SKINVISIBLE INC
Form 10KSB
April 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

[X] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 000-25911

Skinvisible, Inc.
(Name of small business issuer in its charter)

Nevada	88-0344219
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6320 South Sandhill Road Suite 10, Las Vegas, Nevada (Address of principal executive offices)	89120 (Zip Code)

Issuer's telephone number: 702-433-7154

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
None	Not Applicable

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $0.001
(Title of class)

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

State issuer's revenue for its most recent fiscal year. $777,685

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity, as of a specified date within the past 60 days. $6,361,259.03 as of April 11, 2008

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 75,487,238 Common Shares as of March 31, 2008.

Transitional Small Business Disclosure Format (Check One): Yes [ ] No [X]

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Description of Business Overview

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

Products that successfully incorporate Invisicare to date include antimicrobial hand sanitizer lotions, suncare products, skincare moisturizers, sunless tanning products as well as various dermatology products for various skin disorders. On an ongoing basis, we are seeking to develop polymer formulations that can successfully be incorporated into other products.
Our primary objective is to license Invisicare to established brand manufacturers and marketers of prescription and over-the-counter products in the dermatological, medical, cosmetic, and skincare markets. With the exception of sales to one vendor, our management’s policy is to only sell Invisicare to vendors that have executed a license agreement with us. We conduct our research and development in-house. We engage an outside party that currently handles all of our manufacturing and distribution needs.

Developments in our Current Products and Agreements

Aside from disclosures provided below, we have no developments to report in our current product line or distribution agreements in place for those products.

Patent Developments

On January 4, 2000, we filed a patent application for our antimicrobial dermal barrier composition. We received patent approval (US Patent No. 6,582,683) for our antimicrobial dermal barrier formulation in February 2003 and received the patent certificate in June 2003.

We filed a patent application on August 20, 2001 titled “Topical Compositions, Topical Composition Precursors, and Methods for Manufacturing and Using” for our Invisicare® topical compositions and our methodology for manufacturing and utilization of numerous delivery systems and related applications. The United States Patent and Trademark Office split this application into three different applications as follows: (a) Methods of Manufacturing (b) Topical Compositions and (c) Methods of Use. We received patent approval for the application on Methods of Manufacturing (US Patent No. 6,756,059). However, as the Patent approval of June 2003 already was covered on one of the polymer compositions noted in the Methods of Manufacturing the Patent Office further split this application into 2 distinct patents. Topical Compositions and Methods of Use are pending.

Table of Contents

We have also filed under the Patent Cooperation Treaty (PCT) the Patent titled “Topical Compositions, Topical Composition Precursors, and Methods for Manufacturing and Using” for certain foreign countries. As of December 31, 2005, this patent application is still pending.

In addition to the United States patents currently pending on the core patent technology, we have filed 6 more patents which cover product classes including sunless tanning spray, sunless tanning lotion, sunscreens, chlorhexidine antimicrobial hand lotion, anti-fungal and acne formulations..

During the current reporting period, we have been granted a comprehensive patent in India. The patent grants protection for our Invisicare product in the areas of “Topical Composition,” “Topical Composition Precursor,” and “Methods for Manufacturing and Using.” These key patent components now allow for the protected manufacturing, marketing and distribution of our Invisicare technology in India. We are also seeking patent protection for our dermatology products formulated with Invisicare for India. Management believes that India, with a population of over 1.1 billion people, will be a key market for our company.

Trademarks

In January 2002, we received trademark approval in the United States for the name "Invisicare" to identify our family of polymer delivery systems. We have filed this trade name with the Cosmetic, Fragrance and Toiletries Association ("CFTA") as an ingredient for use in skincare and cosmetic formulations.

We have also applied and received trademark approval for the corporate logo “Skinvisible” and for our sunless and sun tanning products under the name “Solerra” both in the US and Canada.

We are seeking to extend the protection of our trademarks in additional countries where we currently conduct business and those additional countries where we intend to conduct business.

