

SKINVISIBLE INC
Form 10KSB
April 14, 2005

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

FORM 10-KSB

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

For the fiscal year ended December 31, 2004

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

For the transition period from _____ to

Commission file number: 000-25911

Skinvisible, Inc.

(Name of small business issuer in its charter)

Nevada

88-033442219

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer
Identification No.)

6320 South Sandhill Road, Suite 10

Las Vegas, Nevada

(Address of principal executive offices)

89120

(Zip Code)

Issuer's telephone number (702) 433-7154

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

Title of each class

None

Name of each exchange on which registered

Not Applicable

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

Common Stock

(Title of class)

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB

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State issuer's revenue for its most recent fiscal year: \$519,972

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity, as of a specified date within the past 60 days. \$3,817,947 as of March 22, 2005.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

56,725,248 Common Shares as of March 22, 2005

Transitional Small Business Disclosure Format (Check One): Yes: ; No

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We were organized as a Nevada corporation on March 5, 1998 under the name "Microbial Solutions, Inc." On February 26, 1999, we changed our name to "Skinvisible, Inc."

We conduct our business through the following wholly owned subsidiaries:

NAME OF SUBSIDIARY	DATE OF INCORPORATION	JURISDICTION OF INCORPORATION
Skinvisible Pharmaceuticals, Inc. f/k/a Manloe Laboratories, Inc.	June 30, 1995	Nevada
Skinvisible Pharmaceuticals (Canada) Inc.	October 20, 1998	Canada

We conduct our primary business activities such as research and development and marketing of our products through Skinvisible Pharmaceuticals, Inc., a Nevada corporation. We conduct our marketing activities in Canada through the Canadian entity Skinvisible Pharmaceuticals (Canada) Inc.

Description of Business

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

Products that successfully incorporate our polymer delivery vehicles to date include antimicrobial hand sanitizers, sunscreen products, skincare moisturizers, sunless tanning sprays, incontinence lotion, anti-fungals, and acne. We are in the process of developing polymer formulations that can successfully be utilized in insect repellents and liquid bandages.

Our primary objective is to license our polymer delivery vehicles to established brand manufacturers and marketers of prescription and over-the-counter products in the dermatological, medical, cosmetic, and skincare markets. With the exception of sales to one vendor, our management's policy is to only sell our polymers to vendors that have executed a license agreement with us. We conduct our research and development in-house and continuously are engaged in developing additional applications for our polymer delivery vehicles.

Manufacture and Distribution

We previously manufactured our polymer delivery vehicles and products that incorporate our polymer delivery on-site at our facility at 6320 South Sandhill Road, Unit #10, Las Vegas, Nevada 89120. We also formerly distributed these manufactured products from our facility. We engaged an outside party that currently handles all of our manufacturing

and distribution needs. At the present time, we only perform research and development at our facility.

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Description of Current Products and Agreements

Antibacterial/Antimicrobial Hand Sanitizer

On July 9, 2003 our wholly-owned subsidiary, Skinvisible Pharmaceuticals, Inc. ("Skinvisible") signed a letter of intent with Health First Distributors North America, Inc. of British Columbia, Canada ("Health First") to grant Health First the exclusive marketing and distribution rights to the antimicrobial hand sanitizer product we manufacture that which utilizes the active ingredient Triclosan 1% (the "Product") in the North American countries of Canada, United States, and Mexico. Due to Health First's failure to satisfy certain conditions set forth in the letter of intent, we never entered into a formalized License Agreement and no further negotiations occurred.

Our management continued its attempts to license the exclusive marketing and distribution rights to our antimicrobial hand sanitizer which utilizes the active ingredient Triclosan 1% and entered into a letter of intent with Dermal Defense, Inc. ("Dermal Defense") on or about March 24, 2004. On February 21, 2005, we entered into a definitive distribution agreement with Dermal Defense. Under the terms of this agreement, Dermal Defense acquired the exclusive marketing and distribution rights in the United States of America, Canada and Mexico for our antimicrobial hand sanitizer.

Dermal Defense acquired these rights for the purchase price of \$1,000,000. Dermal Defense has already paid \$475,000 of this purchase price. The remaining balance is due and payable on a quarterly basis in the amount of \$75,000 or 5% of gross revenue from sales of the licensed product, whichever is greater until paid in full.

