

SKINVISIBLE INC
Form 10-Q
May 15, 2018
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 **March 31, 2018**

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

Edgar Filing: SKINVISIBLE INC - Form 10-Q

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, smaller reporting company, or an emerging growth company.

Large accelerated filer Accelerated filer
 Non-accelerated filer Smaller reporting company
 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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:
144,830,920 common shares as of May 14, 2018

Table of Contents

TABLE OF CONTENTS

Page

PART I – FINANCIAL INFORMATION

Item 1: <u>Financial Statements</u>	3
Item 2: <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	4
Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	11
Item 4: <u>Controls and Procedures</u>	12

PART II – OTHER INFORMATION

Item 1: <u>Legal Proceedings</u>	12
Item 1A: <u>Risk Factors</u>	12
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	12
Item 3: <u>Defaults Upon Senior Securities</u>	13
Item 4: <u>Mine Safety Disclosure</u>	13
Item 5: <u>Other Information</u>	13
Item 6: <u>Exhibits</u>	13

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

F-1 Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017 (unaudited);

F-2 Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017 (unaudited);

F-3 Consolidated Statements of Cash Flow for the three months ended March 31, 2018 and 2017 (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 March 31, 2018 are not necessarily indicative of the results that can be expected for the full year.

Table of Contents**SKINVISIBLE, INC.****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	March 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash	\$32,957	\$23,318
Accounts receivable	9,699	9,905
Inventory	18,675	26,023
Due from related party	1,145	1,436
Promissory note due from Ovation Science Inc.	159,334	245,193
Prepaid expense and other current assets	7,500	10,000
Total current assets	229,310	315,875
Equity method investment in Ovation Inc.	—	109,968
Fixed assets, net of accumulated depreciation of \$327,255 and \$327,191, respectively	295	359
Intangible and other assets:		
Patents and trademarks, net of accumulated amortization of \$464,753 and \$455,187, respectively	196,421	205,987
Total assets	\$426,026	\$632,189
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	\$671,544	\$612,783
Accounts payable related party	—	34,883
Accrued interest payable	1,550,433	1,674,346
Loans from related party	—	17,260
Loans payable	2,296,875	2,301,875
Convertible notes payable, net of unamortized debt discount of \$3,567 and \$6,551, respectively	1,176,433	1,173,449
Convertible notes payable related party, net of unamortized discount of \$1,123,109 and \$1,413,576 respectively	1,565,434	1,577,215
Total current liabilities	7,260,719	7,391,811
Total liabilities	7,260,719	7,391,811
Stockholders' deficit		
Common stock; \$0.001 par value; 200,000,000 shares authorized; 140,977,600 and 136,864,035 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	140,979	136,865
Shares payable	109,925	61,976

Edgar Filing: SKINVISIBLE INC - Form 10-Q

Additional paid-in capital	24,526,880	24,750,544
Accumulated deficit	(31,612,477)	(31,709,007)
Total stockholders' deficit	(6,834,693)	(6,759,622)
Total liabilities and stockholders' deficit	\$426,026	\$632,189

See Accompanying Notes to Consolidated Financial Statements.

F-1

Table of Contents**SKINVISIBLE, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Three Months Ending	
	March 31,	March 31,
	2018	2017
Revenues	\$15,632	\$12,512
Cost of revenues	7,873	1,561
Gross profit	7,759	10,951
Operating expenses		
Depreciation and amortization	9,630	14,008
Selling general and administrative	172,695	151,169
Total operating expenses	182,325	165,177
Loss from operations	(174,566)	(154,226)
Other income and (expense)		
Other income	4,807	3
Interest expense	(280,230)	(324,761)
Gain on sale of Ovation Science Inc.	595,127	—
Loss on equity method investment	(21,810)	—
Gain (loss) on extinguishment of debt	(26,798)	—
Total other expense	271,096	(324,984)
Net loss	\$96,530	\$(478,984)
Basic loss per common share	\$0.00	\$(0.00)
Basic weighted average common shares outstanding	139,789,237	123,874,879

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**SKINVISIBLE, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Three Months Ended	
	March 31,	March 31,
	2018	2017
Cash flows from operating activities:		
Net Income	\$96,530	\$(478,984)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,630	14,008
Stock-based compensation	—	24,000
Gain on sale of Ovation Science Inc.	(595,127)	—
Amortization of debt discount	131,351	167,247
Loss on equity method investment	21,810	—
Imputed interest on Ovation Science loan	4,807	
Loss on extinguishment of debt	26,798	—
Changes in operating assets and liabilities:		
Decrease in inventory	7,348	705
Decrease in prepaid assets	2,500	—
Decrease (increase) in accounts receivable	206	3,636
Increase in accounts payable and accrued liabilities	93,387	165,322
Decrease in due to related party	291	—
Decrease in promissory note from Ovation Science Inc.	81,052	—
Increase in accrued interest	144,056	76,722
Net cash provided by operating activities	24,639	(27,344)
Cash flows from investing activities:		
Purchase of fixed and intangible assets	—	—
Net cash used in investing activities	—	—
Cash flows from financing activities:		
Proceeds from related party loans, net of payments	(10,000)	2,930
Payments on notes payable	(5,000)	—
Proceeds from notes payable	—	15,000
Proceeds from convertible notes payable	—	10,000
Net cash provided by (used in) financing activities	(15,000)	27,930
Net change in cash	9,639	586
Cash, beginning of period	23,318	3,019

Edgar Filing: SKINVISIBLE INC - Form 10-Q

Cash, end of period	\$32,957	\$3,605
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$7,932	\$—
Cash paid for tax	\$—	\$—
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Non-cash investing and financing activities:		
Beneficial conversion feature	\$—	\$2,138
Common stock issued on extinguishment of debts	\$74,449	\$—

See Accompanying Notes to Consolidated Financial Statements.

F-3

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND HISTORY

Description of business – Skinvisible, Inc., (referred to as the “Company”) is focused on the development and manufacture and sales 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 – 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.

On September 9, 2014, the Company formed Kinatri USA Inc., a wholly-owned subsidiary, to market a premium line of scientifically formulated skincare products powered by our patented Invisicare® technology. As part of its strategic focus on revenue generation and creating shareholder value, Kintari USA Inc. products will be sold via network marketing.

The Kintari product portfolio consists of anti-aging products to help fight the signs of aging. These products have been developed using proven anti-aging ingredients with scientific evidence of their effectiveness at reducing the look of fine lines and wrinkles resulting in youthful looking skin. These potent ingredients will be powered by patented Invisicare technology, providing consumers with unique, effective products which the Company believes cannot be duplicated. Additional products will be added to enhance this product line as the Company grows and expands.

On September 26, 2017, the Company purchased 5,750,000 shares of common stock of Ovation Science Inc. (“Ovation”) for \$32,286 which at the time of purchase the Company represented 99.9% of the then issued and outstanding common stock. On March 28, 2018 the Company sold its interest in Ovation to officers of the Company for \$500,000 which represented a 37.80% interest in Ovation. As of March 31, 2018 Skinvisible Inc. owned 0% of the issued and outstanding Common stock of Ovation.