Antibacterial/Antimicrobial Hand Sanitizer Lotion

Last quarter, we reported attempts to negotiate with JD Nelson to acquire rights from us to distribute, market, sell, and promote our antimicrobial hand sanitizer lotion that utilizes the active ingredient Triclosan 1% in every country in the world except Canada, the United States, and Mexico. (JD Nelson currently has rights to market and distribute our antimicrobial hand sanitizer lotion composition in the United States of America, Canada and Mexico.) We offered to JD Nelson these acquisition rights in exchange for $500,000 and a 10% royalty payment. We extended the termination date of our offer to JD Nelson to acquire these rights to August 31, 2007. As of the date of this report, no agreement with JD Nelson has been reached. As such, we have abandoned negotiations with JD Nelson and we are currently looking to establish relationships with potential distributors in countries other than North America. We can provide no assurance that we will be able to execute any agreement with a potential distributor for these rights.

Table of Contents

Sunless Tanning Spray Product

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

Pursuant to the terms of the Distribution Agreement, Cross Global paid us the license fee of $1,000,000. Under the terms of this agreement, we are to receive a minimum royalty fee quarterly of not less than 5% of gross revenue of all sales of our proprietary sunless tanning spray products or $25,000, whichever is greater. We extended the minimum royalty payments terms on 3 different occasions in an effort to accommodate and assist Cross Global in the early stage of their operations. Despite our efforts, Cross Global remains delinquent for the minimum payments due at the present time in the amount of $120,000. We have the ability to terminate the Distribution Agreement as a result of this material breach upon providing notice to Cross Global. Cross Global is prohibited under this agreement from manufacturing, marketing, distributing, or selling any competing product while the Distribution Agreement is in full force and effect.

We have negotiated a new agreement with Sunless Beauty Inc. (“Sunless Beauty”), a company with the same shareholder base as Cross Global, which will replace the existing agreement with Cross Global regarding this matter. The new agreement releases and forever discharges Cross Global from the $120,000 delinquency and requirement to pay a minimum royalty payment monthly. The new agreement offers Sunless Beauty the exclusive right to utilize our proprietary polymer formula in connection with the distribution, marketing, and sale of sunless tanning products in the applicable territory, but only for use in their proprietary product called Solerra Mitt, which is a sunless tanning mitt. They are required to purchase the Invisicare exclusively form Skinvisible and pay a royalty of 5% on Mitt sales within the territory. Further information on Sunless Beauty and the sunless tanning products they sell can be obtained at www.solerra.com.

Acne Formulation

On January 30, 2008 , our wholly-owned subsidiary, Skinvisible Pharmaceuticals, Inc., entered into a Trademark License Agreement and Distribution Agreement ("Distribution Agreement") with Panalab Internacional S.A. ("Panalab"). The Agreement is for the right to develop and commercialize Skinvisible's prescription anti-acne products formulated with adapalene and Invisicare® in Argentina, Brazil and Chile.

Under the terms of the agreement Panalab, a multi-national dermatology company headquartered in Panama with subsidiaries and partners in most Latin American countries, will be responsible for filing and obtaining marketing approval in the countries they have licensed. While all terms of the agreement were not disclosed, Skinvisible will receive a research and development fee

Table of Contents

plus a licensing fee allocated as an upfront fee plus milestone payments. In addition the Company will receive royalties based on revenues generated by the sale of the products. According to the agreement, Panalab will have the right to manufacture, distribute, market, sell and promote the adapalene formulations in the specified territory.

Sunscreen and Skin Care Products

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

During the reporting period, we developed two additional sunscreen products. One of the products utilizes the active ingredient Parsol 1789. The other product utilizes the active ingredient Tinasorb which has been approved for distribution in Europe, Japan, Australia and recently Canada. Tinasorb has not yet have approval in the US. Tinasorb is a broad spectrum UVA/UVB ingredient. The manufacturer of Tinasorb is Ciba Chemicals. It is our intention to license out the distribution of both of these formulas where approved.

