

SKINVISIBLE INC
Form 10-K/A
February 08, 2010

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

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2008

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.
(Exact name of registrant as specified in its charter)

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

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

Registrant'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:

| Title of each class | Name of each exchange on which registered |
|---------------------------------|---|
| Common Stock, par value \$0.001 | not applicable |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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)

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has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not 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-K or any amendment to this Form 10-K. Yes [] No [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [] Smaller reporting company [X]

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 the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$120,360

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 84,095,888 as of December 31, 2008.

EXPLANATORY NOTE

The purpose of this Amendment No. 1 to the Annual Report on Form 10-K, previously filed with the United States Securities and Exchange Commission on April 15, 2009, is to correct the beneficial ownership table.

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PART I

Item 1. Business

Company Overview

We develop innovative polymer delivery vehicles and related compositions that hold active ingredients on the skin for extended periods of time 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.

We believe Invisicare® offers the following benefits:

- § Displays superior skin adherence for extended time periods
- § Non-occlusive yet resists water wash-off, respiration and perspiration
 - § Increased efficacy of active ingredients
- § Allows for lower use levels of actives with increased persistence of effect
 - § Offers advantage of controlled and/or sustained time-release
 - § Highly compatible with a variety of actives and bases
 - § Easy to emulsify
 - § Formulates well at a cream, lotion, or spray viscosity
- § Non-irritating emulsion dries quickly with no greasy after-feel
- § Non-occlusive film forms protective barrier against environmental irritants
 - § Broad polymer selection to meet application requirements
- § Offers “Life Cycle” management to core products with potential for new patent
 - § Simplified manufacturing process

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.

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Recent Developments

Our core business is the research and development of products formulated with our patented technology Invisicare. This year we have added a strategic focus on the sale and marketing of these products and developing new Invisicare technologies. Our focus has allowed us to expand our reputation amongst key dermatology, consumer goods and medical/surgical companies around the globe. It has also allowed us to branch out beyond dermatology into other medical areas that require topically delivered products.

Leadership

We have brought on key people this year with specific skills to assist us with our growth strategy. Mr. Brian Piwek became a member of our Board of Directors early in the year. He was selected not only for his excellent business acumen but also his vast experience in the international retail / personal goods marketplace. He was President of Overwaitea Foods supermarket in Canada from 1991 until 1997. Prior to retiring in 2005, Brian served as the President and Chief Executive Officer of A&P Foods, one of North America's oldest retail food chains.

Internally, we hired a Vice President of Business Development and Marketing - Ms. Doreen McMorran. She brings over seven years of international dermatology marketing experience to our company. We believe having a person solely focused on revenue generation and with excellent dermatology industry contacts will assist our expansion plans.

In the fall of 2008, we appointed Dr. Geert Cauwenbergh PhD. to head our International Advisory Board and to spearhead further extension into international markets. Dr. Cauwenbergh has vast dermatology experience having held senior executive positions with Barrier Therapeutics, Johnson & Johnson and Janssen Pharmaceutica. Dr. Cauwenbergh assists us with dermatology research and development knowledge.

Product Developments

We intend to expand our product offerings. Currently we have over 30 topical products formulated with Invisicare available for licensing. Our products range from acne formations to sunscreens to surgical products. A key addition to our portfolio in 2008 was our UVA/UVB sunscreen with Parsol 1789. Parsol 1789 is the most used UVA filter in sunscreens in the US and the only ingredient approved by the US FDA that is not proprietary. Our studies show a minimum of eight hour photostability compared to the industry average of two hours. In addition, most sunscreens, even those that indicate they are water resistant, do not remain on the skin after swimming. With our Invisicare technology, sunscreens remain on the skin for 8 to 12 hours and resist wash-off and rub-off. For the international market, we have developed new sunscreens using a proprietary sunscreen UVA filter from CIBA Specialty Chemicals. While this ingredient is not yet approved for sale in the US, it is used internationally and we are working with sunscreen companies in Europe and Latin America on this new development.

In the third quarter of 2009, we intend to begin marketing our Chlorhexidine Hand Sanitizer Lotion "DermSafe" in Canada where we have received approval from Health Canada. We expect to file for US FDA approval with a marketing partner in 2009. We believe this is a unique product that is needed immediately in all healthcare settings from hospitals to nursing homes. DermSafe stays bound to the hands, even after frequent washings, for up to 4 hours while killing both bacteria and viruses; a real plus for doctors and nurses as they move from patient to patient.

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Patent Developments

We intend to continually to generate new patents (intellectual property) on our dermatology and medical products. Every product we formulate is protected by one or more patents. Patent approvals are sought (initially in the U.S. and later internationally) for all products developed. Currently there are 5 patents approved including the US, Australia, India and this year Japan, 9 U.S. patents pending in addition to 34 PCT's internationally, with many more to be filed. Some of these PCT patents cover up to 5 products. All patents with Invisicare are owned by Skinvisible.

Patent protection is important to our company. Pharmaceutical companies are pursuing new or improved revenue streams along with protecting their own intellectual properties. Invisicare allows companies to sell a patent-protected product that has been revitalized with new benefits, giving them a new story to help combat generic competitors. A prescription dermatology product can generate \$100 plus million per year; some even \$200 plus million – and that is why we believe the investment into a license with an Invisicare formulation is a very viable option for these companies.

We continue to submit for patent protection worldwide for products formulated with Invisicare.

License Agreements

Our current licensees: JD Nelson with Safe4Hours®, DRJ Group with Stopain® and Sunless Beauty with Solerra® all remain focused on expanding their markets in the US and Solerra globally. In 2008, we added two new licensees. Our first addition was for two acne formulations made with adapalene for Panalab Internacional S.A. for the territory of Latin America. Panalab is a multi-national dermatology company headquartered in Panama with subsidiaries and partners in most Latin American countries. Under the terms of the agreement, Panalab will be responsible for filing and obtaining marketing approval in the countries they have licensed. We received a research and development fee plus a licensing fee allocated as an upfront fee plus milestone payments. In addition, we 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. Panalabs expect to be selling in their territory by late fall 2009.

In addition, two more prescription acne products (clindamycin and retinoic acid) were licensed to Embil Pharmaceuticals for Turkey, parts of Asia (Indonesia, Malaysia, and the Philippines) and Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan. Embil is a multi-national dermatology company headquartered in Istanbul, Turkey with subsidiaries and partners in S.E. Asia. Under the terms of the agreement, Embil will be responsible for filing and obtaining marketing approval in the countries they have licensed. We have received a research and development fee plus a licensing fee allocated as an upfront fee plus milestone payments. In addition, we will receive royalties based on revenues generated by the sale of the products.

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According to the agreement, Embil will have the right to manufacture, distribute, market, sell and promote the Clindamycin HCL and Retinoic Acid formulations for acne in the specified territory.

In January 2009, we signed an agreement with RHEI Pharmaceuticals NV, a Belgium based pharmaceutical company that in-licenses drugs for sale in China. This agreement gives RHEI the first option to license the exclusive rights for Skinvisible's dermatology products for the territory of China, Hong Kong and Taiwan. Specifically the agreement is for over-the-counter and prescription dermatology products formulated with Invisicare that have been approved in a reference country. As part of the agreement, RHEI will augment its existing product lines by seeking approval and then marketing and manufacturing Skinvisible's Invisicare dermatology products in the approved territory.