Skinvisible granted to Ovation, and has assigned its rights under the Canopy Agreement, the exclusive worldwide right to manufacture, distribute, sell, market, sub-license and promote the Products made with cannabis or hemp seed oil including the right to use the subject matter of any Skinvisible patents and trademarks which cover the Products or

Polymer.

Skinvisible, Inc., together with its subsidiaries, shall herein be collectively referred to as the “Company.”

2. BASIS OF PRESENTATION AND GOING CONCERN

Basis of presentation – The accompanying unaudited interim financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s most recent Annual Financial Statements filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim period presented have been reflected herein. The results of operations for the interim period are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal period, as reported in the Form 10-K, have been omitted.

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 \$31,612,477 since its inception and requires capital for its contemplated operational and marketing activities to take place. The Company’s ability to raise additional capital through the future issuances of common stock is unknown. The obtainment of additional financing, the successful development of the Company’s contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company’s ability to continue as a going concern. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

3. SUMMARY OF SIGNIFICANT POLICIES

This summary of significant accounting policies of Skinvisible Inc. is presented to assist in understanding the Company's consolidated financial statements. The consolidated financial statements and notes are representations of the Company's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the consolidated financial statements.

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.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include estimates used to review the Company's goodwill, impairments and estimations of long-lived assets, revenue recognition on percentage of completion type contracts, allowances for uncollectible accounts, inventory valuation, and the valuations of non-cash capital stock issuances. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Cash and cash equivalents – For purposes of the statement of cash flows, the Company considers all highly liquid investments and short-term instruments with original maturities of three months or less to be cash equivalents. There are \$32,957 and \$23,318 in cash and cash equivalents as of March 31, 2018 and December 31, 2017 respectively.

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;

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.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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, 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 March 31, 2018, the Company had not recorded a reserve for doubtful accounts. The Company has \$1,135,000 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 an Employee Stock Purchase Plan based on the estimated fair values.

Stock based compensation expense recognized under ASC 718-10 for the three months ended March 31, 2018 and 2017 totaled \$0 and \$24,000, respectively.

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

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently issued accounting pronouncements – The Company has evaluated the all recent accounting pronouncements through ASU 2018-06, and believes that none of them will have a material effect on the Company's financial position, results of operations or cash flows except as discussed below.

Revenue from Contracts with Customers. In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. Additionally, the new guidance requires enhanced disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including revenue recognition policies to identify performance obligations, assets recognized from costs incurred to obtain and fulfill a contract, and significant judgments in measurement and recognition.

In July 2015, the FASB made a decision to defer the effective date of the new standard for one year and permit early adoption as of the original effective date. The Company is has reviewed its revenue streams and does not believe that the adoption of this standard has a material effect on its revenue recognition in 2017 or 2018.

4. FIXED ASSETS

Fixed assets consist of the following as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Machinery and equipment	\$48,163	\$48,163
Furniture and fixtures	113,635	113,635
Computers, equipment and software	39,722	39,722

Edgar Filing: SKINVISIBLE INC - Form 10-Q

Leasehold improvements	12,569	12,569
Lab equipment	113,461	113,461
Total	327,550	327,550
Less: accumulated depreciation	(327,255)	(327,191)
Fixed assets, net of accumulated depreciation	\$295	\$359

Depreciation expense for the three months ended March 31, 2018 and 2017 was \$64 and \$81, respectively.

5. INVENTORY

Inventory consist of the following as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Shipping and Packing materials	\$8,684	\$ 8,684
Finished Goods	3,872	10,433
Raw Materials	6,119	6,906
Total	\$18,675	\$ 26,023

6. INTANGIBLE AND OTHER ASSETS

Patents and trademarks and other intangible assets are capitalized at their historical cost and are amortized over their estimated useful lives. As of March 31, 2018, intangible assets total \$661,174, net of \$464,753 of accumulated amortization.

Amortization expense for the three months ended March 31, 2018 and 2017 was \$9,566 and \$13,927, respectively.

License and distributor rights (“agreement”) were acquired by the Company in January 1999 and provide exclusive use distribution of polymers and polymer based products. The Company has a non-expiring term on the license and distribution rights. Accordingly, the Company annually assesses this license and distribution rights for impairment and has determined that no impairment write-down is considered necessary as of March 31, 2018.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

7. SALE OF EQUITY METHOD INVESTMENT IN OVATION SCIENCES INC.

On September 26, 2017, the Company purchased 5,750,000 shares of common stock of Ovation Science Inc. (“Ovation”) for \$32,286 which at the time of purchase the Company represented 99.9% of the then issued and outstanding common stock. Ovation sold shares to investors subsequent to Skinvisible’s’ investment that diluted Skinvisible’s interest to below down to 37.8%.

On March 28, 2018, Skinvisible Inc. sold all 5,750,000 shares of Ovation Science Inc. to its officers and an employee in exchange for an agreement to forgive \$500,000 in debt. \$240,115 of the debt was convertible debt owed to related parties, accordingly the Company revalued the repurchase of the beneficial conversion feature as of the date of the transaction and recorded a corresponding gain. As of March 28, 2018 the carrying value of the investment in Ovation was \$88,158, as a result of the sale the Company recorded a total net gain on sale of its equity method investment of \$595,127 related to the sale of Ovation.

8. STOCK OPTIONS AND WARRANTS

The following is a summary of option activity during the three months ended March 31, 2018.

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2017	10,600,000	\$ 0.03
Options granted and assumed	—	—
Options expired	(500,000)	0.04
Options canceled	—	—
Options exercised	—	—
Balance, March 31, 2018	10,100,000	\$ 0.03

As of March 31, 2018, all stock options outstanding are exercisable.

Stock warrants -

The following is a summary of warrants activity during the three months ended March 31, 2018.

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2017	7,022,975	\$ 0.03
Warrants granted and assumed	—	—
Warrants expired	(661,000)	0.03
Warrants canceled	—	—
Warrants exercised	—	—
Balance, March 31, 2018	6,361,975	\$ 0.03

All warrants outstanding as of March 31, 2018 are exercisable.

F-8

Table of Contents

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 year ended December 31, 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." During the three months ending March 31, 2018 the Company made principal payments of \$5,000.

On May 19, 2014, the Company approved a financing plan to offer accredited investors up to an additional \$1,000,000 in secured promissory notes. During the period from May 19, 2014 to March 31, 2015 the Company entered into twenty-seven 9% notes payable to investors and received total proceeds of \$1,000,000. The notes were 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." \$1,000,000 in notes have reached their maturity date.

During the period from April 1, 2015 and September 30, 2015, the Company entered into thirteen additional 9% notes payable to investors and received total proceeds of \$326,000. The notes were 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".

On January 27, 2016, the Company entered into a 12% unsecured note payable to an investor and received total proceeds of \$33,000. The note was due on May 30, 2016. As of March 31, 2018, no payments had been made towards the principal balance.

As of March 31, 2018, \$2,296,875 of the Notes were due in less than 12 months and have been classified as current notes payable.

10. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2018, \$10,000 was paid to officer in settlement of advances provided to the Company in prior years. An additional \$7,260 in advances were settled as part of the purchase of Ovation Science Inc. (see note 6 for additional details.)