In addition and under the terms of the agreement, Dermal Defense is also obligated to pay us a royalty fee quarterly in the amount of \$20,000 or 5% of gross revenues generated by Dermal Defense from sales of the product in the quarter, whichever is greater. Under the terms of this agreement, Dermal Defense is prohibited from manufacturing, marketing, distributing, or selling any competing product while this agreement is in full force and effect.

Dermal Defense was granted an option to acquire the exclusive marketing and distribution rights for our antimicrobial hand sanitizer globally. This option expired on March 30, 2005. If this option was exercised, Dermal Defense would have been required to pay us \$1 Million and a 5% royalty on all sales of the licensed product globally. We are currently negotiating with Dermal Defense an extension to the termination date of this option.

Sunless Tanning Sprays

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

The Distribution Agreement provides that Cross Global must pay Skinvisible an up-front royalty in the amount of \$1,000,000. Cross Global has paid us \$700,000. The remaining \$300,000 is due on May 30, 2005.

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Under the terms of the Distribution Agreement, Cross Global is prohibited from manufacturing, marketing, distributing, or selling any competing product while the Distribution Agreement is in full force and effect.

Sunscreen and Skin Care Products

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

Description of Other Applications for which no Agreements are Currently in Place

We have developed and successfully tested the application of our polymer delivery vehicles in the following products:

- Incontinence lotion
- Anti-fungal
- Anti-acne
- Anti-Inflammatory
- Dermal Abrasion/Cosmetic

Skin Care

- Anti-microbial Wound Care

Our management is seeking to offer our polymer delivery vehicles for incorporation into these products on a private label basis.

Status of Research and Development for New Applications

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

- Insect repellants
- Liquid bandages
- New antibacterial/antimicrobial

hand sanitizer

In the event that these studies determine that we can successfully incorporate our topical polymer-based delivery system into any of these products set forth below, we will move forward to secure all appropriate governmental approvals for the distribution of this product in the United States. It is our anticipation that the process to complete all studies and secure all government approvals will take approximately twelve (12) to eighteen (18) months from the beginning of each study.

Insect Repellants

We are in the process of developing a mosquito repellent that incorporates our topical polymer-based delivery systems. The approximate cost of the outside study is \$100,000 and our management is seeking to negotiate a deal with a third party where they would pay the cost of the study in exchange for licensing rights.

We expect to commence outside studies on this product once a deal is in place to provide funding for the outside study.

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New Antibacterial/Antimicrobial Hand Sanitizer

We have developed and sold the exclusive marketing and distribution rights to an antimicrobial hand sanitizer product that utilizes the active ingredient Triclosan 1%. We have developed and a currently testing a new antimicrobial hand sanitizer product that utilizes the active ingredient Chlorhexadine. Chlorhexadine is the active agent in scrub soaps currently used in the operating rooms of most hospitals in North America and Europe.

We have received positive results from the first study we commissioned and are currently in the process of a second study. We anticipate that the results of the second study will be available before the end of the second quarter of fiscal 2005. This product may require us filing of a New Drug Application with the US FDA because the drug Chlorhexadine is not an approved drug for Hand Sanitizers in the US under the FDA Tentative Final Monograph. If we are required to file a New Drug Application with the US FDA, the development of this product may be both time and cost prohibitive for us. Under such circumstance, we would seek a pharmaceutical partner to fund the remaining studies.

Competition

In terms of our current focus and long-term strategy, our primary products have been identified as the licensing of our polymer-based delivery system technologies and sale of our delivery systems as ingredients for topically administered finished product applications in the prescription Rx and OTC treatment, cosmetic, and skincare formulations. 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.

Patents, Licenses, Trademarks, Franchises, Concessions, Royalty Agreements, or Labor Contracts

Patents

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

We filed a patent application on August 20, 2001 titled "Topical Compositions, Topical Composition Precursors, and Methods for Manufacturing and Using" for our *Invisicar*® topical compositions and our methodology for manufacturing and utilization of numerous delivery systems and related applications. The United States Patent and Trademark Office split this application into three different applications as follows: (a) Methods of Manufacturing (b) Topical Compositions and (c) Methods of Use. We received patent approval for the application on Methods of Manufacturing (US Patent No. 6,756,059). Our patent applications on Topical Compositions and Methods of Use are still pending.

We have also filed under the Patent Cooperation Treaty (PCT) the Patent titled "Topical Compositions, Topical Composition Precursors, and Methods for Manufacturing and Using" for certain foreign countries. As of March 22, 2005, we did not receive any response.