The Chinese pharmaceutical market represents a huge opportunity with an estimated \$22.6 billion spent on pharmaceutical drugs in 2007 and growing at an annual rate of nearly 20%. To address this huge growth, the Chinese government has implemented a more effective approval process, one that fits advantageously into the strategic plans of both Skinvisible and RHEI.

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:

Skinvisible's Formulas with Invisicare:

| ACTIVE INGREDIENT | TYPE | Availability | Patent |
|--|-------------------------|--------------|---------|
| Acne | | | |
| Adapalene Cream & Gel (0.1% & 0.3%) | Rx | yes* | pending |
| Clindamycin Hydrochloride Cream (1%) | Rx | yes* | pending |
| Retinoic Acid Cream (0.1%) | Rx | yes* | pending |
| Benzoyl Peroxide (2.5%) Cream | Rx / OTC development | In | pending |
| Actinic Keratosis | | | |
| Imiquimod Lotion (2%, | Rx | yes | pending |

| | | |
|---|-----|----------------|
| 3%) | | |
| 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 | | |

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| | | | |
|--|---------------|-------------|------------|
| Retinol Cream (0.3%) | Cosmetic | yes | technology |
| Anti-Fungal | | | |
| Terbinafine Cream, Gel (1%) | OTC | yes | pending |
| Naftifine Cream (1%) | Rx | yes | pending |
| Naftifine (1%) & Hydrocortisone (1%) Cream | 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 Propionate (0.05%) | Rx | in-progress | technology |
| Betamethasone (1%) | Rx | yes | technology |
| Antimicrobial Lotions | | | |
| 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 | yes | pending |
| Chlorhexidine Gluconate (2%) Pre-Surgical Prep | NDA | yes | pending |
| Atopic Dermatitis / Super Moisturizers | | | |
| Non-Steroidal Atopic Dermatitis Cream 1% | Rx / Cosmetic | yes | technology |

| | | | |
|---|----------|-----|------------|
| Hyaluronic Acid | | | |
| Skin Protectant Lotion with Allantoin (1%) | OTC | yes | technology |
| Super Moisturizer with Ectoin | Cosmetic | yes | technology |
| Urea Moisturizer (25% & 30%) | Cosmetic | yes | technology |
| UVA / UVB Sunscreen | | | |
| Parsol 1789 - SPF 15 / 30 / 50 Lotion | OTC | yes | pending |
| Tinosorb S – SPF 15 / 30 / 50 Lotion | OTC | yes | pending |
| Other | | | |
| Scar Lotion with Onion Bulb | Cosmetic | yes | technology |
| Fragrance – Long Lasting Gel | Cosmetic | yes | technology |
| Long-lasting Sunless Tanner (2.5%, 5% & 9%) | Cosmetic | yes | technology |
| After Sun (Aloe) Cream | Cosmetic | yes | technology |

*some

territories already licensed

Competition

While there is significant competition in the skincare products industry, 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. Some delivery technology companies offer a new way to bring active ingredients to the skin topically such as foam technology. This is usually where it stops as Invisicare not only offers this delivery but also offers a sustained or controlled release of the active ingredient from the emulsion – a real plus if the active ingredient causes skin irritation.

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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.

Employees

We currently have five employees, including our sole officer Terry Howlett. All our employees with the exception of our bookkeeper are full-time employees.

Research and Development Expenditures

We incurred research and development expenditures of \$21,780 in the fiscal year ended December 31, 2008, and \$20,291 in the fiscal year ended December 31, 2007.

Government 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.

Subsidiaries

We conduct our operations through our wholly-owned subsidiary, Skinvisible Pharmaceuticals, Inc.

Item 1A Risk Factors

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

Item 1B Unresolved Staff Comments

None.

Item 2. Properties

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.

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

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 were submitted to a vote of our shareholders during the fourth quarter of our fiscal year ended December 31, 2008.

PART II

Item 5. Market for Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is currently quoted on the OTC Bulletin Board (“OTCBB”), which is sponsored by FINRA. 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, 2008 | | |
|---|------------|-----------|
| Quarter Ended | High \$ | Low \$ |
| December 31, 2008 | 0.09 | 0.03 |
| September 30, 2008 | 0.13 | 0.08 |
| June 30, 2008 | 0.14 | 0.08 |
| March 31, 2008 | 0.16 | 0.10 |

| Fiscal Year Ending December 31, 2007 | | |
|---|------------|-----------|
| Quarter Ended | High \$ | Low \$ |
| | 0.30 | 0.13 |

| | | |
|-----------------------|------|------|
| December 31, 2007 | | |
| September 30, 2007 | 0.32 | 0.18 |
| June 30, 2007 | 0.35 | 0.20 |
| March 31, 2007 | 0.25 | 0.23 |

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On April 7, 2009, the last sales price per share of our common stock was \$0.06.

Penny Stock

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions 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 December 31, 2008, we had 84,095,888 shares of our common stock issued and outstanding, held by 401 shareholders of record.

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Dividends

We currently intend to retain future earnings, if any, to finance the expansion of our business. As a result, we do not anticipate paying any cash dividends in the foreseeable future.

In the event that a dividend is declared, common stockholders on the record date are entitled to share ratably in any dividends that may be declared from time to time on the common stock by our board of directors from funds legally available.

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
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-Q or Current Report on Form 8-K.

During the three months ended December 31, 2008, we issued 1,750,000 restricted shares of our common stock as a result of entering into debt conversion agreements with lenders to convert total principal balances of \$123,000 into equity. These shares were issued pursuant to Section 4(2) of the Securities Act. The lenders represented their intention to acquire the securities for investment only and not with a view towards distribution. The lenders 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.

During the three months ended December 31, 2008, we issued 1,500,000 restricted shares of our common stock as a result of entering into loan conversion agreements with lenders to convert total principal balances and interest of \$105,000 into equity. In connection with the conversion, warrants were also granted to purchase 750,000 shares of our common stock at a strike price of \$0.10 per share that expire on November 12, 2010. These shares and warrants were issued pursuant to Section 4(2) of the Securities Act. The lenders represented their intention to acquire the securities for investment only and not with a view towards distribution. The lenders 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.

During the three months ended December 31, 2008, we issued options to purchase 2,370,000 shares of our common stock at prices ranging from \$0.07 to \$0.10 per share under our 2006 Stock Option Plan to employees and consultants. In addition, we extended existing options to purchase 300,000 shares of our common stock.

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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, 2008.

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 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, 2008 | | |
|--|---|--|---|
| | 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 | 6,675,000 | \$0.14 | 3,325,000 |
| Equity compensation plans not approved by security holders | 120,000 | \$0.125 | - |
| Total | 6,795,000 | | 3,325,000 |

Item 6. Selected Financial Data

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

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Item 7. 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. V such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Results of Operations for the Years Ended December 31, 2008 and 2007

Revenues

Our total revenue reported for the year ended December 31, 2008 was \$----767,600, a slight decrease from \$777,685 for the year ended December 31, 2007. The decrease in revenues for the year ended December 31, 2008 from the prior year is attributable to decreased sales of polymers to our licensees.

Cost of Revenues

Our cost of revenues for the year ended December 31, 2008 decreased to \$23,122 from the prior year when cost of revenues was \$140,875. The decrease in our cost of revenues for the year ended December 31, 2008 from the prior year is attributable to decreased sales of polymers.