As of March 31, 2018, \$0 remained due to related parties as repayment for advanced and loaned monies, all other related party notes have been extinguished or re-negotiated as convertible notes. See note 9.

Ovation license agreement

Skinvisible granted to Ovation, and has assigned its rights under the Canopy Agreement, the exclusive worldwide right to manufacture, distribute, sell, market, sub-license and promote the Products made with cannabis or hemp seed oil including the right to use the subject matter of any Skinvisible patents and trademarks which cover the Products or Polymer. As consideration for the grant of the License and the assignment of the Canopy agreement Ovation agreed to pay Skinvisible Inc. \$500,000. \$250,000 is due within 90 days of execution of the Agreement and a promissory note for \$250,000 is payable upon the earlier of the company completing an initial public offering or March 31, 2018. As of March 31, 2018 Ovation had paid the initial cash payment of \$250,000 to Skinvisible Inc. and \$90,666 under the promissory note.

The note receivable from Ovation did not bear interest per the agreement as a result the Company has imputed interest in accordance with ASC 835-30. The interest has been recorded as a debt discount and is being amortized over the note term. During the three months ended March 31, 2018, the Company recorded \$4,808 in interest income related to the note receivable.

During the year ending December 31, 2017, the Company recorded the full \$500,000 in license revenue as earned in accordance with ASU 2016-10.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

11. CONVERTIBLE NOTES PAYABLE

	March 31, 2018	December 31, 2017
Convertible Notes Payable at consists of the following:		
\$1,000,000 face value 9% secured notes payable to investors, due in 2015. 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 Womens 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 beneficial conversion feature has been accreted and charged to interest expenses as a financing expense. The beneficial conversion feature is valued under the intrinsic value method. The notes have reach maturity and are now in default, under the notes default provisions the entire balance is now due upon demand.	1,000,000	1,000,000
Original issue discount	—	—
Unamortized debt discount	—	—
Total, net of unamortized discount	1,000,000	1,000,000
\$135,000 face value 9% unsecured notes payable to investors, due October 26, 2017. 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 Womens 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 \$117,535. The beneficial conversion feature has been accreted and charged to interest expenses as a financing expense. The beneficial conversion feature is valued under the intrinsic value method.		
Unamortized debt discount	—	—
Total, net of unamortized discount	135,000	135,000
On February 17, 2016, the Company entered into a convertible promissory note pursuant to which it borrowed \$20,000. Interest under the convertible promissory note is 9% per annum, and the principal and all accrued but unpaid interest is due on February 17, 2018. The note is convertible at any time following 90 days after the issuance date at noteholders option into shares of our common stock at a variable conversion price of 90% of the average five day market price of our common stock during the 5 trading days prior to the notice of conversion, subject to adjustment as described in the note. The holder's ability to convert the note, however, is limited in that it will not be permitted to convert any portion	20,000	20,000

Edgar Filing: SKINVISIBLE INC - Form 10-Q

of the note if the number of shares of our common stock beneficially owned by the holder and its affiliates, together with the number of shares of our common stock issuable upon any full or partial conversion, would exceed 4.99% of the Company's outstanding shares of common stock.

The Company has determined the value associated with the beneficial conversion feature in connection with the notes negotiated on February 27, 2016 to be \$14,049. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$904 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method

Unamortized debt discount	—	(904)
Total, net of unamortized discount	20,000	19,096

On August 11, 2016, the Company entered into a convertible promissory note pursuant to which it borrowed \$15,000. Interest under the convertible promissory note is 9% per annum, and the principal and all accrued but unpaid interest is due on August 11, 2018.

The note is convertible into shares of our common stock at a variable conversion price of 90% of the average market price of our common stock during the 5 trading days prior to the notice of conversion, subject to adjustment as described in the note.

15,000	15,000
--------	--------

The Company has determined the value associated with the beneficial conversion feature in connection with the notes negotiated on August 11, 2016 to be \$14,728. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$1,816 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method

Unamortized debt discount	(2,683)	(4,499)
Total, net of unamortized discount	12,317	10,501

On January 27, 2017, the Company entered into a convertible promissory note pursuant to which it borrowed \$10,000. Interest under the convertible promissory note is 9% per annum, and the principal and all accrued but unpaid interest is due on January 27, 2019.

The note is convertible into shares of our common stock at a variable conversion price of 90% of the average market price of our common stock during the 5 trading days prior to the notice of conversion, subject to adjustment as described in the note.

10,000	10,000
--------	--------

The Company has determined the value associated with the beneficial conversion feature in connection with the notes negotiated on January 27, 2017 to be \$2,138. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$264 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method

Unamortized debt discount	(884)	(1,148)
Total, net of unamortized discount	9,116	8,852

\$1,176,433	\$1,173,449
-------------	-------------

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

12. CONVERTIBLE NOTES PAYABLE RELATED PARTY

	March 31, 2018	December 31, 2017
Convertible Notes Payable Related Party at consists of the following:		
On October 20, 2016, the Company re-negotiated \$982,253 of the unsecured notes payable. Under the modified terms the \$982,253 face value notes maturity date was extended until December 31, 2019 and adjusted to the current market prices. At the investor's option until the repayment date, the note can be converted to shares of the Company's common stock at a fixed price of \$0.01 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.02 per share for three years after the conversion date. In accordance with ASC 470, the Company has determined the value associated with the beneficial conversion feature in connection with the re-negotiated notes on October 20, 2016 to be \$982,253. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$76,140 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.	744,137	982,253
One March 28, 2018, \$238,115 of the notes were settled as part of the purchase of Ovation Science Inc. (see note 6 for additional details.)		
Unamortized debt discount	(407,096)	(614,434)
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 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 aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense. The beneficial conversion feature is valued under the intrinsic value method.	299,316	299,316
On January 18, 2013, the Company made a \$3,990 cash payment to reduce the note balance.		
On October 19, 2016, the Company settled \$21,716 of the outstanding balance through the		

issuance of a new note.

On July 1, 2017, the Company renewed the outstanding notes. Under the terms of the agreements, the due date of the notes were extended to July 1, 2022. The promissory notes are unsecured, 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 \$0.02 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.03 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 modified terms of the notes to be \$198,859. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$10,067 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

Unamortized debt discount	(168,591)	(178,658)
---------------------------	------------	------------

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 aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense. The beneficial conversion feature is valued under the intrinsic value method.