Status of Research and Development for New Applications

We believe that the enhancement and extension of our existing products and the development of new product categories have contributed significantly to our growth to date and are necessary for our continued growth. Our management evaluates new ideas and seeks to develop new products and improvements to existing products to satisfy industry requirements and changing consumer preferences. We seek to identify trends in consumer preferences and to generate new product ideas. Specific to the objective of generating new products, we are continuing our research and development toward developing additional applications with Invisicare. We are currently at various development stages for the following potential applications using Invisicare:

Table of Contents

Skinvisible's Formulas with Invisicare:

ACTIVE INGREDIENT	TYPE	Availability	Patent
Acne			
Adapalene Cream (0.1% & 0.3%)	Rx	yes	pending
Adapalene Gel (0.1% & 0.3%)	Rx	yes	pending
Clindamycin Hydrochloride Cream (1%)	Rx	yes	pending
Retinoic Acid Cream (0.1%)	Rx	yes	pending
Analgesics			
Topical Spray with Menthol (6% & 8%)	OTC	yes	technology
Topical Roll-On with Menthol (6% & 8%)	OTC	yes	technology
Topical Cream with Salicylate (10%)	OTC	yes	technology
Anti-Aging			
Retinol Cream & Lotion (0.15%)	Cosmetic	yes	technology
Retinol Cream (0.3%)	Cosmetic	yes	technology
Anti-Fungal			
Terbinafine Cream, Gel (1%)	OTC	yes	pending
Naftifine Cream (1%)	Rx	yes	pending
Clotrimazole Cream (1%)	OTC	yes	pending
Anti-Inflammatory			
Hydrocortisone Cream (1%)	OTC	yes	technology
Triamcinolone (1%)	Rx	yes	technology
Triamcinolone Acetonide (1%)	Rx	yes	technology
Clobetasole Proprionate (0.3%)	Rx	in-progress	technology
Betamethasone (1%)	Rx	yes	technology
Antimicrobial Hand Sanitizing Lotion			
Triclosan Lotion (1%) with Nonoxynol-9	OTC	yes*	granted
Triclosan Lotion (1%) with Tomadol 901	OTC	yes*	granted
Benzalkonium Chloride Lotion (0.13%)	OTC	yes*	granted
Chlorhexidine Gluconate Lotion (4%)	OTC / NDA	in-progress	pending
Moisturizers			
	Rx / Cosmetic	yes	technology

Non-Steroidal Atopic Dermatitis Cream			
Skin Protectant Lotion with Allantoin (0.5%)	OTC	yes	technology
Super Moisturizer with Ectoin	Cosmetic	yes	technology
UVA / UVB Sunscreen			
Parsol 1789 - SPF 30 Lotion	OTC	in-progress	pending
Tinosorb S – SPF 30 Lotion	OTC	in-progress	pending
Other Skin / Hair			
Skin Whitening, Hyperpigmentation	Cosmetic	in-progress	technology
Scar Lotion with Onion Bulb	Cosmetic	yes	technology
Glycolic Acid Cream (5% & 10%)	Cosmetic	yes	technology
Fragrance – Long Lasting Gel	Cosmetic	yes	technology

*excludes North America

Table of Contents

Competition

Our primary business objective is to license our technology and formulated products to manufacturers of Rx and OTC skincare products. Market research undertaken to date has indicated that, at present, there is reasonably limited competition for our polymer-based delivery systems and related technologies such as delivery vehicles and technologies that offer the same performance capabilities for topically administered products.

Research and Development Expenditures

We incurred research and development expenditures in the fiscal year ended December 31, 2007 of $20,291 and $172,674 for the fiscal year ended December 31, 2006.

Existing and Probable Governmental Regulation

We are not subject to any significant or material federal or state government regulation in connection with the research and development and licensing of our innovative topical polymer-based delivery systems and technologies.

With respect to our products under development, our licensing agreements require the licensee to seek all required approvals for marketing, distribution, and sale in the jurisdictions for which it is desired to make the product available should we succeed in developing a successful product.

We are not subject to any significant or material environmental regulation in the normal operation of our business.

Compliance with Environmental Laws

We did not incur any costs in connection with the compliance with any federal, state, or local environmental laws.

Employees

We currently have 5 total employees, including our sole executive officer, and all are full-time employees.

Item 2. Description of Property

Currently, we do not own any real estate. We are leasing our executive offices and research facility. We are located at 6320 South Sandhill Road, Suite 10, Las Vegas, Nevada 89120.

Skinvisible Pharmaceuticals, Inc., our wholly owed subsidiary, owns the manufacturing and laboratory equipment at this location.