Gross Profit

Gross profit for the year ended December 31, 2008 was \$744,478, or approximately 3% of sales. Gross profit for the year ended December 31, 2007 was \$636,810, or approximately 18% of sales. The increase in total gross profit for the year ended December 31, 2008 from the prior year is attributable to the decrease in cost of revenues for 2007.

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Liquidity and Capital Resources

As of December 31, 2008, we had total current assets of \$274,141 and total assets in the amount of \$364,067. Our total current liabilities as of December 31, 2008 were \$665,123. We had a working capital deficit of \$390,982 as of December 31, 2008.

Operating activities used \$947,355 in cash for the year ended December 31, 2008. Our net loss of \$1,640,877 combined with a decrease in unearned revenue of \$40,000 was the primary component of our negative operating cash flow, offset mainly by stock based compensation of \$437,892, decrease in prepaid royalty fees of \$240,000, interest expenses related to beneficial conversion feature of \$199,151, and increase in accounts payable and accrued liabilities of \$144,397. Cash flows used by investing activities during the year ended December 31, 2008 was \$2,076. Cash flows provided by financing activities during the year ended December 31, 2008 amounted to \$892,324 and consisted of \$846,548 as proceeds from the issuance of convertible notes payable, and \$122,500 as proceeds from the issuance of common stock, offset by payments of \$76,724 on related party loans.

In order to preserve needed cash to operate our business, we have sought to and have been successful in converting certain of our debt into equity of our company. During the fourth quarter ended December 31, 2008, a total of \$228,000, represented by loans, accrued compensation and expenses, has been converted into equity under various rates and terms. We can provide no assurance that we will be able to convert other debt in our company under similar arrangements, or at all, in the future. If we are unable to convert our debt into equity, or raise capital to cover our liabilities, we may not be able to continue as a going concern. The balance of \$222,000 was deferred into 2009.

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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 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 \$16,663,497 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 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.

Off Balance Sheet Arrangements

As of December 31, 2008, there were no off balance sheet arrangements.

Critical Accounting Policies

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

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.

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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.

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.

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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 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 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.

At September 30, 2008, we did not have any derivative instruments or hedging activities. Management is aware of the requirements of SFAS 161 and will disclose when appropriate.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles.” SFAS 162 will provide framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. SFAS 162 will be effective 60 days following the Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board (“PCAOB”) amendments to AU Section 411. We do not expect the adoption of SFAS 162 will have a material impact on our financial condition or results of operation.

In May 2008, the FASB issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60.” SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement requires expanded disclosures about financial guarantee insurance contracts. The accounting and disclosure requirements of the Statement will improve the quality of information provided to users of financial statements. SFAS 163 will be effective for financial statements issued for fiscal years beginning after December 15, 2008. We do not expect the adoption of SFAS 163 will have a material impact on our financial condition or results of operation.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

See the financial statements annexed to this annual report.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

No events occurred requiring disclosure under Item 307 and 308 of Regulation S-K during the fiscal year ending December 31, 2008.

Item 9A(T). 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 December 31, 2008. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Mr. Terry Howlett. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2008, our disclosure controls and procedures are effective. There have been no significant changes in our internal controls over financial reporting during the quarter ended December 31, 2008 that have materially affected or are reasonably likely to materially affect such controls.

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

Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

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Management's Annual Report on Internal Control over Financing Reporting

Our management is responsible for establishing and maintaining adequate control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our principal executive and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Based on this evaluation under the COSO Framework, management concluded that its internal control over financial reporting was effective as of December 31, 2008.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following information sets forth the names, ages, and positions of our current directors and executive officers as of December 31, 2008.

| Name | Age | Position(s) and Office(s) Held |
|----------------|-----|--|
| Terry Howlett | 61 | Chief Executive Officer, Chief Financial Officer, & Director |
| Brian Piwek | 62 | Director |
| Greg McCartney | 57 | Director |

Set forth below is a brief description of the background and business experience of each of our current executive officers and directors.

Mr. Terry H. Howlett, has been our Chief Executive Officer & Director since March 5, 1998. Mr. Howlett has a diversified background in market initialization and development, sales and venture capital financing for emerging growth companies. He has held senior management, marketing and sales positions with various companies, including the Canadian Federation of Independent Business, Family Life Insurance, and Avacare of Canada and founded Presley Laboratories, Inc., which marketed cosmetic and skin, care products on a direct sales basis. For the ten years prior to becoming President of the Company, Mr. Howlett was the President and CEO of Voice-it Solutions, Inc., a publicly traded company on the Vancouver Stock exchange that made voice response software for order entry systems.

Mr. Brian Piwek joined our board of directors in January, 2008. Mr. Piwek's experience and expertise is in the international retail industry. He was president of Overwaitea Foods supermarket from 1991 until 1997. In 1997 Brian accepted the position as Co-CEO with A&P Canada (The Great Atlantic & Pacific Tea Company Inc.) and in 2000 was appointed Chairman, President and CEO of A&P Canada. In late 2002 he moved to the U.S. as President and Chief Executive Officer of A&P US (New York Stock Exchange symbol "GAP") where he began the turnaround of North America's oldest retail food chain. Brian retired from A&P in July 2005. Brian is an MBA graduate and has served on many voluntary boards.

Mr. Greg McCartney has been a member of our board of directors since January 10, 2005. Mr. McCartney is Managing Director of Taylor, Butterfield & Worth Asset Management Corporation, a management consulting services firm assisting clients in becoming fully reporting public companies. Previously Mr. McCartney was the Chairman of the Board for Genesis Bioventures (formely BioLabs) and also formerly served as their CEO. Mr. McCartney has over 20 years experience serving as officer and director of both private and public companies in various manufacturing and technology industries. Prior to founding BioLabs in 1997, Mr. McCartney was the founder and director of Aspenwood Holdings Corporation, a business consulting firm specializing in financing, public relations and venture capital in the technology and manufacturing industries. From 1986 to 1995 he was the President of an emerging high technology company and also served as officer and director of other companies. Previously, he was involved with international real estate and land development.

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Directors

Our bylaws authorize no less than one (1) and more than ten (12) directors. We currently have three Directors.

Term of Office

Our Directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until removed by the board.

Significant Employees

Ms. Doreen McMorran, is head of Business Development. Ms. McMorran brings to the Company almost 20 years of experience in the medical and pharmaceutical industry, specifically in the areas of strategic planning, sales and marketing. She has spent the last seven years selling to international dermatology and skincare focused companies like Procter and Gamble, Johnson & Johnson, Stiefel, Galderma, Novartis and Graceway, to name a few. Ms. McMorran, who holds a Bachelor of Commerce (Honours) degree, spent six years in the pharmaceutical industry with Astra Pharma. Additionally she has held senior management level positions with a number of healthcare companies, focusing on business development, sales, marketing and operations.

Dr. James A. Roszell, Ph.D, is a doctoral chemist with over 35 years' experience in product formulation, experimental design, analysis, and method validation. Since joining Skinvisible in 1998, he has been responsible for research and development of our patented technology, related polymer delivery vehicles, product formulations and compositions. Dr. Roszell is a joint contributor to Skinvisible's Patent Number 6.756.059 and responsible for our nine pending patents in the US. Prior to joining Skinvisible, he worked as chemist for Supertech Products, Inc. in Florida where his responsibilities included ensuring compliance with OSHA, EPA and other standards and regulations, maintenance of quality control, research and development for new products. Dr. Roszell's background includes work in chemical, pharmaceutical, environmental and clinical laboratory arenas. His chemical and scientific expertise makes a significant contribution to our business.