Unamortized debt discount	—	—
---------------------------	---	---

On June 30, 2013, the Company re-negotiated accrued salaries and interest for two employees. Under the terms of the agreements, \$106,153 of accrued interest and salaries 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 aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$3,488 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

Unamortized debt discount	(3,527)	(7,015)
---------------------------	----------	----------

On December 31, 2013, the Company re-negotiated accrued salaries and interest for three employees. Under the terms of the agreements, \$142,501 of accrued interest and salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$142,501 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	142,501	142,501
--	---------	---------

Edgar Filing: SKINVISIBLE INC - Form 10-Q

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 \$94,909. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$4,681 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

Unamortized debt discount

(14,290) (18,971)

On June 30, 2014, the Company re-negotiated accrued salaries and interest for three employees. Under the terms of the agreements, \$118,126 of accrued salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$118,126 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 \$0.025 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.03 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 \$118,126. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$5,823 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

118,126 118,126

Unamortized debt discount

(29,498) (35,321)

On September 30, 2014, the Company re-negotiated accrued salaries and interest for two employees. Under the terms of the agreements, \$40,558 of accrued salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$40,558 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 \$0.05 per share for three years after the conversion date. The Company has determined the value associated with the beneficial conversion feature in connection with the notes to be \$40,466. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$1,994 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

40,558 40,558

Unamortized debt discount

(12,145) (14,139)

On December 31, 2014, the Company re-negotiated accrued salaries and interest for two employees. Under the terms of the agreements, \$65,295 of accrued salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$65,295 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 \$0.05 per share for three years after the conversion date. The Company has determined the value associated with the beneficial conversion feature in connection with the notes to be \$57,439. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$2,831 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

65,295 65,295

Unamortized debt discount

(20,131) (22,962)

329,287 343,687

Edgar Filing: SKINVISIBLE INC - Form 10-Q

On December 31, 2015, the Company re-negotiated accrued salaries and interest for three employees and a director. Under the terms of the agreements, \$343,687 of accrued salaries and director fees not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$343,687 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 \$0.02 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.02 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 \$341,703. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$16,834 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

On March 30, 2018, \$14,400 of debt and the associated interest of \$3,118 was converted into common stock at a price of \$0.036 per share. The company treated the loan modification as a debt repurchase and recorded a corresponding loss on settlement of debt of \$8,200.

Unamortized debt discount

(181,314) (204,984)

On March 30, 2016, the Company re-negotiated accrued directors fees of 3,600. Under the terms of the agreements, \$3,600 of accrued director fees not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$3,600 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 \$0.02 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.02 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 \$864. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$53 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

— 3,600

On March 30, 2018, \$3,600 of debt and the associated interest of \$779 was converted into common stock at a price of \$0.036 per share. The company treated the loan modification as a debt repurchase and recorded a corresponding loss on settlement of debt of \$2,050

Unamortized debt discount

— (409)

On April 30, 2016, the Company re-negotiated accrued salaries and interest for an employee. Under the terms of the agreements, \$33,333 of accrued salaries were converted to promissory notes convertible into common stock with a warrant feature. The \$33,333 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 \$0.02 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.02 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 \$8,401. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$292 during the

— 33,333

Edgar Filing: SKINVISIBLE INC - Form 10-Q

three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

On March 30, 2018, \$33,333 of debt and the associated interest of \$6,301 was converted into common stock at a price of \$0.03 per share. The company treated the loan modification as a debt repurchase and recorded a corresponding loss on settlement of debt of \$7,603.

Unamortized debt discount	—	(5,927)
---------------------------	---	----------

On June 30, 2016, the Company re-negotiated accrued salaries and interest for three employees. Under the terms of the agreements, \$192,417 of accrued salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$192,417 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 \$0.02 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.02 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 \$28,365. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$1,398 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

188,817	192,417
---------	---------

On March 30, 2018, \$3,600 of debt and the associated interest of \$779 was converted into common stock at a price of \$0.036 per share. The company treated the loan modification as a debt repurchase and recorded a corresponding loss on settlement of debt of \$2,050

Unamortized debt discount	(17,833)	(19,837)
---------------------------	-----------	-----------

On July 8, 2016, the Company re-negotiated accrued salaries and interest for one employee. Under the terms of the agreement, \$2,000 of accrued salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$2,000 face value promissory notes are unsecured, due on December 31, 2021, 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 \$0.01 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.02 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 \$1,012. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$44 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

—	2,000
---	-------

One March 28, 2018, \$2,000 of the notes were settled as part of the purchase of Ovation Science Inc. (see note 6 for additional details.)

Unamortized debt discount	—	(738)
---------------------------	---	--------

On September 30, 2016, the Company re-negotiated accrued directors fees of 3,600. Under the terms of the agreements, \$3,600 of accrued director fees not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$3,600 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 \$0.01 per share

—	3,600
---	-------

Edgar Filing: SKINVISIBLE INC - Form 10-Q

along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.02 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 \$2,080. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$102 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

On March 30, 2018, \$3,600 of debt and the associated interest of \$779 was converted into common stock at a price of \$0.036 per share. The company treated the loan modification as a debt repurchase and recorded a corresponding loss on settlement of debt of \$2,050

Unamortized debt discount — (1,559)

On October 19, 2016, the Company re-negotiated two notes with an employee of the Company. Under the terms of the agreements, \$111,056 of convertible promissory notes due on December 31, 2016 and June 30, 2017 were converted to promissory notes convertible into common stock with a warrant feature. The \$111,056 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 \$0.01 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.02 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 \$42,924. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$2,115 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

111,056 111,056

Unamortized debt discount (30,513) (32,628)

On December 30, 2016, the Company re-negotiated accrued salaries and interest for three employees. Under the terms of the agreements, \$186,375 of accrued salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$186,375 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 \$0.01 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.02 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 \$186,375. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$9,185 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

186,375 186,375

On March 30, 2018, \$3,600 of debt and the associated interest of \$779 was converted into common stock at a price of \$0.036 per share. The company treated the loan modification as a debt repurchase and recorded a corresponding loss on settlement of debt of \$2,050

Unamortized debt discount (137,132) (149,018)

On July 1, 2017, the Company re-negotiated accrued salaries and interest for three employees. Under the terms of the agreements, \$178,439 of accrued salaries not previously converted were converted to promissory notes convertible into common stock with a warrant feature. The \$178,439 face value promissory notes are unsecured, due five years

178,439 178,439

Edgar Filing: SKINVISIBLE INC - Form 10-Q

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 \$0.02 per share along with additional warrants to purchase one share for every two shares issued at the exercise price of \$0.03 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 \$118,800. The aggregate beneficial conversion feature has been accreted and charged to interest expenses as a financing expense in the amount of \$5,855 during the three months ended March 31, 2018. The beneficial conversion feature is valued under the intrinsic value method.

Unamortized debt discount	(101,040)	(106,895)
	\$1,565,433	1,577,215

F-11

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

13. STOCKHOLDERS' DEFICIT

The Company is authorized to issue 200,000,000 shares of \$0.001 par value common stock. The Company had 140,977,600 and 136,864,035 issued and outstanding shares of common stock as of March 31, 2018 and December 31, 2017, respectively.

On February 5, 2018 the Company executed an agreement to issue 1,634,565 shares of common stock with a fair value of \$39,230 or \$0.024 per share to a note holder in settlement of \$32,691 in accrued interest. A loss on settlement of debt of \$6,540 as a result of the transaction.

On March 13, 2018 the Company executed an agreement to issue 1,560,000 shares of common stock to an individual in settlement of \$39,000 in accounts payable. The shares were fair valued on the date of issuance at \$35,256 or \$0.0226 per share, as a result, a gain on settlement of debt of \$3,744 was recorded. As of March 31, 2018 the shares had not been issued and were reported as stock payable.

On March 22, 2018 the Company executed an agreement to issue 1,333,320 shares of common stock to a former employee of the Company related to the conversion of debt. As of March 31, 2018 the shares had not been issued and were reported as stock payable in the amount of \$39,634. (See Note 11 for additional details.)