Table of Contents

Item 3. 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 4. Submission of Matters to a Vote of Security Holders

No matters have been submitted to our security holders for a vote, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended December 31, 2007.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Market Information

Our common stock is currently quoted on the OTC Bulletin Board ("OTCBB"), which is sponsored by the NASD. The OTCBB is a network of security dealers who buy and sell stock. The dealers are connected by a computer network that provides information on current "bids" and "asks", as well as volume information. Our shares are quoted on the OTCBB under the symbol "SKVI."

The following table sets forth the range of high and low bid quotations for our common stock for each of the periods indicated as reported by the OTCBB. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Fiscal Year Ending December 31, 2007		
Quarter Ended	High $	Low $
March 31, 2007	0.25	0.23
June 30, 2007	0.35	0.20
September 30, 2007	0.32	0.18
December 31, 2007	0.30	0.13
Fiscal Year Ended December 31, 2006		
Quarter Ended	High $	Low $
March 31, 2006	0.72	0.18
June 30, 2006	0.62	0.362
September 30, 2006	0.37	0.30
December 31, 2006	0.75	0.24

Penny Stock

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions

Table of Contents

in penny stocks. Penny stocks are generally equity securities with a market price of less than $5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

Holders of Our Common Stock

As of March 31, 2008, we had approximately one hundred eighty-four (184) holders of record of our common stock and several hundred other stockholders who hold shares in street name.

Dividends

There are no restrictions in our articles of incorporation or bylaws that restrict us from declaring dividends. The Nevada Revised Statutes, however, do prohibit us from declaring dividends where, after giving effect to the distribution of the dividend:

1. We would not be able to pay our debts as they become due in the usual course of business; or

Table of Contents

2. Our total assets would be less than the sum of our total liabilities, plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution.

Recent Sales of Unregistered Securities

The information set forth below relates to our issuances of securities without registration under the Securities Act of 1933 during the reporting period which were not previously included in a Quarterly Report on Form 10-QSB or Current Report on Form 8-K.

On October 19, 2007, we entered into a loan conversion agreement at a rate of $0.15 per share with five shareholders, converting total principal debt balances of $129,450 into 863,000 restricted shares of our common stock. These shares were issued pursuant to Section 4(2) of the Securities Act. The shareholders represented their intention to acquire the securities for investment only and not with a view towards distribution. The shareholders 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.

On November 27, 2007, entered into debt conversion agreements at a rate of $0.10 per share with four shareholders, converting total principal debt balances of $229,000 into 2,290,000 restricted shares of our common stock. These shares were issued pursuant to Section 4(2) of the Securities Act. The shareholders represented their intention to acquire the securities for investment only and not with a view towards distribution. The shareholders 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.

On November 30, 2007, one shareholder exercised warrants to purchase 210,000 shares at a price of $0.05 per share. These shares were issued pursuant to the terms of the Company’s applicable Private Offering Memorandum dated September 30, 2002.

On October 11, 2007, we granted options to purchase 200,000 shares of our common stock, exercisable at $0.20 per share for a period of 5 years from the date of issuance, to shareholder Dr. George Korkos in exchange for consulting services to be rendered. These options were issued pursuant to Section 4(2) of the Securities Act. We did not engage in any general solicitation or advertising.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about our compensation plans under which shares of common stock may be issued upon the exercise of options as of December 31, 2007.

In July 2006, we adopted the 2006 Skinvisible, Inc. Stock Option Plan, which provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted

Table of Contents

stock, performance shares and performance units, and stock awards our officers, directors or employees of, as well as advisers and consultants. This plan was confirmed by our stockholders on August 7, 2006 at the annual shareholders meeting.

Under the 2006 Skinvisible, Inc. Stock Option Plan, we reserved 10,000,000 shares of common stock for the granting of options and rights.

Equity Compensation Plans as of December 31, 2007

	A	B	C
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and right	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by security holders	4,345,000	0.24	5,655,000
Equity compensation plans not approved by security holders	4,210,000	0.0785	-
Total	8,555,000	$0.16	5,655,000

Item 6. Management's Discussion and Analysis

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

12

Table of Contents

the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Results of Operations for the Years Ended December 31, 2007 and 2006

Revenues

Our total revenue reported for the year ended December 31, 2007 was $777,685, a 12.47% increase from $691,452for the year ended December 31, 2006. The increase in revenues for the year ended December 31, 2007 from the prior year is attributable to increased sales of polymers to our licensees. During the year ending 2006 we sold finished product formulations with the polymers incorporated into the finished formulas. We no longer supply finished product formulas as our licensees now manufacture themselves.

