incorporates our topical polymer-based delivery system. This product is intended to treat hand skin disorders resulting from occupational conditions. We are in discussions to grant a worldwide license for

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the exclusive rights to market and offer for sale the product in exchange for an upfront license fee plus royalty payments based on sales generated by the product should its development prove successful. We have not entered into any definitive agreement and these discussions are ongoing. There can be no assurance that we will be able to negotiate a definitive agreement. There can be no assurance that we will successfully complete the research and development of this product or that this product will receive FDA approval to market and sell this potential product in the United States.

New Antibacterial/Antimicrobial Hand Sanitizer

We have developed and are currently testing a new antimicrobial hand sanitizer product that utilizes the active ingredient Chlorhexidine (“Chlorhexidine antimicrobial hand sanitizer”). Chlorhexidine is the active agent in scrub soaps currently used in the operating rooms of most hospitals worldwide.

As a part our development efforts to develop the Chlorhexidine antimicrobial hand sanitizer, we developed a research plan that comprises of several studies. The first and second studies were in-vitro tests designed to gauge the effectiveness of the Chlorhexidine antimicrobial hand sanitizer when exposed to certain bacteria. We received positive results from the first study. The results of the second study indicated that further strengthening of the product could improve the product’s effectiveness. Our research department implemented the appropriate improvements and commenced a third study during the fourth quarter. The third study was conducted by Retroscreen Virology Ltd. (“RVL”), a research company that is a division of St. Bartholomew's Hospital and the Royal London Hospital based in London, England, and designed to test the effectiveness of the Chlorhexidine antimicrobial hand sanitizer in killing the H5N1 virus also known as the bird flu virus or avian flu. In-vitro testing conducted by RVL confirmed that the H5N1 virus was successfully killed by the Chlorhexidine antimicrobial hand sanitizer 99% of the time at the following four points in time: 15 seconds, 30 seconds, 1 minute, and 5 minutes following contact. This in-vitro study was conducted by placing the Chlorhexidine antimicrobial hand sanitizer in a dish and then exposing the H5N1 virus at the forgoing time intervals. Based upon these positive results, we retained RVL to conduct a further ex-vivo study to provide data on the effectiveness of the Chlorhexidine antimicrobial hand sanitizer when exposed to the H5N1 virus over an extended period of time. This ex-vitro study will be conducted by applying the Chlorhexadine antimicrobial hand sanitizer to dead skin specimens, simulating normal conditions of wash-off and skin perspiration, and then exposing the H5N1 virus to the skin specimen at various extended time intervals. We anticipate that the results of this second study will be available in late May 2006.

We also commenced another study referred to as a human repeat insult patch test (HRIPT). This study exposes a minimum of 100 persons to the Chlorhexidine antimicrobial hand sanitizer to determine if continued use and exposure to the product will result in skin complications or sensitivities. This study has been extended and we expect a final report to be completed by the end of May 2006.

In the event that the Chlorhexidine antimicrobial hand sanitizer proves to be a viable product, we may be required to file a New Drug Application with the US FDA because the drug



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Chlorhexidine is not presently an approved drug under the FDA Tentative Final Monograph (TFM) for Hand Sanitizers. We may also be required to seek similar regulatory approvals in other foreign jurisdictions. If we are required to file a New Drug Application with the US FDA, further development of this product may be both time and cost prohibitive for us. Under such circumstance, we would seek to license the product to a third party with experience in working with the FDA such as a pharmaceutical company. There can be no assurance that we will successfully complete the research and development of this product or that this product will receive FDA approval to market and sell this potential product in the United States.

**Results of Operations for the Three Months Ended March 31, 2006 and 2005**

For the three month period ended March 31, 2006, we generated total revenue of \$235,167 compared to total revenue of \$254,730 for the period ended March 31, 2005. During the three months ended March 31, 2006, \$175,000 of the revenue generated was attributable to payments for royalties and distribution and licensing rights of our products and \$35,511 of the revenue generated was attributable to product sales.

Our cost of revenues for the three months ended March 31, 2006 decreased to \$21,321 from the same reporting period in the prior year when cost of revenues was \$70,065. The decrease in our cost of revenues is attributable to a decrease in product sales.

Gross profit for the first quarter ended March 31, 2006 was \$213,846 compared to \$184,665 for the first quarter ended March 31, 2005. The increase in gross profit for the three months ended March 31, 2006 is primarily attributable our receipt of royalty fees and payments under the licensing agreements entered into with Dermal Defense, Inc., Safe4Hours, Inc., and Cross Global, Inc.

For the three month period ended March 31, 2006, we incurred operating expenses in the amount of \$1,187,990 compared to operating costs of \$581,454 in the same three month period in the prior year. The increase is primarily attributable to stock based compensation related to the stock options issued to EMD during the reporting period. We recorded stock-based compensation of \$723,399 for the three months ended March 31, 2006 and \$198,000 for the three months ended March 31, 2005.