Family Relationships

There are no family relationships between or among the directors, executive officers or persons nominated or chosen by us to become directors or executive officers.

Involvement in Certain Legal Proceedings

To the best of our knowledge, during the past five years, none of the following occurred with respect to a present or former director, executive officer, or employee: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

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Audit Committee

We do not have a separately-designated standing audit committee. The entire board of directors performs the functions of an audit committee, but no written charter governs the actions of the board of directors when performing the functions of that would generally be performed by an audit committee. The board of directors approves the selection of our independent accountants and meets and interacts with the independent accountants to discuss issues related to financial reporting. In addition, the board of directors reviews the scope and results of the audit with the independent accountants, reviews with management and the independent accountants our annual operating results, considers the adequacy of our internal accounting procedures and considers other auditing and accounting matters including fees to be paid to the independent auditor and the performance of the independent auditor.

We do not have an audit committee financial expert because of the size of our company and our board of directors at this time. We believe that we do not require an audit committee financial expert at this time because we retain outside consultants who possess these attributes as needed.

For the fiscal year ending December 31, 2008, the board of directors:

1. Reviewed and discussed the audited financial statements with management, and
2. Reviewed and discussed the written disclosures and the letter from our independent auditors on the matters relating to the auditor's independence.

Based upon the board of directors' review and discussion of the matters above, the board of directors authorized inclusion of the audited financial statements for the year ended December 31, 2008 to be included in this Annual Report on Form 10-K and filed with the Securities and Exchange Commission.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who beneficially own more than ten percent of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent beneficial shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To the best of our knowledge based solely on a review of Forms 3, 4, and 5 (and any amendments thereof) received by us during or with respect to the year ended December 31, 2008, the following persons have failed to file, on a timely basis, the identified reports required by Section 16(a) of the Exchange Act during fiscal year ended December 31, 2008:

| Name and principal position | Number of late reports | Transactions not timely reported | Known failures to file a required form |
|------------------------------------|------------------------|----------------------------------|--|
| Terry Howlett, CEO, CFO & Director | 0 | 4 | 0 |
| Greg McCartney, Director | 0 | 5 | 0 |
| Brian Piwek, Director | 1 | 5 | 0 |
| Jost Steinbruchel, former Director | 0 | 0 | 1 |

Code of Ethics

We adopted a Code of Ethics for Financial Executives, which include our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Ethics was filed as an exhibit to the annual report on Form 10KSB for the fiscal year ended December 31, 2004 and filed with the SEC on April 14, 2005.

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Item 11. Executive Compensation

Compensation Discussion and Analysis

Currently, the objective of the cash compensation paid by the company is to provide fair reimbursement for the time spent by our executive officer and independent directors to the extent feasible within the financial constraints faced by our developing business. The stock options granted to our executive officer and to our independent directors are intended to provide these individuals with incentives to pursue the growth and development of the company's operations and business opportunities. Although the options awarded to our executive and directors are typically exercisable immediately, they also remain valid and exercisable for terms of several years. We believe this provides the proper balance of short-term and long-term incentives to increase the value of the company. Although an immediate increase in share price following the issuance of the options would obviously result in a profit if those options were exercised, the longer exercisable period of the options also provides an incentive to increase value over the long term and gives our executive officer and directors the opportunity to realize gains based on the sustained growth of our operations and revenues.

In addition, our sole executive officer holds substantial ownership in the company and is generally motivated by a strong entrepreneurial interest in expanding our operations and revenue base to the best of his ability.

Summary Compensation Table

The table below summarizes all compensation awarded to, earned by, or paid to our former or current executive officers for the fiscal years ended December 31, 2008 and 2007.

SUMMARY COMPENSATION TABLE

| Name and principal position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|-----------------------------|------|-------------|------------|-------------------|--------------------|---|--|-----------------------------|------------|
| Terry | 2008 | 160,000 | - | - | 110,000 | - | - | - | 270,000 |
| Howlett | 2007 | 160,000 | - | - | 182,252 | - | - | - | 342,252 |

Narrative Disclosure to the Summary Compensation Table

On January 29, 2009, subsequent to the end of the reporting period, we entered into an employment agreement with our sole executive officer, Terry Howlett. The agreement is effective retroactively to January 1, 2009, and term of the agreement is three (3) years. Unless extended or renewed, the agreement will terminate on January 1, 2012. Under the agreement, Mr. Howlett earns a cash stipend of \$13,333.33 per month (\$160,000 per year). He will also receive bonuses based on a percentage of license fees, royalty fees, and financings; paid vacation or the election to receive vacation benefits in payment; and reimbursements of expenses, including automobile and limited living expenses. In addition, the agreement provides for Mr. Howlett to be awarded stock options at the discretion of the board of directors.

This agreement replaces a similar employment agreement with Mr. Howlett, which expired on December 31, 2008. Due to financial constraints, however, we were only able to actually pay Mr. Howlett \$46,667.00 in cash during the fiscal year ended December 31, 2008.

During the fiscal year ended December 31, 2008, we granted Mr. Howlett options to purchase 400,000 shares of our common stock at the exercise price of \$0.10 per share with an expiration date of January 31, 2013, and options to purchase 1,000,000 shares of our common stock at the exercise price of \$0.07 per share with an expiration date of October 20, 2013. These options are fully vested and immediately exercisable. The aggregate value of these options, which totaled \$110,000, was computed in accordance with FAS 123R and is reported in the summary compensation table above in the column titled "Option Awards."

At no time during the last fiscal year was any outstanding option repriced or otherwise modified. There was no tandem feature, reload feature, or tax-reimbursement feature associated with any of the stock options we granted to our executive officers or otherwise.

Outstanding Equity Awards at Fiscal Year-End

The table below summarizes all unexercised options, stock that has not vested, and equity incentive plan awards for each named executive officer as of December 31, 2008.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name | OPTION AWARDS | | | | STOCK AWARDS | | | |
|---------|---|---|---|----------------------------|------------------------|---|--|--|
| | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or Rights That Have Not Vested (\$) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) |
| Terry | 1,000,000 | - | - | .07 | 10/19/2013 | - | - | - |
| Howlett | 400,000 | - | - | .10 | 1/30/2013 | - | - | - |
| | 200,000 | - | - | 0.18 | 1/3/2011 | - | - | - |
| | 1,000,000 | - | - | 0.24 | 7/29/2012 | - | - | - |

Director Compensation

The table below summarizes all compensation of our directors as of December 31, 2008.

| Name | DIRECTOR COMPENSATION | | | | | | | Total (\$) |
|-------------------------------|----------------------------------|-------------------|--------------------|---|---|-----------------------------|--------|------------|
| | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Non-Qualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | | |
| Jost | 1,000 | - | - | - | - | - | ? | |
| Steinbruchel, former director | | | | | | | | |
| Greg McCartney | 14,400 | - | 37,500 | - | - | - | 51,900 | |
| Brian Piwek | 13,200 | - | 37,500 | - | - | - | 50,700 | |

Narrative Disclosure to the Director Compensation Table

All the fees earned or paid in cash and stock options awards granted to Terry Howlett were earned in connection with his service as an executive officer. Mr. Howlett received no compensation for his service as a member of our board of directors.