Cost of Revenues

Our cost of revenues for the year ended December 31, 2007 increased to $140,875 from the prior year when cost of revenues was $77,465. The increase in our cost of revenues for the year ended December 31, 2007 from the prior year is attributable to a shift in our business during the reporting period where we primarily sold the polymers and not completed formulated products that incorporate the polymers.

Gross Profit

Gross profit for the year ended December 31, 2007 was $636,810, or approximately 82% of sales. Gross profit for the year ended December 31, 2006 was $613,987, or approximately 89% of sales. The increase in total gross profit for the for year ended December 31, 2007 from the prior year is attributable to higher sales of polymers and increased revenue generated from royalties.

Operating Expenses

Operating expenses decreased to $2,001,955 for the year ended December 31, 2007 from $2,710,840 for the year ended December 31, 2006. Our operating expenses for the year ended December 31, 2007 consisted of depreciation and amortization expenses of $18,176 and selling, stock based compensation of $475,006 and general and administrative expenses of $1,508,773. Our operating expenses for the year ended December 31, 2006 consisted of depreciation and amortization expenses of $21,187, stock based compensation of $859,160 and selling, general

Table of Contents

and administrative expenses of $1,830,493. The decrease in operating expenses for the year ended December 31, 2007 from the prior year is primarily attributable to not manufacturing finished product formulas and only selling polymers.

Net Loss

Net loss for the year ended December 31, 2007 was $1,606,922, compared to net loss of $2,097,604 for the year ended December 31, 2006. The decrease in our net loss was primarily attributable to not manufacturing finished product formulas and only selling polymers.

Liquidity and Capital Resources

As of December 31, 2007, we had total current assets of $425,528 and total assets in the amount of $712,841. Our total current liabilities as of December 31, 2007 were $1,069,805. We had a working capital deficit of $644,277 as of December 31, 2007.

Operating activities used $743,872 in cash for the year ended December 31, 2007. Our net loss of $1,606,922 was the primary component of our negative operating cash flow. Cash flows used by investing activities during the year ended December 31, 2007 was $4,662. Cash flows provided by financing activities during the year ended December 31, 2007 consisted of $153,132 as proceeds from related party loans, $410,500 as proceeds from the issuance of convertible notes payable, and $198,000 as proceeds from the issuance of common stock.

Based upon our current financial condition, we do not have insufficient 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 December 31, 2007, there were no off balance sheet arrangements.

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 approximately $15,296,848 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 the 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

Table of Contents

factors raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants list their three to five most “critical accounting polices” in the Management Discussion and Analysis. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of a company’s financial condition and results, and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following accounting policies fit this definition.

Revenue Recognition

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

Fixed Assets

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

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

Goodwill and Intangible Assets

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

SFAS 142 requires us to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the

Table of Contents

goodwill within the reporting unit is less than its carrying value. Upon adoption and during 2002, we completed an impairment review and did not recognize any impairment of goodwill and other intangible assets already included in the financial statements. We expect to receive future benefits from previously acquired goodwill over an indefinite period of time. Accordingly, beginning January 1, 2002, we have foregone all related amortization expense. Prior to January 1, 2002, we amortized goodwill over an estimated useful life ranging from 3 to 15 years using the straight-line method.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements”. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair values. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management believes that the adoption of SFAS No. 157 will not have a material impact on our consolidated financial results.

In September 2006, the FASB issued Statement No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (FAS 158). FAS 158 requires that employers recognize the funded status of their defined benefit pension and other postretirement plans on the balance sheet and recognize as a component of other comprehensive income, net of tax, the plan-related gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. We will prospectively adopt FAS 158 on April 30, 2007. Management believes that the adoption of SFAS No. 158 will not have a material impact on the consolidated financial results of the Company.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of FAS 159 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 159 will have on our financial statements.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 which applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. The statement is effective for annual periods beginning after December 15, 2008.