We also have two patents currently pending, which cover our sunless tanning spray formula and sunscreen formulas.

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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*."

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 full-time employees including our President, Chief Executive Officer, and Chief Financial Officer, Terry Howlett.

Research and Development

We incurred research and development expenditures for the fiscal years ended December 30, 2003 and 2004 in the amount of \$3,500 and \$17,300 respectively.

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.

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

Item 2: Description of Property

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

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

Item 3: Legal Proceedings

Subsequent to the reporting period on March 8, 2005, we initiated litigation in the U.S. District Court for the District of Nevada against Health First Distributors North America, Inc., a British Columbia corporation ("HFD"). The complaint seeks declaratory relief to the effect that the parties must arbitrate a dispute between them in Las Vegas, Nevada, as required by the parties' July 9, 2003, letter of intent as amended by a subsequent letter dated October 29, 2003. The underlying dispute concerns whether we must return what we contend was a non-refundable deposit of \$100,000 USD towards North American distribution rights for our products. HFD has claimed in demand letters that we must return the deposit and has threatened to bring suit in British Columbia if we fail to do so. We disagree with HFD's position and have demanded that the dispute be arbitrated in Las Vegas, Nevada, as required by the parties' agreement. HFD has refused. Our

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lawsuit seeks only a declaration from the court that arbitration is required and that it must take place in Las Vegas, Nevada. We served the summons and complaint on March 17, 2005. As of March 31, 2005, HFD had not answered or otherwise responded to the litigation.

Subsequent to the reporting period, Skinvisible Pharmaceuticals, Inc. and our Chief Executive Officer, Terry Howlett, were named as defendants in a lawsuit initiated in the U.S. District Court for the Eastern District of Michigan on March 11, 2005. The lawsuit seeks a judgment against all defendants jointly and severally in the amount of \$1,025,000 plus other costs, interest and expenses as the court finds appropriate. The underlying dispute concerns the circumstances under which the plaintiffs purchased common stock in Dermal Defense, Inc., a Nevada corporation. We believe that the lawsuit against Skinvisible Pharmaceuticals, Inc. and our Chief Executive Officer is without merit and plan to file a motion to dismiss.

Item 4: Submission of Matters to a Vote of the Security Holders

No other matters were submitted to our security holders for a vote during the reporting period.

Subsequent to the reporting period on January 10, 2005, we held our annual shareholder meeting. The meeting was called for the purpose of electing directors to the board of directors and to transact any other business that may properly come before the meeting. The number of votes present in person or by proxy was sufficient to constitute a quorum. A majority of the shareholders elected Terry Howlett, Jost Steinbruchel, and Greg McCartney to serve on the board of directors until the next annual meeting of the shareholders, or until removed by other action as allowed by the corporate bylaws. The tabulation of the votes was as follows:

Nominee	Votes Cast For	Votes Cast Against	Votes Abstained
Terry Howlett	8,422,052	0	0
Jost Steinbruchel	8,422,052	0	0
Greg McCartney	8,422,052	0	0

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Our common stock is currently quoted on the OTC Bulletin Board, which is sponsored by the National Association of Securities Dealers ("NASD"). The OTC Bulletin Board 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 OTC Bulletin Board 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 NASD OTCBB. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Fiscal Year Ending December 31, 2004

<u>Quarter</u> <u>Ended</u>	<u>High \$</u>	<u>Low \$</u>
March 31, 2004	0.20	0.12
June 30, 2004	0.15	0.10
September 30, 2004	0.08	0.06
December 31, 2004	0.09	0.06

Fiscal Year Ending December 31, 2003

<u>Quarter</u> <u>Ended</u>	<u>High \$</u>	<u>Low \$</u>
March 31, 2003	0.11	0.03
June 30, 2003	0.23	0.07
September 30, 2003	0.23	0.08
December 31, 2003	0.29	0.10

On March 22, 2005 closing price per share of our common stock, as reported by the NASD OTC Bulletin Board, was \$0.19.