On March 13, 2018 the Company executed an agreement to issue 960,000 shares of common stock to an former director of the Company in settlement of a total of \$35,035 in convertible notes. As of March 31, 2018 the shares had not been issued and were reported as stock payable in the amount of \$35,035. (See Note 11 for additional details.)

14. 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, 2018, are as follows:

2018 \$39,230
2019 \$13,077

Rental expense, resulting from operating lease agreements, approximated \$13,381 and \$12,557 for the three months ended March 31, 2018 and 2017, respectively.

Kintari Inc. - Previously on April 1, 2016, Skinvisible licensed to Kintari Int. Inc. the exclusive rights to our existing line of cosmeceutical products plus the exclusive rights to any future cosmeceutical products developed by Skinvisible plus the right-of-first-refusal on our existing OTC products plus the right-of-first-refusal to any future OTC products developed by us in exchange for a 100% equity position in Kintari Int. Inc. This inter-company agreement has now been dissolved and all rights still remain with Skinvisible Pharmaceuticals, Inc., as the original intent was for Kintari to operate as its own company; however, this did not transpire. There is no change to the ownership as Skinvisible continues to own 100% of Kintari Int. Inc. and all rights thereof. Kintari USA Inc. continues to sell Kintari branded products through online sales.

Canopy license agreement - On September 15, 2017 Canopy Growth Corporation ("Canopy Growth") and Skinvisible Pharmaceuticals, Inc. ("Skinvisible"), signed a definitive license agreement for Skinvisible's patented topical formulations. Per the agreement, Canopy Growth is exclusively licensed to distribute Skinvisible's topical products in Canada, and shall have a first right of refusal for all other countries, excluding China and the United States.

The agreement covers two distinct product lines made with Skinvisible's Invisicare® technology. Skinvisible will first develop unique topical hemp-based products that will be launched by Canopy Hemp Corporation in Canada and the United States. The agreement also includes potential cannabis-based topical products using the Invisicare® technology when and if federal regulations permit CBD or THC infused topical products for sale in Canada.

Ovation license agreement – On September 29, 2017, the Company entered into a licensing agreement with Ovation Science Inc.

Payment due under the agreement - As consideration for the grant of the License and the assignment of the Canopy agreement Ovation agreed to pay Skinvisible Inc. \$500,000. \$250,000 is due within 90 days of execution of the Agreement and a promissory note for \$250,000 is payable upon the earlier of the company completing an initial public offering or March 31, 2018. As of March 31, 2018 Ovation had paid the initial cash payment of \$250,000 to Skinvisible Inc. and \$90,666 under the promissory note.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Rights of Ovation under the agreement - Skinvisible granted to Ovation, subject to its rights granted under the Canopy Agreement, the exclusive worldwide right to manufacture, distribute, sell, market, sub-license and promote the Products including the right to use the subject matter of any Skinvisible patents and trademarks which cover the Products or Polymer.

Skinvisible further assigned to Ovation its interest in the Canopy Agreement. Under the terms of the agreement Ovation is entitled to keep 100% of the royalties, license fees, development fees or any other fees associated with the Products and keep 100% of any future revenues generated under the Canopy Agreement. Ovation assumed and agreed to perform all the remaining and executory obligations of Skinvisible under Ovation's License.

Skinvisible agreed to allow Ovation to manufacture any of the Invisicare® Polymers required only for the Products and will provide the information and all relevant documentation and instructions necessary to manufacture Invisicare and Products. Ovation shall bear all costs incurred in connection to duties, taxes, importation documentation and costs arising from regulatory requirements in the Territory. Ovation also has the right to hire Skinvisible R&D staff for development of new Products. Ovation shall be entitled to modify, alter, improve, or change (collectively "modify" or "modification") any or all of the Products covered by this Agreement at any time during the term of this Agreement.

15. MERGER AGREEMENT

Merger Agreement

On March 26, 2018, Skinvisible, Inc. ("**Parent**") entered into an Agreement and Plan of Merger (the "**Merger Agreement**") with Quoin Pharmaceuticals, Inc., a Delaware corporation (the "**Company**"), and Quoin Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Parent ("**Merger Sub**").

The Merger Agreement provides that, subject to the terms and conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company (the "**Merger**"), with the Company surviving the Merger as a wholly-owned subsidiary of Parent. At the effective time of the Merger, the issued and outstanding common shares of the Company ("**Company Common Shares**") will automatically be converted into the right to receive approximately 72.5% of the outstanding equity of Parent (the "**Merger Consideration**"). Existing Parent shareholders will have a right to the remaining 27.5% of the outstanding equity of Parent, which is subject to diminution if certain indebtedness of Parent is not converted into Parent Common Stock.

Each of the Company, Parent, and Merger Sub has made various representations and warranties and agreed to certain covenants in the Merger Agreement. Parent also has agreed to other covenants in the Merger Agreement, including, without limitation, to cause a special meeting of Parent's shareholders to be held as promptly as practicable to consider and approve the Merger Agreement and the Merger, along with the issuance of the shares of Parent Common Stock in connection with the Merger and a Charter Amendment, including a name change and reverse stock split, and to file a proxy statement with the Securities and Exchange Commission ("**SEC**") relating to such special meeting.

The Merger Agreement contains customary no-solicitation covenants restricting Parent and the Company from soliciting, encouraging, or discussing alternative acquisition proposals from third parties.

Consummation of the Merger is subject to the satisfaction or, if permitted by applicable law, waiver, by Parent, the Company, or both of various conditions, including, without limitation, (i) approval of the Merger Agreement and the Merger by both the Company's and Parent's respective shareholders; (ii) a definitive agreement shall have been executed that provides that Parent shall receive an aggregate of at least \$10,000,000 of gross proceeds within five (5) days of the closing of the Merger; (iii) the accuracy of the parties' respective representations and warranties and the performance of their respective obligations under the Merger Agreement; (iv) the absence of the occurrence of a material adverse effect with respect to the Company between the date of the Merger Agreement and closing; (v) the Parent's shareholders shall have approved the Charter Amendment ; (vi) the absence of any law, order, or legal injunction which prohibits the consummation of the Merger or any of the transactions contemplated by the Merger Agreement; and (vii) certain other customary conditions.

The Merger Agreement contains certain termination rights in favor of the parties, as set forth therein, including, among other things, the right of either party, subject to specified limitations, to terminate the Merger Agreement if the Merger is not consummated by June 30, 2018. Upon the termination of the Merger Agreement under specified circumstances, including the termination of the Merger Agreement by Parent to enter into an acquisition proposal in accordance with the terms of the Merger Agreement made by a third party, Parent may be required to pay the Company a termination fee of up to \$300,000.

Table of Contents

SKINVISIBLE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Merger Agreement, the Merger, and the transactions contemplated thereby were unanimously approved by the board of directors of the Parent, and unanimously approved by the board of directors of the Company. Both the board of directors of the Company and Parent have recommended that their respective shareholders approve the Merger Agreement and the Merger.

The Merger is expected to close as soon as practicable after the satisfaction or waiver of all the conditions to the closing in the Merger Agreement, which is currently expected to be in the second quarter of calendar year 2018.