We pay our independent directors a monthly fee of \$1,200. Mr. McCartney received a total of \$14,400, Mr. Steinbruchel received a total of \$1,000, and Mr. Piwek received a total of \$13,200 in consideration for services

rendered as members of our board of directors. In addition, Mr. McCartney and Mr. Piwek each received options to purchase 200,000 shares of common stock at an exercise price of \$0.10 per share, and options to purchase 250,000 shares of common stock at an exercise price of \$0.07 per share. These options are fully vested and immediately exercisable. The aggregate value of these options, which totaled \$37,500 for each independent director, was computed in accordance with FAS 123R and is reported in the director compensation table above in the column titled "Option Awards."

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information known to us with respect to the beneficial ownership of our Common Stock as of December 31, 2008, by (1) all persons who are beneficial owners of 5% or more of our voting securities, (2) each director, (3) each executive officer, and (4) all directors and executive officers as a group. The information regarding beneficial ownership of our common stock has been presented in accordance with the rules of the Securities and Exchange Commission. Under these rules, a person may be deemed to beneficially own any shares of capital stock as to which such person, directly or indirectly, has or shares voting power or investment power, and to beneficially own any shares of our capital stock as to which such person has the right to acquire voting or investment power within 60 days through the exercise of any stock option or other right. The percentage of beneficial ownership as to any person as of a particular date is calculated by dividing (a) (i) the number of shares beneficially owned by such person plus (ii) the number of shares as to which such person has the right to acquire voting or investment power within 60 days by (b) the total number of shares outstanding as of such date, plus any shares that such person has the right to acquire from us within 60 days. Including those shares in the tables does not, however, constitute an admission that the named stockholder is a direct or indirect beneficial owner of those shares. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares that power with that person's spouse) with respect to all shares of capital stock listed as owned by that person or entity.

The following table sets forth, as of December 31, 2008, the beneficial ownership of our common stock by each executive officer and director, by each person known by us to beneficially own more than 5% of the our common stock and by the executive officers and directors as a group. Except as otherwise indicated, all shares are owned directly and the percentage shown is based on 84,095,888 shares of common stock issued and outstanding on December 31, 2008. Except as otherwise indicated, the address of each person named in this table is c/o Skinvisible, Inc., 6320 South Sandhill Road, Suite 10, Las Vegas, Nevada 89120.

| Title of class | Name and address of beneficial owner (1) | Amount of beneficial ownership | Percent of class* |
|---|--|--------------------------------|-------------------|
| Executive Officers & Directors: | | | |
| Common | Terry Howlett | 10,823,248 shares | 12.41% (2) |
| Common | Brian Piwek | 948,990 shares | 1.12% (3) |
| Common | Greg McCartney | 1,102,000 shares | 1.29% (4) |
| Total of All Directors and Executive Officers: | | 12,874,238 shares | 14.82% |
| More Than 5% Beneficial Owners: | | | |
| Common | Lutz Family Trust | 11,117,500 | 13.22% |
| Total of All 5% Beneficial Owners: | | 11,117,500 | 13.22% |

- (1) As used in this table, "beneficial ownership" means the sole or shared power to vote, or to direct the voting of, a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security). In addition, for purposes of this table, a person is deemed, as of any date, to have "beneficial ownership" of any security that such person has the right to acquire within 60 days after such date.
- (2) Includes options that may be exercised immediately to purchase 1,000,000 shares at a price of \$0.24, options that may be exercised immediately to purchase 200,000 shares at a price of \$0.18, options that may be exercised immediately to purchase 400,000 shares at \$0.10, options that may be exercised immediately to purchase 1,000,000 shares at

\$0.07, and warrants that may be immediately exercised to purchase 500,000 shares at a price of \$0.15.

- (3) Includes options that may be immediately exercised to purchase 200,000 shares at a price of \$0.10, options that may be exercised immediately to purchase 250,000 shares at \$0.07, and warrants that may be immediately exercised to purchase 125,000 at \$0.12.
- (4) Includes options that may be exercised immediately to purchase 100,000 shares at a price of \$0.10, options that may be exercised immediately to purchase 100,000 shares at a price of \$0.18, options that may be exercised immediately to purchase 250,000 shares at \$0.24, options that may be exercised immediately to purchase 200,000 shares at \$0.10, and options that may be exercised immediately to purchase 250,000 shares at \$0.07.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

None of our directors or executive officers, nor any proposed nominee for election as a director, nor any person who beneficially owns, directly or indirectly, shares carrying more than 5% of the voting rights attached to all of our outstanding shares, nor any members of the immediate family (including spouse, parents, children, siblings, and in-laws) of any of the foregoing persons has any material interest, direct or indirect, in any transaction since the beginning of our last fiscal year on January 1, 2008 or in any presently proposed transaction which, in either case, has or will materially affect us.

Our policy regarding related transactions requires that any director or officer who has an interest in any transaction disclose the presence and the nature of the interest to the board of directors prior to any approval of the transaction by the board of directors. The transaction may then be approved by a majority of the disinterested directors, provided that an interested director may be counted in determining the presence of a quorum at the meeting of the board of directors to approve the transaction.

As of December 31, 2007, the Company had an unsecured loan payable due to Terry Howlett with an interest rate of 10% per annum, due on demand totaling \$68,360.

As of December 31, 2007, the Company had a receivable due to it from Terry Howlett totaling \$1,196.

As of December 31, 2008, the Company had an unsecured loan payable due to Terry Howlett with an interest rate of 10% per annum, due on demand totaling \$2,136.

Item 14. Principal Accounting Fees and Services

Below is the table of Audit Fees (amounts in US\$) billed by our auditor in connection with the audit of the Company's annual financial statements for the years ended:

| Financial Statements for the Year Ended December 31 | Audit Services | Audit Related Fees | Tax Fees | Other Fees |
|---|----------------|--------------------|----------|------------|
| 2008 | \$27,170 | \$0 | \$0 | \$0 |
| 2007 | \$31,990 | \$0 | \$0 | \$0 |

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PART IV

Item 15. Exhibits, Financial Statements Schedules

Index to Financial Statements Required by Article 8 of Regulation S-X:

Audited Financial Statements:

F-1 Report of Independent Registered Public Accounting Firm

F-2 Consolidated Balance Sheets as of December 31, 2008 and 2007;

F-3 Consolidated Statements of Operations for the years ended December 31, 2008 and 2007;

F-4 Consolidated Statement of Stockholders' Equity for the years ended December 31, 2008 and 2007;

F-5 Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007;

F-6 Notes to Consolidated Financial Statements

Exhibit Description

Number

3.1 Articles of Incorporation, as amended (1)

3.2 Bylaws, as amended (1)

3.3 Certificate of Amendment to The Company's Articles of Incorporation(2)

14.1 Code of Ethics (3)

31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 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

1 Incorporated by reference to the Registration Statement on Form 10SB12G filed on April; 30, 1999.

2 Incorporated by reference to the Report on Form 8-K filed on September 12, 2008.

3 Incorporated by reference to Current report on Form 10-KSB filed with the Securities and Exchange Commission on April 14, 2005.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Skinvisible, Inc.

By: /s/Terry Howlett

Terry Howlett
President, Chief Executive Officer, Principal Executive Officer,
Chief Financial Officer, Principal Financial Officer, Principal Accounting Officer and Director

January 25, 2010

In accordance with Section 13 or 15(d) of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

By: /s/Terry
Howlett
Terry
Howlett
Director
January 25,
2010

By: /s/Greg
McCartney
Greg
McCartney
Director
January 25,
2010

By: /s/ Brian
Piwek
Brian
Piwek
Director
January 25,
2010

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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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. 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, 2008 and 2007, and the consolidated results of its operations and cash flows for the years then ended 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.