For the three month period ended March 31, 2006, we had a net loss of \$974,144. Our net loss for the three month period ended March 31, 2005 was \$396,789. The increase in our net loss for the three month period ended March 31, 2006 when compared to the same reporting period in the prior year is primarily attributable to an increase in stock based compensation.

**Liquidity and Capital Resources**

As of March 31, 2006, we had total current assets of \$325,187 and total assets in the amount of \$1,286,669. Our total current liabilities as of March 31, 2006 were \$1,308,386. Included in our current liabilities is \$1,036,000 in unearned revenue due from our distribution agreements entered into with Dermal Defense, Inc., Cross Global, Inc., and Safe4Hours, Inc. We had a working capital deficit of \$983,199 as of March 31, 2006.

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Operating activities used \$92,986 in cash for the three months ended March 31, 2006. Our net loss of \$974,144 was the primary component of our negative operating cash flow. There were no investing activities during the three months ended March 31, 2006. Cash flows provided by financing activities during the three months ended March 31, 2006 consisted of \$137,500 as proceeds from the issuance of common stock and \$4,500 for proceeds from stock subscriptions receivable.

Management believes that we have sufficient capital to finance our current operations for the year ending December 31, 2006 based upon revenues anticipated to be received in the current fiscal year and royalty payments due under the current license agreements. In order for us to expand our operations, additional funding will be required from external sources. There can be no assurance that such additional financing will be available to us on acceptable terms, or at all.

## **Going Concern**

We have incurred net losses of approximately \$12,566,500 since inception. Our independent auditors have stated in their Auditor's Report that we have suffered recurring losses our ability to raise additional capital through future issuance of common stock is unknown. To successfully develop and attain profitable operations is unknown. As a result, our auditor's concluded that there is a substantial doubt about our ability to continue as a going concern.

The accompanying financial statements have been prepared assuming that we will continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **Revenue Recognition**

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

## **Recently Issued Accounting Pronouncements**

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and spoilage. This statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of "so abnormal" which was the criterion specified in ARB No. 43. In addition, this Statement requires that allocation of fixed production overheads to the cost of production be based on normal capacity of the production facilities. This pronouncement is effective for us beginning October 1, 2005. We do not believe adopting this new standard will have a significant impact to its financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123(R) is similar to the

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approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The new standard will be effective for us in the first interim or annual reporting period beginning after December 15, 2005. We expect the adoption of this standard will have a material impact on our financial statements assuming employee stock options are granted in the future.

In May 2005, The Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 154, "Accounting Changes and Error Corrections." The Statement applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement that do not include explicit transition provisions. SFAS No. 154 requires that changes in accounting principle be retroactively applied, instead of including the cumulative effect in the income statement. The correction of an error will continue to require financial statement restatement. A change in accounting estimate will continue to be accounted for in the period of change and in subsequent periods, if necessary. SFAS No. 154 is effective for fiscal years beginning after December 31, 2005. We do not expect the adoption of this Statement to have a material impact on our financial condition or results of operations.

**Item 3. 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 March 31, 2006. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Mr. Terry Howlett. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2006, our disclosure controls and procedures are effective. There have been no significant changes in our internal controls over financial reporting during the quarter ended March 31, 2006 that have materially affected or are reasonably likely to materially affect such controls.

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

Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all

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control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Table of Contents**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

There have been no material developments in the ongoing legal proceedings previously reported in which we are a party. A complete discussion of our ongoing legal proceedings is discussed in our annual report on Form 10-KSB for the year ended December 31, 2005.

**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 Current Report on Form 8-K.

During the three months ended March 31, 2005, we issued options to purchase 970,000 shares of our common stock, exercisable at \$0.18 per share to our executive officer, members of our board of directors, employees, and consultants in exchange for services rendered. These options are fully vested and have a termination date of January 4, 2011 or ninety days following their termination, whichever is the first to occur. These securities were issued pursuant to Section 4(2) of the Securities Act of 1933. We did not engage in any general solicitation or advertising.

**Item 3. Defaults upon Senior Securities**

None

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

No matters have been submitted to our security holders for a vote, through the solicitation of proxies or otherwise, during the quarterly period ended March 31, 2006.

**Item 5. Other Information**

None

**Item 6. Exhibits**

| <b>E x h i b i t<br/>Number</b> | <b>Description of Exhibit</b>  |
|---------------------------------|--|
| <u>31.1</u>                     | <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>                             |
| <u>31.2</u>                     | <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>                             |
| <u>32.1</u>                     | <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> |



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**SIGNATURES**

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

**Skinvisible, Inc.**

Date: May 15, 2006

By: /s/ Terry Howlett

Terry Howlett

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