Support Agreements

Concurrently with the entry into the Merger Agreement on March 26, 2018, Terry Howlett (Chief Executive Officer of Parent) and Doreen McMorran (Vice President, Business Development & Marketing of Parent) along with Michael Meyers (Chief Executive Officer of the Company) and Denise Carter (Chief Operating Officer of the Company) have executed lock-up agreements (the “*Lock-Up Agreements*”) relating to sales and certain other dispositions of shares of Parent Common Stock or certain other securities for a period of 180 days after the Closing of the Merger.

In addition, Parent will execute an agreement with Mr. Howlett, Ms. McMorran and Dr. Roszell (the “*Parent Related Party Agreement*”) which will provide that within 180 days after the Closing Date the remaining Parent Related Party Indebtedness shall be converted, at the sole election of Parent, into cash or shares of Parent Common Stock which are not subject to any contractual restrictions or vesting requirements.

Finally, Mr. Howlett and Ms. McMorran have entered into a Voting and Support Agreement (the “*Voting Agreement*”), pursuant to which such shareholders have agreed, among other things, to vote all of their Parent Common Shares in favor of the approval of the Merger Agreement at the special meeting of the Parent’s shareholders called to approve the Merger Agreement. The Voting Agreement will automatically terminate upon the termination of the Merger Agreement in accordance with its terms, including upon a termination of the Merger Agreement by the Company pursuant to the Company’s termination rights in the Merger Agreement, or upon any material modification or amendment to the Merger Agreement that materially reduces the Merger Consideration payable to the Company’s shareholders (other than in connection with a Company material adverse effect).

Additional Information for Shareholders

This report relates to the proposed Merger transaction between the Company, Parent, and Merger Sub. The proposed Merger will be submitted to the Company’s and Parent’s shareholders for their consideration and approval. In connection with the proposed Merger, the Parent will file relevant materials with the SEC, including a proxy statement of the Parent. When completed, a definitive proxy statement and a form of proxy will be mailed to the shareholders of the Parent. This report is not a substitute for the proxy statement, circular, or other document(s) that the Company and/or Parent may file with the SEC in connection with the proposed transaction. **The Parent’s shareholders are urged to read the proxy statement and other documents filed with the SEC regarding the proposed Merger transaction when they become available because they will contain important information about the Company, Parent, and the proposed Merger transaction itself.** The Parent’s shareholders will be able to obtain, without charge, a copy of the proxy statement (when available) and other relevant documents filed with the SEC from the

SEC's website at www.sec.gov. The information available through the Parent's website is not and shall not be deemed part of this document or incorporated by reference into other filings the Company makes with the SEC. This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities.

The Parent, and its management may be deemed to be participants in the solicitation of proxies from the Parent's shareholders with respect to the special meeting of shareholders that will be held to consider the matters to be approved by the Parent's shareholders in connection with the Merger transaction. Information about the Parent's directors and executive officers and their ownership of the Parent Common Shares will be set forth in the proxy statement for special shareholder meeting, which will be filed with the SEC on Schedule 14A in the near future. Shareholders may obtain additional information regarding the interests of the Parent and its directors and executive officers in the proposed Merger, which may be different than those of the Parent's shareholders generally, by reading the proxy statement and other relevant documents regarding the proposed merger, when filed with the SEC.

17. SUBSEQUENT EVENTS

In accordance with ASC Topic 855-10, the Company has analyzed its operations subsequent to March 31, 2018 to the date these financial statements were available to be issued and has determined that it does not have any material subsequent events to disclose in these financial statements.

F-14

Table of Contents

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

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect 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.

Recent Developments

Merger with Quoin Pharmaceuticals, Inc.

On March 26, 2018, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Quoin Pharmaceuticals, Inc., a Delaware corporation (the “Company”), and Quoin Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Parent (“Merger Sub”).

The Merger Agreement provides that, subject to the terms and conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of our company. At the effective time of the Merger, the issued and outstanding common shares of the Company will automatically be converted into the right to receive approximately 72.5% of the outstanding equity of

our company (the “Merger Consideration”). Our existing shareholders will have a right to the remaining 27.5% of the outstanding equity in our company, which is subject to diminution if certain indebtedness is not converted into our common stock.

We also have agreed to other covenants in the Merger Agreement, including, without limitation, to cause a special meeting of our shareholders to be held as promptly as practicable to consider and approve the Merger Agreement and the Merger, along with the issuance of the Merger Consideration in connection with the Merger and a Charter Amendment, including a name change and reverse stock split, and to file a proxy statement with the Securities and Exchange Commission (“SEC”) relating to such special meeting.

As such, we recently filed a proxy statement with the SEC to approve the Merger, to conduct a reverse split of not less than one-for-ten and not more than one-for-one hundred, with the exact ratio to be set at a whole number within this range, as determined by our board of directors in its sole discretion, and to change our name to Quoin Pharmaceuticals, Inc.

Consummation of the Merger is subject to the satisfaction or, if permitted by applicable law, waiver, by us, the Company, or both of various conditions, including, without limitation, (i) approval of the Merger Agreement and the Merger by both the Company’s and our respective shareholders; (ii) a definitive agreement shall have been executed that provides that we shall receive an aggregate of at least \$10,000,000 of gross proceeds within five (5) days of the closing of the Merger; (iii) the accuracy of the parties’ respective representations and warranties and the performance of their respective obligations under the Merger Agreement; (iv) the absence of the occurrence of a material adverse effect with respect to the Company between the date of the Merger Agreement and closing; (v) our shareholders shall have approved the reverse split and name change ; (vi) the absence of any law, order, or legal injunction which prohibits the consummation of the Merger or any of the transactions contemplated by the Merger Agreement; and (vii) certain other customary conditions.

Table of Contents

The Merger Agreement contains certain termination rights in favor of the parties, as set forth therein, including, among other things, the right of either party, subject to specified limitations, to terminate the Merger Agreement if the Merger is not consummated by June 30, 2018. Upon the termination of the Merger Agreement under specified circumstances, including the termination of the Merger Agreement by Parent to enter into an acquisition proposal in accordance with the terms of the Merger Agreement made by a third party, Parent may be required to pay the Company a termination fee of up to \$300,000.

The Merger Agreement, the Merger, and the transactions contemplated thereby were unanimously approved by our board of directors and unanimously approved by the board of directors of the Company. Both the board of directors of the Company and our company have recommended that their respective shareholders approve the Merger Agreement and the Merger.

The Merger is expected to close as soon as practicable after the satisfaction or waiver of all the conditions to the closing in the Merger Agreement, which is currently expected to be in the second quarter of calendar year 2018.

Support Agreements

Concurrently with the entry into the Merger Agreement on March 26, 2018, Terry Howlett (Chief Executive Officer of Parent) and Doreen McMorran (Vice President, Business Development & Marketing of Parent) along with Michael Meyers (Chief Executive Officer of the Company) and Denise Carter (Chief Operating Officer of the Company) have executed lock-up agreements (the “Lock-Up Agreements”) relating to sales and certain other dispositions of shares of our common stock or certain other securities for a period of 180 days after the Closing of the Merger.