Sarna & Company, CPA's
April 6, 2009
Westlake Village, California

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SKINVISIBLE, INC.

CONSOLIDATED BALANCE SHEETS

(AUDITED)

| | December 31, 2008 | December 31, 2007 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 6,062 | \$ 63,168 |
| Accounts receivable | 9,553 | 42,088 |
| Inventory | 17,796 | 20,455 |
| Due from related party | 986 | 1,196 |
| Financing cost, net of accumulated amortization of \$-0- and \$344, respectively | 55,562 | 53,484 |
| Prepaid royalty fees - current portion | 180,000 | 240,000 |
| Prepaid expense and other current assets | 4,182 | 5,137 |
| Total current assets | 274,141 | 425,528 |
| Fixed assets, net of accumulated depreciation of \$322,734 and \$317,657, respectively | | |
| | 16,593 | 22,440 |
| Intangible and other assets | | |
| Patents and trademarks, net of accumulated amortization of \$51,561 and \$40,021, respectively | 23,333 | 34,873 |
| License and distributor rights | 50,000 | 50,000 |
| Prepaid royalty fees - long term portion | -- | 180,000 |
| Total assets | \$ 364,067 | \$ 712,841 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 469,151 | \$ 479,554 |
| Accrued interest payable | 23,209 | 6,948 |
| Loans from related party | 2,136 | 78,860 |
| Convertible notes payable, net of unamortized debt discount of \$-0- and \$95,557, respectively | -- | 54,443 |
| Convertible notes payable related party | 120,627 | -- |
| Unearned revenue | 50,000 | 450,000 |

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| | | |
|--|-------------------|-------------------|
| Total current liabilities | 665,123 | 1,069,805 |
| Total liabilities | 665,123 | 1,069,805 |
| Commitments and contingencies | -- | -- |
| Stockholders' deficit | | |
| Common stock; \$0.001 par value; 100,000,000 shares authorized; and 84,095,888 and 70,739,248 shares issued and outstanding, respectively | 84,098 | 70,739 |
| Additional paid-in capital | 16,552,571 | 14,869,145 |
| Accumulated deficit | (16,937,725) | (15,296,848) |
| Total stockholders' deficit | (301,056) | (356,965) |
| Total liabilities and stockholders' deficit | \$ 364,067 | \$ 712,841 |

See Accompanying Notes to Consolidated Financial Statements

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SKINVISIBLE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(AUDITED)

| | For the year ended December 31, 2008 | For the year ended December 31, 2007 |
|---|---|---|
| Revenues | \$ 767,600 | \$ 777,685 |
| Cost of revenues | 23,122 | 140,875 |
| Gross profit | 744,478 | 636,810 |
| Operating expenses | | |
| Depreciation and amortization | 17,537 | 18,176 |
| Selling general and administrative | 2,070,494 | 1,983,779 |
| Total operating expenses | 2,088,031 | 2,001,955 |
| Loss before provision for income taxes | (1,343,553) | (1,365,145) |
| Other income (expense) | | |
| Gain on settlement of debt | 3,000 | -- |
| Interest expense | (300,324) | (241,777) |
| Total other income (expense) | (297,324) | (241,777) |
| Provision for income taxes | -- | -- |
| Net loss | \$ (1,640,877) | \$ (1,606,922) |
| Basic loss per common share | \$ (0.02) | \$ (0.02) |
| Basic weighted average common shares outstanding | 77,675,313 | 66,150,436 |

See Accompanying Notes to Consolidated Financial Statements

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SKINVISIBLE, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

(AUDITED)

| | Common Stock | | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Total Stockholders' Deficit |
|---|--------------|-----------|----------------------------------|-------------------|------------------------|-----------------------------------|
| | Shares | Amount | | | | |
| 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 |

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| | | | | | | |
|--|---------|-----|---------|----|----|---------|
| 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 |
| Issuance of stock upon exercise of warrants in lieu of debt, \$0.05 per share | 500,000 | 500 | 24,500 | -- | -- | 25,000 |
| 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 |

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| | | | | | | |
|--|------------|--------|------------|----|--------------|-------------|
| Issuance of stock for donation, \$0.20 per share | 25,000 | 25 | 4,975 | -- | -- | 5,000 |
| 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) | (356,965) |
| Issuance of stock for cash | 1,275,000 | 1,275 | 121,225 | - | - | 122,500 |
| Issuance of stock for services | 160,000 | 160 | 15,840 | - | - | 16,000 |
| Issuance of stock for conversion of debts | 9,273,640 | 9,274 | 771,090 | - | - | 780,364 |
| Issuance of stock for accounts payable | 400,000 | 400 | 39,600 | - | - | 40,000 |
| Issuance of stock for salaries owed | 548,000 | 548 | 54,252 | - | - | 54,800 |
| | 1,200,000 | 1,200 | 58,800 | - | - | 60,000 |

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| | | | | | | |
|--|------------|-----------|---------------|------|----------------|--------------|
| Issuance of stock upon exercise of options for salaries owed | | | | | | |
| Issuance of stock upon exercise of warrants in lieu of debt | 500,000 | 500 | 24,500 | - | - | 25,000 |
| Beneficial conversion feature related to convertible notes | - | - | 45,085 | - | - | 45,085 |
| Financing costs related to convertible notes payable | - | - | 44,386 | - | - | 44,386 |
| Vesting of employee stock options | - | - | 68,912 | - | - | 68,912 |
| Issuance of employee stock options | - | - | 110,515 | - | - | 110,515 |
| Issuance warrants related to conversion of debts | - | - | 86,758 | - | - | 86,758 |
| Issuance of stock options/warrants for services | - | - | 242,463 | - | - | 242,463 |
| Net loss | -- | -- | -- | -- | (1,640,877) | (1,640,877) |
| Balance, December 31, 2008 | 84,095,888 | \$ 84,095 | \$ 16,552,571 | \$ - | \$(16,937,725) | \$ (301,058) |

See Accompanying Notes to Consolidated Financial Statements

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SKINVISIBLE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(AUDITED)

| | For the year ended December 31, 2008 | For the year ended December 31, 2007 |
|--|---|---|
| Cash flows from operating activities: | | |
| Net loss | \$ (1,640,877) | \$ (1,606,922) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 17,536 | 18,176 |
| Stock issued for donation | -- | 5,000 |
| Stock based compensation | 437,892 | 475,006 |
| Interest expense related to beneficial conversion feature | 199,151 | 217,056 |
| Loss on disposal of assets | 1,927 | -- |
| Changes in operating assets and liabilities: | | |
| (Increase) in inventory | 2,658 | 2,447 |
| (Increase) decrease in accounts receivable | 32,535 | (37,207) |
| Decrease in prepaid expenses and other current assets | 955 | 13,324 |
| (Increase) decrease in related party receivable | 210 | (77) |
| Decrease in prepaid royalty fees | 240,000 | 240,000 |
| Increase in accounts payable and accrued liabilities | 144,397 | 317,927 |
| Increase in accrued interest | 16,261 | 11,398 |
| Decrease in unearned revenue | (400,000) | (400,000) |
| Net cash used in operating activities | (947,355) | (743,872) |
| Cash flows from investing activities: | | |
| Purchase of fixed assets and intangible assets | (2,076) | (4,662) |
| Net cash used in investing activities | (2,076) | (4,662) |
| Cash flows from financing activities: | | |
| Proceeds from (Payments to) related party loans | (76,724) | 153,132 |
| Proceeds from convertible notes payable | 846,548 | 410,500 |
| Proceeds from issuance of common stock | 122,500 | 198,000 |
| Net cash provided by financing activities | 892,324 | 761,632 |
| Net change in cash | (57,107) | 13,098 |
| Cash, beginning of period | 63,168 | 50,070 |



| | | | | |
|---------------------|----|-------|----|--------|
| Cash, end of period | \$ | 6,061 | \$ | 63,168 |
|---------------------|----|-------|----|--------|

See Accompanying Notes to Consolidated Financial Statements

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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 \$16,663,497 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.