At December 31, 2007, the Company did not have any derivative instruments or hedging activities. Management is aware of the requirements of SFAS 161 and will disclose when appropriate.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133,” (SFAS “161”) as amended and interpreted, which requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. Disclosing the fair values of derivative instruments and their gains and losses in a tabular format provides a more complete picture of the location in an entity’s financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. Entities are required to provide enhanced

disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is permitted.

Table of Contents

Item 7. Financial Statements

Index to Financial Statements:

Audited Financial Statements:

Table of Contents

SARNA &
COMPANY

Certified
Public
Accountants

310 N. Westlake Boulevard Suite 270 Westlake Village California 91362 805 371-8900 Fax 805 379-0140

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Skinvisible, Inc.
Las Vegas, Nevada

We have audited the accompanying consolidated balance sheet of Skinvisible, Inc. as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Skinvisible, Inc. as of December 31, 2007, and the consolidated results of its operations and cash flows for the years ended December 31, 2007 and 2006 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. Absent the successful completion of one of these alternatives, the Company's operating results will increasingly become uncertain. The financial statements do not contain any adjustments that might result from the outcome of this uncertainty.

/s/Sarna & Company
Sarna & Company
April 10, 2008
Westlake Village, California

Table of Contents

SKINVISIBLE, INC.
CONSOLIDATED BALANCE SHEET
(AUDITED)

ASSETS	December 31, 2007
Current assets	
Cash	$ 63,168
Accounts receivable	42,088
Inventory	20,455
Due from related party	1,196
Financing cost, net of accumulated amortization of $344	53,484
Prepaid royalty fees - current portion	240,000
Prepaid expense and other current assets	5,137
Total current assets	425,528
Fixed assets, net of accumulated depreciation of $317,657	22,440
Intangible and other assets	
Patents and trademarks, net of accumulated amortization of $40,021	34,873
License and distributor rights	50,000
Prepaid royalty fees - long term portion	180,000
Total assets	$ 712,841
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities	
Accounts payable and accrued liabilities	$ 479,554
Accrued interest payable	6,948
Loans from related party	78,860
Convertible notes payable, net of unamortized debt discount of $95,557	54,443
Unearned revenue	450,000
Total current liabilities	1,069,805
Total liabilities	1,069,805
Commitments and contingencies	--
Stockholders' deficit	
Common stock; $0.001 par value; 100,000,000 shares 70,739,248 shares issued and outstanding	70,739
Additional paid-in capital	14,869,145
Accumulated deficit	(15,296,848)

Total stockholders' deficit	(356,964)
Total liabilities and stockholders' deficit	$ 712,841

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

SKINVISIBLE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(AUDITED)

	For the year ended December 31, 2007	For the year ended December 31, 2006
Revenues	$ 777,685	$ 691,452
Cost of revenues	140,875	77,465
Gross profit	636,810	613,987
Operating expenses		
Depreciation and amortization	18,176	21,187
Stock based compensation	475,006	859,160
Selling general and administrative	1,508,773	1,830,493
Total operating expenses	2,001,955	2,710,840
Loss before provision for income taxes	(1,365,145)	(2,096,853)
Other income (expense)	--	192
Interest expense	(241,777)	(943)
Total other income (expense)	(241,777)	(751)
Provision for income taxes	--	--
Net loss	$ (1,606,922)	$ (2,097,604)
Basic loss per common share	$ (0.02)	$ (0.03)
Basic weighted average common shares outstanding	66,150,436	61,925,163

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

SKINVISIBLE, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
(AUDITED)

	Common Stock Shares	Amount	Additional Paid-in Capital	Stock Subscription Receivable	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance, December 31, 2005	58,225,248	$ 58,225	$ 11,486,002	$ 134,873		$ (11,592,322)	$ 86,778
Issuance of stock for cash, $0.15 per share	3,415,000	3,415	508,708	(134,873)		--	377,250
Issuance of stock for cash, $0.03 per share	50,000	50	1,429	--		--	1,479
Issuance of stock for cash, $0.05 per share	75,000	75	3,675	--		--	3,750
Issuance of stock for services, $0.05 per share	50,000	50	2,450	--		--	2,500
Issuance of stock for cash, $0.08 per share	75,000	75	5,925	--		--	6,000
Issuance of stock for cash, $0.10 per share	112,500	113	11,137	--		--	11,250
Issuance of stock for cash, $0.18 per share	110,000	110	19,690	--		--	19,800
Issuance of stock for cash, $0.20 per share	915,000	915	182,056	--		--	182,971
Issuance of stock options for services	--	--	643,051	--		--	643,051
	--	--	120,131	--		--	120,131