In addition, our wholly owned subsidiary, Skinvisible Pharmaceuticals, Inc., executed agreements with Mr. Howlett, Ms. McMorran and Dr. James A. Roszell (the “Share Transfer Agreements”). The Share Transfer Agreements provide that in exchange for the immediate cancellation of \$500,000 of the Parent Related Indebtedness, simultaneously with entry into the Merger Agreement, Skinvisible Pharmaceuticals, Inc. will transfer 100% of the shares in Ovation Science Inc. (“Ovation”) to these related parties. We will execute an agreement with Mr. Howlett, Ms. McMorran and Dr. Roszell (the “Parent Related Party Agreement”) which will provide that within 180 days after the Closing Date the remaining Parent Related Party Indebtedness shall be converted, at the sole election of our company, into cash or shares of our common stock, which are not subject to any contractual restrictions or vesting requirements.

Finally, Mr. Howlett and Ms. McMorran have entered into a Voting and Support Agreement (the “Voting Agreement”), pursuant to which such shareholders have agreed, among other things, to vote all of their common shares in our company in favor of the approval of the Merger Agreement at the special meeting of our shareholders called to

approve the Merger Agreement. The Voting Agreement will automatically terminate upon the termination of the Merger Agreement in accordance with its terms, including upon a termination of the Merger Agreement by the Company pursuant to the Company's termination rights in the Merger Agreement, or upon any material modification or amendment to the Merger Agreement that materially reduces the Merger Consideration payable to the Company's shareholders (other than in connection with a Company material adverse effect).

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.

Table of Contents

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 will continue to be to out-license our patented prescription and over-the-counter (“OTC”) 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 formed a commercial subsidiary, Kintari Int. Inc. with subsidiaries Kintari USA Inc. and Kintari Canada Inc., in order to take our cosmeceutical and select OTC products with Invisicare to market.

The opportunity for us to license our products continues to be a viable model as 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.

Strategic Growth Opportunities

Our growth strategy is to:

1. Generate revenue from direct sales of our cosmeceutical/OTC product line;
2. Generate revenue from online sales and private label / bulk orders of our Kintari branded products;
3. Capitalize on the success of current licensees;
4. Increase the value of our current pipeline; and
5. Boost licensing revenues by securing additional licensees globally and develop a robust royalty revenue stream that will finance our future growth.

Our Cosmeceutical/OTC Product Line

Kintari Int. Inc.

Kintari Int. Inc. was incorporated in the Province of Alberta, Canada. The company was formed to develop, market and sell Skinvisible Pharmaceuticals, Inc.'s patented skincare products initially in the United States. Kintari Int. Inc. is our wholly-owned subsidiary.

DermSafe®, our hand sanitizer formulated with Invisicare® and chlorhexidine gluconate has been launched in Canada by our subsidiary Kintari Canada Inc. where it has Health Canada approval. We launched DermSafe in August, 2016 in Canada through our Kintari Canadian website for retail customers only. DermSafe is an alcohol free hand sanitizer that products against 99% of all germs. We are currently seeking licensees and/or distributors to begin the sale of DermSafe in South America and in the EU.

Table of Contents

Kintari Products in China:

Skinvisible has an agreement in place with InterSpace Global, Inc. InterSpace Global Inc. is an exporter of “Made in USA” products and has offices in Salt Lake City, Utah and Shenzhen, China. This agreement provides for an efficient export of Skinvisible’s products from the USA and Canada into Greater China (Includes China, Hong Kong, Macau, Taiwan, Singapore, Malaysia, Korea and Thailand).

According to the agreement, InterSpace Global Inc. will sell Kintari products to Chinese consumers through a network of online shopping malls and other channels.

In addition to DermSafe, Skinvisible will supply its Kintari –branded portfolio of globally patented skincare products made with its Invisicare® delivery technology.

The Kintari product portfolio consists of two anti-aging products to help fight the signs of aging, a broad spectrum sunscreen along with our latest Hand & Body Lotion products. All products are made with our patented Invisicare technology.

Our anti-aging products have been developed using proven anti-aging ingredients with scientific evidence of their effectiveness at reducing the look of fine lines and wrinkles resulting in youthful looking skin. These potent ingredients will be powered by patented Invisicare technology, providing consumers with unique, effective products, which we believe cannot be duplicated.

Our sunscreen is a broad spectrum SPF 30 known as Skinbrella®. We completed independent testing to validate our broad spectrum sunscreen claims according to the labeling guidelines of the FDA, which are designed to help reduce the incidents of skin cancer in the U.S. Our claims are as follows:

- Claim # 1 – Broad-Spectrum: According to the FDA, in order for a sunscreen to be labeled “broad spectrum” it must prove it protects against both UVA and UVB rays by having an SPF (Sun Protection Factor) of at least 15 and a critical wave length of at least 370 nm. Our sunscreen has surpassed both of these criteria, allowing our broad spectrum sunscreen label to also state “prevents sunburn, skin cancer and aging due to the sun.”
- Claim # 2 – Water-Resistant 80 Minutes: The FDA sunscreen water resistant claim requires that a sunscreen must have the same SPF after being in water or sweating for 40 or 80 minutes. Our testing was conducted at

an independent laboratory specializing in sunscreen testing. The test involved human subjects that applied sunscreen to their arm, followed by the immersion of the arm into a Jacuzzi for 80 minutes (10 minutes in / 10 minutes out). Our sunscreen successfully completed this testing and is allowed to use “Water-resistant for 80 Minutes” on its sunscreen label, the longest length of time allowed by the FDA.

- Claim # 3 – Unique Patented Technology / Eight-Hour Photostability: As previously announced, we were granted a patent from the United States Patent and Trademark Office entitled “Sunscreen Composition with Enhanced UVA Absorber Stability and Methods”, which provides protection until November 2029. Skinvisible successfully formulated a unique Invisicare® delivery system specifically for stabilizing avobenzone; the key sunscreen used in the USA. Data submitted to the US patent office proved that our sunscreen provides a minimum of eight hours of photostability.

Cannabis Products

On September 15, 2016, we licensed the exclusive world rights to our topical and transdermal cannabis products formulated with Invisicare to CannaSkin, LLC, a cannabis product licensing company with international contacts in the medical marijuana industry. This agreement was canceled on June 28, 2017 and all rights reverted back to Skinvisible.

Table of Contents

In September 2017 Skinvisible formed a wholly-owned Canadian subsidiary called Ovation Science Inc. (“Ovation”). Ovation was subsequently granted worldwide rights to Invisicare products formulated with cannabis or hemp seed oil. A license agreement with Canopy Growth Inc. for the Canadian rights was also assigned to Ovation. This was followed by a license agreement with Lighthouse Strategies, LLC for the US rights in dispensaries and the non-exclusive rights outside of dispensaries in the USA. A term of the potential merger agreement with Quoin Pharmaceuticals, Inc. involves Skinvisible Related Parties to assume Skinvisible’s ownership in Ovation in lieu of payment of a portion of outstanding debt.

Capitalize On Current Licensees:

We have: Avon Products globally and Women’s Choice Pharmaceuticals in the United States.

We continue to 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.