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

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

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. At December 31, 2008, the Company had not recorded a reserve for doubtful accounts.

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.

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.

Advertising costs - Advertising costs incurred in the normal course of operations are expensed as incurred. During the twelve months ended December 31, 2008 and 2007, the Company incurred advertising costs totaling \$9,414 and \$14,478, 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.

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.

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

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

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.

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.

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 three months ended March 31, 2008 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 nine months ended September 30, 2008 and 2007 totaled \$372,626 and \$97,950, 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.

Reclassification – The financial statements from 2007 reflect certain reclassifications, which will have no effect on net income, to conform to classifications in the current year.

Recent accounting pronouncements – In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations - Revised 2007". SFAS 141 (R) provides guidance on improving the relevance, representational

faithfulness, and comparability of information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies to business combinations where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS No. 141 to have a material impact on its financial statements.

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

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

Recent accounting pronouncements (continued)

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements - an Amendment of Accounting Research Bulletin No. 51” (“SFAS No. 160”), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently evaluating the effect of this pronouncement on its financial statements.

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. At September 30, 2008, 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 May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles.” SFAS 162 will provide framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. SFAS 162 will be effective 60 days following the Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board (“PCAOB”) amendments to AU Section 411. The Company does not expect the adoption of SFAS 162 will have a material impact on its financial condition or results of operation.

In May 2008, the FASB issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60.” SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement requires expanded disclosures about financial guarantee insurance contracts. The accounting and disclosure requirements of the Statement will improve the quality of information provided to users of financial statements. SFAS 163 will be effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of SFAS 163 will have a material impact on its financial condition or results of operation.

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

In September 2006, the United States Securities and Exchange Commission (“SEC”) adopted SAB No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” This SAB provides guidance on the consideration of the effects to prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of each of the company’s balance sheet and statement of operations financial statements and the related financial statement disclosures. The SAB permits existing public companies to record the cumulative effect of initially applying this approach in the first year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The company is currently evaluating the impact, if any, that SAB 108 may have on the company’s results of operations or financial position.

2. FIXED ASSETS

Fixed assets consist of the following as of December 31, 2008:

| | |
|---|-----------|
| Machinery and equipment | \$ 55,463 |
| Furniture and fixtures | 113,635 |
| Computers, equipment and software | 41,714 |
| Leasehold improvements | 12,569 |
| Lab equipment | 115,946 |
| | 339,327 |
| Less: | |
| accumulated depreciation | 322,734 |
| Fixed assets, net of accumulated depreciation | \$ 16,593 |

Depreciation expense for the years ending December 31, 2008 and 2007 was \$5,996 and \$7,023, respectively.

3. INTANGIBLE AND OTHER ASSETS

Patents and trademarks are capitalized at its historical cost and are amortized over their useful lives. As of December 31, 2008 and 2007, patents and trademarks totaled \$23,333 and \$74,894, respectively, and amortization expense for the years ended December 31, 2008 and 2007 were \$11,540 and \$10,963, respectively.

License and distributor rights (“agreement”) was acquired by the Company in January 1999 and provides exclusive use distribution of polymers and polymer based products. The Company has a non-expiring term on the license and distribution rights. Accordingly, the Company annually assesses this license and distribution rights for impairment and has determined that no impairment write-down is considered necessary as of December 31, 2008.

Future amortization expense for patents and trademarks as of December 31, 2008 are as follows:

| | |
|------|-----------|
| 2009 | \$ 11,526 |
| 2010 | 3,223 |
| 2011 | 3,223 |
| 2012 | 3,223 |
| 2013 | 3,223 |

Prepaid royalties fees are amounts prepaid by the Company related to the license and distributor rights. The future royalties payments required by the Company total \$2,000,000. The royalties fees are to be paid in an amount equal to the greater of (a) \$6,000 per month; or (b) 1.5% of net revenues realized by the sale of the associated polymer products subject to a cap of \$2,000,000. The Company will make payments of \$6,000 per month, and by a payment on any

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royalties in excess of \$72,000 in each year payable on an annual basis calculated within 60 days of each anniversary date of the agreement. The future royalties payments are to be amortized over eight years, which is the life of the agreement. As of December 31, 2008, the Company has paid a total of \$2,000,000 of which \$1,460,000 has been expensed and \$180,000 has been recorded as prepaid royalties. The Company will expense the prepayment in the future in accordance to the terms of the agreement.

4. UNEARNED REVENUE

Unearned revenue totaling \$50,000 as of December 31, 2008 relates to two marketing and distribution rights agreements entered into during 2004 for which monies were received and not considered earned. (See Note 6 for further discussion.)

5. STOCK OPTIONS AND WARRANTS

Stock options employees and directors – During the years ended December 31, 2008 and 2007, the Company granted stock options to employees and directors totaling 3,295,000 and -0- shares of its common stock with a weighted average strike price of \$0.09 and \$-0- per share, respectively. Certain stock options were exercisable upon grant and have a life ranging from 3 months to 5 years. The stock options have been valued at \$232,892 using the Black-Scholes option pricing model based upon the following assumptions: term of 5 years, risk free interest rates ranging from 3.5% to 4.5%, a dividend yield of 0% and volatility rates ranging from 109 % to 110%. The Company has recorded an expense of \$68,912 and \$78,441 for the years ended December 31, 2008 and 2007, respectively all of which is based upon the vested portion of employee stock options related to options issued in 2007.

Stock options non-employees and directors – During the years ended December 31, 2008 and 2007, the Company granted stock options for services totaling 875,000 and -0- shares of its common stock with a weighted average strike price of \$0.13 and \$-0- per share, respectively. All stock options were exercisable upon grant. The stock options have been valued at \$120,086 using the Black-Scholes option pricing model based upon the following assumptions: term of 5 years, risk free interest rates ranging from 3.5% to 4.5%, a dividend yield of 0% and volatility rates ranging from 109% to 112%.

The following is a summary of option activity during the years ended December 31, 2008 and 2007:

| | Number Of Shares | Weighted Average Exercise Price |
|-----------------------------------|------------------------|--|
| Balance, December 31, 2006 | 4,200,000 | \$ 0.11 |
| Options granted and assumed | 2,075,000 | 0.24 |
| Options expired | -- | -- |
| Options canceled | -- | -- |

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| | | |
|-----------------------------|--------------|------|
| Options exercised | 760,000 | 0.05 |
| Balance, December 31, 2007 | 5,515,000 \$ | 0.17 |
| Options granted and assumed | 4,170,000 | 0.24 |
| Options expired | 1,690,000 | 0.18 |
| Options canceled | -- | -- |
| Options exercised | 1,200,000 | 0.05 |
| Balance, December 31, 2008 | 6,795,000 \$ | .14 |

As of December 31, 2008, 6,795,000 stock options are exercisable.