Issuance of stock options to employees and directors							
Issuance of stock options for services			73,002	--		--	73,002
Issuance of stock for debt , $ 0.25 per share	20,000	20	4,980	--		--	5,000
Issuance of stock for debt , $ 0.25 per share	56,000	56	13,944	--		--	14,000
Issuance of stock for cash, $0.20 share	1,340,000	1,340	266,660	--		--	268,000
Issuance of stock options for services			8,995	--		--	8,995
Issuance of stock option to employees			11,482	--		--	11,482
Effect of foreign currency translation	--	--	--	--		--	--
Net loss	--	--	--	--		(2,097,604)	(2,097,604)
Balance, December 31, 2006	64,443,748	64,444	13,363,317	--	--	(13,689,926)	(262,165)
Issuance of stock for cash, $0.20 per share	775,000	775	154,225	--	--	--	155,000
Issuance of stock for services, $0.20 per share	242,500	242	50,758	--	--	--	51,000

Issuance of stock upon exercise of options for cash, $0.10 per share	300,000	300	29,700	--	--	--	30,000
Return of stock for accounts receivable	--	--	--	--	(48,931)	--	(48,931)
Issuance of 150,000 shares of treasury stock for services, $0.25 per share	--	--	(11,431)	--	48,931	--	37,500
Issuance of stock upon exercise of options for accounts payable, $0.05 per share	200,000	200	9,800	--	--	--	10,000
Issuance of stock for accounts payable, $0.10 per share	130,000	130	12,870	--	--	--	13,000
Issuance of stock for accounts payable $0.20 share	70,000	70	13,930	--	--	--	14,000
Issuance of stock upon exercise of options for cash, $0.05 per share	260,000	260	12,740	--	--	--	13,000
Issuance of stock for services, $0.10 per share	160,000	160	15,840	--	--	--	16,000
	500,000	500	24,500	--	--	--	25,000

Issuance of stock upon exercise of warrants in lieu of debt, $0.05 per share							
Issuance of stock in lieu of debt, $0.10 per share	750,000	750	74,250	--	--	--	75,000
Issuance of stock for conversion of loan, $0.10 per share	250,000	250	24,750	--	--	--	25,000
Issuance of stock upon exercise of warrants for conversion of loan, $0.10 per share	210,000	210	10,290	--	--	--	10,500
Issuance of stock for conversion of loan, $0.15 per share	863,000	863	128,587	--	--	--	129,450
Issuance of stock for conversion of loan, $0.20 per share	500,000	500	99,500	--	--	--	100,000
Issuance of stock for services, $0.25 per share	20,000	20	4,980	--	--	--	5,000
Issuance of stock for accounts payable, $0.25 per share	40,000	40	9,960	--	--	--	10,000
Issuance of stock for	25,000	25	4,975	--	--	--	5,000

donation, $0.20 per share							
Issuance of stock for salaries owed, $0.10 per share	1,000,000	1,000	99,000	--	--	--	100,000
Beneficial Conversion feature related to convertible notes payable	--	--	311,655	--	--	--	311,655
Financing costs related to convertible notes payable	--	--	54,443	--	--	--	54,443
Vesting of employee stock options	--	--	78,441	--	--	--	78,441
Issuance of stock options for services	--	--	292,065	--	--	--	292,065
Net loss	--	--	--	--	--	(1,606,922)	(1,606,922)
Balance, December 31, 2007	70,739,248	$ 70,739	14,869,145	$ --	$ --	$ (15,296,848)	$ (356,964)

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

SKINVISIBLE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(AUDITED)