Women’s Choice Pharmaceuticals

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

Sales and Royalties: Skinvisible receives a royalty based on net sales of ProCort. Women’s Choice has been successfully growing their sales of ProCort®

Additional Skinvisible Products

Sunless Tanning Products

We have 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.

Sunscreen Products

We have developed 3 broad spectrum sunscreens, with SPF 15, 30 and 50 (the highest SPF allowed by the FDA). All 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 in 2013. 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.

Increasing The Value of Skinvisible's 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:

Table of Contents

- Our clinical strategy is to find a partner for our prescription product portfolio. This would allow for a partner to seek FDA approval using the 505b2 pathway for one or more of our products.
- Expand the availability of our DermSafe® hand sanitizer in China and other countries internationally. A strategy is being developed along with a larger global strategy to bring DermSafe to the EU and Asia.

Secure Additional Licensees:

We are in discussions and undergoing internal discussions with various pharmaceutical companies for licenses.

To facilitate further expansion, we are seeking an exclusive license with a proven US or global based Pharmaceutical Company for our existing Rx product formulations. The licensee would be expected to pay all costs in getting FDA approval. The licensee would pay Skinvisible for the license in milestone payments as Clinical Phases are proven.

Results of Operations for the Three Months Ended March 31, 2018 and 2017

Revenues

Our revenue from product sales, royalties on patent licenses and license fees (product development fees) for the three months ended March 31, 2018 was \$15,632, an increase from \$12,512 for the same period ended March 31, 2017.

The increase in revenue for the three months ended March 31, 2018 was mainly due to license, development and royalty fees from our licensees. We hope to achieve increased revenues in 2018, as a result of our Merger Agreement with Quoin Pharmaceuticals, Inc.

Cost of Revenues

Our cost of revenues for the three months ended March 31, 2018 increased to \$7,873 from the prior year period when cost of revenues was \$1,561. Our cost of revenues increased for the three months ended March 31, 2018 over the prior year period as a result of increased product sales. We expect our cost of revenues to increase, especially if the Merger is consummated, and as we continue to push sales from Kintari USA and Canada.

Gross Profit

Gross profit for the three months ended March 31, 2018 was \$7,759, or approximately 50% of sales. Gross profit for the three months ended March 31, 2017 was \$10,951, or approximately 88% of sales.

Operating Expenses

Operating expenses increased to \$182,325 for the three months ended March 31, 2018 from \$165,177 for the same period ended March 31, 2017.

Our operating expenses for the three months ended March 31, 2018 consisted mainly of accrued salaries and wages of \$86,542, accounting and audit fees of \$32,882, rent of \$13,381, depreciation and amortization expenses of \$9,630 and legal fees of \$8,491. In comparison, our operating expenses for the three months ended March 31, 2017 consisted mainly of accrued salaries and wages of \$95,240, consulting fees of \$28,585, depreciation and amortization expenses of \$14,008, rent of \$12,557 and insurance of \$7,301.

Other Income/Expenses

We had other income of \$271,096 for the three months ended March 31, 2018, compared with other expenses of \$324,758 for the three months ended March 31, 2017. Our other income for the three months ended March 31, 2018 consisting primarily of \$595,127 as a result of a gain on the sale of Ovation Science, offset mainly by interest expense of \$280,230, as compared with interest expense of \$324,761 for the same period ended 2017.

Table of Contents

We expect to continue to experience high interest payments in the future as a result of our outstanding liabilities. Moreover, as of the date of this report, there are a number of secured promissory notes with an aggregate principal amount of approximately \$3,428,875 that have matured. In addition, we also have a number of unsecured promissory notes with an aggregate principal amount of \$43,000 that have matured. If we are unable to generate sufficient revenues and/or additional financing to service this debt, there is a risk the lenders will call the notes, secure our assets, as to those applicable secured notes, and demand payment. If this happens, we could go out of business.

Net Income/Loss

We recorded net income of \$96,530 for the three months ended March 31, 2018, as compared with a net loss of \$478,984 for the three months ended March 31, 2017.

Liquidity and Capital Resources

As of March 31, 2018, we had total current assets of \$229,310 and total assets in the amount of \$426,026. Our total current liabilities as of March 31, 2018 were \$7,260,719. We had a working capital deficit of \$7,031,409 as of March 31, 2018.

Operating activities provided \$24,639 in cash for the three months ended March 31, 2018, as compared with cash used of \$27,344 for the three months ended March 31, 2017. Our positive operating cash flow for the three months ended March 31, 2018 is the result of a \$144,056 increase in accrued interest, \$131,351 in amortization of debt discount, our net income of \$96,530, an increase in accounts payable and accrued liabilities of \$93,387 and an \$81,052 decrease in promissory note from Ovation Science, offset mainly by a \$595,127 gain on the sale of Ovation Science. Our net loss of \$478,984 was the main component of our negative operating cash flow for the three months ended March 31, 2017, offset mainly by an increase in accounts payable and accrued liabilities of \$165,322, amortization of debt discount of \$167,247, an increase in accrued interest of \$76,722 and stock based compensation of \$24,000.

Cash flows used by financing activities during the three months ended March 31, 2018 amounted to \$15,000, as compared with cash provided of \$27,930 for the three months ended March 31, 2018. Our cash flows for the three months ended March 31, 2018 consisted of payments made on related party loans and notes payable. Our cash flows for the three months ended March 31, 2017 consisted of consisted of proceeds from convertible notes payable, notes payable and related party loans.

The features of the debt instruments and payables concerning our financing activities are detailed in the footnotes to our financial statements.

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 March 31, 2018, there were no off balance sheet arrangements.

Table of Contents

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.

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 \$31,612,477 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 March 31, 2018, the Company had not recorded a reserve for doubtful accounts. The Company has \$1,135,000 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®.

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.

Table of Contents

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 March 31, 2018. 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 March 31, 2018, 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 March 31, 2018, 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, 2018: (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 March 31, 2018 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 a party to any pending legal proceeding. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us.

Item 1A. Risk Factors

See risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 23, 2018.

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 an Annual Report on Form 10-K, Quarterly Report on Form 10-Q or Current Report on Form 8-K.

On February 5, 2018, we executed an agreement to issue 1,634,565 shares of common stock with a fair value of \$39,230 or \$0.024 per share to a note holder in settlement of \$32,691 in accrued interest.

Table of Contents

On March 13, 2018, we executed an agreement to issue 1,560,000 shares of common stock to an individual in settlement of \$39,000 in accounts payable. As of March 31, 2018 the shares had not been issued and were reported as stock payable.

On March 22, 2018, we executed an agreement to issue 1,333,320 shares of common stock to our former employee related to the conversion of debt. As of March 31, 2018 the shares had not been issued and were reported as stock payable in the amount of \$39,634.

On March 13, 2018, we executed an agreement to issue 960,000 shares of common stock to our former director in settlement of a total of \$35,035 in convertible notes. As of March 31, 2018 the shares had not been issued and were reported as stock payable in the amount of \$35,035.

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

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
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 March 31, 2018 formatted in Extensible Business Reporting Language (XBRL).

**Provided
herewith

Table of Contents

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: May 15, 2018

By: /s/ Terry Howlett

Terry Howlett

Title: Chief Executive Officer, Chief Financial Officer and Director