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5. STOCK OPTIONS AND WARRANTS (continued)

Stock warrants -

The following is a summary of warrants activity during the years ended December 31, 2008 and 2007:

| | Number Of Shares | Weighted Average Exercise Price |
|------------------------------------|------------------------|--|
| Balance, December 31, 2006 | 3,030,000 | \$ 0.11 |
| Warrants granted and assumed | 1,911,500 | 0.25 |
| Warrants expired | -- | -- |
| Warrants canceled | -- | -- |
| Warrants exercised | 710,000 | 0.05 |
| Balance, December 31, 2007 | 4,231,500 | \$ 0.15 |
| Warrants granted and assumed | 6,437,500 | 0.10 |
| Warrants expired | 1,820,000 | 0.14 |
| Warrants canceled | -- | -- |
| Warrants exercised | 500,000 | 0.05 |
| Balance, December 31, 2008 | 8,349,000 | \$ 0.16 |

All warrants outstanding as of December 31, 2008 are exercisable.

6. LETTER OF INTENT AND DEFINITIVE AGREEMENT

In March 2004, the Company entered into a letter of intent (“LOI”) with Dermal Defense, Inc. for the exclusive marketing and distribution rights to its patented Antimicrobial Hand Sanitizer product for North America. Terms of the LOI require Dermal Defense, Inc. to pay a fee of \$1 million comprising of a non-refundable deposit of \$250,000

with the balance of \$750,000 payable as to \$75,000 per calendar quarter or 5% of product sales (whichever is greater) until the entire \$750,000 is received. The \$1 million fee will be recognized as revenue ratably over a five year period. As of December 31, 2008, the Company has received \$1,000,000 and has reflected \$1,000,000 as revenue on cumulative basis of which \$200,000 and \$200,000, respectively, have been recorded as revenue for the years ended December 31, 2008 and 2007. In addition and further to the payment fee of \$1 million, Dermal Defense, Inc. agrees to pay a royalty fee of 5% on product sales of the Antimicrobial Hand Sanitizer.

In June 2004, the Company entered into a definitive agreement with Cross Global, Inc. ("Cross Global") whereby, the Company would provide exclusive marketing and distribution rights to its proprietary "Sunless Tanning Spray Formulation" for Canada, the United States, Mexico, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom and Israel. In addition CGI is granted the right to use the name "Solerra(TM)" within the territory. Terms of the agreement require Cross Global to pay a fee of \$1 million comprising of a non-refundable deposit of \$200,000 with the balance of \$800,000 payable as \$200,000 due August 30, 2004, November 30, 2004, February 28, 2005 and May 30, 2005. The \$1 million fee will be recognized as revenue ratably over a five year period. As of December 31, 2008, the Company has received \$1,000,000 and has reflected \$50,000 as unearned revenue and \$950,000 as revenue on a cumulative basis of which \$250,000 has been recorded as revenue for both years ended December 31, 2008 and 2007. In addition and further to the payment fee of \$1 million, Cross Global agrees to pay a royalty fee of 5% on product sales of the Sunless Tanning Spray Formulation.

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6. LETTER OF INTENT AND DEFINITIVE AGREEMENT (continued)

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 from Skinvisible and pay a royalty of 5% on Mitt sales within the territory.

7. CONVERTIBLE NOTES PAYABLE

During 2008, the Company issued an aggregate of \$115,000 consisting of promissory convertible notes to three individuals. Two of the notes are due by May 5, 2008 and one note is due by May 29, 2008, accruing interest at 10% per annum. At the investor’s option until the repayment date, and the note can be converted to shares of the Company’s common stock at a fixed price of \$0.10 per share along with additional warrants to purchase one share per every two shares issued at the exercise price of \$0.25 per share if exercised in year one and \$0.30 per share if exercised in year two and available only upon conversion of the note payable. As of December 31, 2008, \$115,000 plus accrued interest of \$199 were converted into 1,001,990 shares.

In accordance with EITF 00-27, the Company has determined the value associated with the conversion feature and detachable warrants issued in connection with these convertible notes payable. The Company has determined the debentures to have a beneficial conversion feature totaling \$34,914. The beneficial conversion feature has been fully expensed as of June 30, 2008. The beneficial conversion feature is valued under the intrinsic value method and warrants were valued under the Black-Scholes option pricing model using the following assumptions: a stock price of \$0.12, life of 3 years, a dividend yield of 0%, volatility ranging from 111% to 112%, and a debt discount rate of 4.50%. The investor shall have three years from February 5, 2008 and February 29, 2008 to exercise 450,000 warrants. The warrant strike price shall be \$0.12 per share. The Company has determined the warrants to have a value of \$18,619 which will be fully expensed as of December 31, 2009.

During 2008, the Company issued an aggregate of \$249,127 consisting of promissory convertible notes to five individuals. Two of the notes are due by July 2008, one note is due by August 2008, and three notes are due by September 2008, accruing interest at 10% per annum. At the investor’s option until the repayment date, and the note can be converted to shares of the Company’s common stock at a fixed price of \$0.10 per share along with additional warrants to purchase one share per every two shares issued at the exercise price ranging from \$0.12 to \$0.15 per share if exercised within three years upon conversion of the note payable. As of December 31, 2008, \$249,127 convertible notes payable were converted into 2,400,000 shares.

In accordance with EITF 00-27, the Company has determined the value associated with the conversion feature and detachable warrants issued in connection with these convertible notes payable. The Company has determined the debentures to have a beneficial conversion feature totaling \$7,599. The beneficial conversion feature has been fully expensed as of June 30, 2008. The beneficial conversion feature is valued under the intrinsic value method and warrants were valued under the Black-Scholes option pricing model using the following assumptions: a stock price of \$0.12, life of 3 years, a dividend yield of 0%, volatility ranging from 111% to 112%, and a debt discount rate of 4.50%. The investor shall have three years from February 5, 2008 and February 29, 2008 to exercise 450,000

warrants. The warrant strike price shall be \$0.12 per share. The Company has determined the warrants to have a value of \$26,634 which **which will be fully expensed as of December 31, 2009.**

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7. RELATED PARTY TRANSACTIONS

As of December 31, 2007, the Company had an unsecured loan payable due to the CEO with an interest rate of 10% per annum, due on demand totaling \$68,360.

As of December 31, 2007, the Company had an unsecured loan payable due to a shareholder, bearing no interest, due on demand totaling \$10,500.

As of December 31, 2007, the Company had a receivable due to them from a shareholder totaling \$1,196.

As of December 31, 2008, the Company had an unsecured loan payable due to the CEO with an interest rate of 10% per annum, due on demand totaling \$2,136.

8. COMMITMENTS AND CONTINGENCIES

Lease obligations – The Company has operating leases for its offices. The lease for its offices expires on December 29, 2009. Future minimum lease payments under the operating leases for the facilities as of December 31, 2008 are as follows:

| | | |
|------|----|--------|
| 2009 | \$ | 98,622 |
|------|----|--------|

Rental expense, resulting from operating lease agreements for the years ended December 31, 2008 and 2007, was \$97,028 and \$102,539, respectively.