	For the year ended December 31, 2007	For the year ended December 31, 2006
Cash flows from operating activities:		
Net loss	$ (1,606,922)	$ (2,097,604)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	18,176	21,187
Stock based compensation	475,006	859,160
Stock issued for donation	5,000	--
Interest expense related to beneficial conversion feature	217,056	943
Changes in operating assets and liabilities:		
Decrease in inventory	2,447	50,892
Increase in accounts receivable	(37,207)	99,177
Decrease in prepaid expenses and other current assets	13,324	2,883
Increase in related party receivable	(77)	--
Decrease in prepaid royalty fees	240,000	240,000
Increase in accounts payable and accrued liabilities	317,927	113,322
Increase in accrued interest	11,398	--
Decrease in unearned revenue	(400,000)	(153,000)
Net cash provided (used) by operating activities	(743,872)	(863,040)
Cash flows from investing activities:		
Purchase of fixed assets and untangible assets	(4,662)	(13,847)
Net cash used by investing activities	(4,662)	(13,847)
Cash flows from financing activities:		
Proceeds from related party loans	153,132	25,728
Proceeds from convertible notes payable	410,500	--
proceeds from stock subscription payable	--	--
Proceeds from issuance of common stock	198,000	870,500
Net cash provided by financing activities	761,632	896,228
Net change in cash	13,098	19,341
Cash, beginning of period	50,070	30,729
Cash, end of period	$ 63,168	$ 50,070

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

SKINVISIBLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)

1. DESCRIPTION OF BUSINESS, HISTORY AND SUMMARY OF SIGNIFICANT POLICIES

Description of business - Skinvisible, Inc., (referred to as the "Company") is focused on the development and manufacture of innovative topical polymer-based delivery system technologies and formulations incorporating its patent-pending formula/process for combining hydrophilic and hydrophobic polymer emulsions. The technologies and formulations have broad industry applications within the pharmaceutical, over-the-counter, personal skincare and cosmetic arenas. The Company's antibacterial/antimicrobial hand sanitizer formulations, available for private label commercialization opportunities, offer skincare solutions for the healthcare, food service, industrial, cosmetic and salon industries, as well as for personal use in the retail marketplace. The Company maintains manufacturing, executive and sales offices in Las Vegas, Nevada.

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

Skinvisible, Inc. together with its subsidiary shall herein be collectively referred to as the "Company".

Going concern - The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred cumulative net losses of $15,296,848 since its inception and requires capital for its contemplated operational and marketing activities to take place. The Company's ability to raise additional capital through the future issuances of common stock is unknown. The obtainment of additional financing, the successful development of the Company's contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

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

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

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

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

Royalty sales – The Company also recognizes royalty revenue from licensing its patent and trademarks, only when earned, with no further contingencies or material performance obligations are warranted, and thereby have earned the

right to receive and retain reasonably assured payments.

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

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

Table of Contents

SKINVISIBLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)

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

Accounts Receivable – Accounts receivable is comprised of uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The carrying amount of accounts receivable is reviewed periodically for collectability. If management determines that collection is unlikely, an allowance that reflects management's best estimate of the amounts that will not be collected is recorded. Management reviews each accounts receivable balance that exceeds 30 days from the invoice date and, based on an assessment of creditworthiness, estimates the portion, if any, of the balance that will not be collected. At December 31, 2007 the Company did not recorded a reserve for doubtful accounts.

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

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

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

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

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

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

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

Table of Contents

SKINVISIBLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)
1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT POLICIES (continued)

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

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

Advertising costs - Advertising costs incurred in the normal course of operations are expensed as incurred. During the years ended December 31, 2007 and 2006, the Company incurred advertising costs totaling $58,233 and $87,741, respectively.

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

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

Stock-based compensation - On January 1, 2005, the Company adopted SFAS No. 123 (R) “Share-Based Payment” which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to a Employee Stock Purchase Plan based on the estimated fair values.

The Company adopted SFAS No. 123(R) using the modified prospective transition method, which required the application of the accounting standard as of January 1, 2005. The accompanying consolidated financial statements as of and for the year ended December 31, 2007 reflect the impact of SFAS No. 123(R). In accordance with the modified prospective transition method, the Company’s accompanying consolidated financial statements for the prior periods have not been restated, and do not include the impact of SFAS No. 123(R). Stock based compensation expense recognized under SFAS No. 123(R) for the years ended December 31, 2007 and 2006 totaled $475,006 and $974,902, respectively.

Earnings (loss) per share - The Company reports earnings (loss) per share in accordance with SFAS No. 128, "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. For the years ended December 31, 2007 and 2006, common stock equivalent shares excluded from the earnings (loss) per shar