Penny Stock

Until our shares qualify for inclusion in the Nasdaq system, the public trading, if any, of our common stock will be on the OTC Bulletin Board. As a result, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the price of, the common stock offered. Our common stock is subject to provisions of Section 15(g) and Rule 15g-9 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), commonly referred to as the "penny stock rule." Section 15(g) sets forth certain requirements for transactions in penny stocks, and Rule 15g-9(d) incorporates the definition of "penny stock" that is found in Rule 3a51-1 of the Exchange Act. The SEC generally defines "penny stock" to be any equity security that has a market price less than \$5.00 per share, subject to

certain exceptions. If our common stock is deemed to be a penny stock, trading in the shares will be subject to additional sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. "Accredited investors" are persons with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse. For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of such security and must have the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the first transaction, of a

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risk disclosure document, prepared by the SEC, relating to the penny stock market. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information for the penny stocks held in an account and information on the limited market in penny stocks. Consequently, these rules may restrict the ability of a broker-dealer to trade and/or maintain a market in our common stock and may affect the ability of our shareholders to sell their shares.

 Holders of Our Common Stock

As of March 31, 2005, there were 174 registered holders of our common stock.

 Dividends

There are no restrictions in our articles of incorporation or bylaws that prevent 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.

We have not declared any dividends, and we do not plan to declare any dividends in the foreseeable future.

 Securities Authorized for Issuance Under Equity Compensation Plans **Equity Compensation Plans as of December 31, 2004**

	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	1,085,000	\$0.08	415,000

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Equity compensation plans not approved by security holders	-	-	-
Total	1,085,000	\$0.08	415,000

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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 past three years.

Subsequent to the reporting period on February 4, 2005, we issued 500,000 shares of restricted common stock each to two of our directors in connection with services rendered during the 2004 fiscal year. These shares were issued pursuant to Section 4(2) of the Securities Act. We did not engage in any general solicitation or advertising.

During the first quarter of 2004, we raised \$547,894 in the form of a private placement and issued 5,478,940 shares of restricted common stock plus 2,739,470 warrants to 3 accredited investors. The warrant gave the holders the right to purchase one share of common stock at \$0.15 per share on or before March 26, 2005, then at \$0.20 per share on or before the close of business on March 25, 2006. These shares were issued pursuant to the exemption available under Section 4(2) of the Securities Act of 1933. Each purchaser represented his or her intention to acquire the securities for investment intent only and not with a view toward distribution. Each investor was given adequate information about us to make an informed investment decision. We did not engage in any public solicitation or general advertising. No registration rights were granted to any of the purchasers. We issued the stock certificates and affixed the appropriate legends to the restricted stock.

During the second quarter of 2003, we secured financing in the form of a private placement. We raised \$228,000 and issued 4,545,000 shares of restricted common stock plus 2,275,500 warrants to 25 accredited investors. The common stock was issued at \$0.05 per share. The warrant gave the holders the right to purchase one share of common stock at \$0.10 per share on or before July 14, 2003, then at \$0.15 per share on or before May 28, 2004, and at \$0.20 per share on or before May 27, 2006. These shares were issued pursuant to the exemption available under Section 4(2) of the Securities Act of 1933. Each purchaser represented his or her intention to acquire the securities for investment intent only and not with a view toward distribution. Each investor was given adequate information about us to make an informed investment decision. We did not engage in any public solicitation or general advertising. No registration rights were granted to any of the purchasers. We issued the stock certificates and affixed the appropriate legends to the restricted stock.

On November 12, 2002, We completed an offering of 6,478,000 restricted shares of the common stock at a price of \$0.05 per share to a total of nineteen (19) accredited investors pursuant to Rule 506 of Regulation D of the 1933 Act. We also issued warrants for the purchase of 3,239,000 shares of the common stock. A commission in the amount of \$25,900 was paid to 3 parties in connection with the completion of this offering. Each purchaser represented his or her intention to acquire the securities for investment intent only and not with a view toward distribution. Each investor was given adequate information about us to make an informed investment decision. We did not engage in any public solicitation or general advertising. No registration rights were granted to any of the purchasers. We issued the stock certificates and affixed the appropriate legends to the restricted stock.

On June 7, 2002, as part of a loan conversion agreement, we issued 3,000,000 restricted common shares to one (1) accredited investor at a price of \$0.05 per share as well as warrants for the purchase of 1,500,000 shares of common stock. These shares were issued pursuant to the exemption available under Section 4(2) of the Securities Act of 1933. We did not engage in any public solicitation or general advertising. We issued the stock certificates and affixed the appropriate legends to the restricted stock.

On April 26, 2002, as part of a loan conversion agreement we issued 2,000,000 restricted common shares to

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one (1) accredited investor at a price of \$0.05 per share as well as warrants for the purchase of 1,000,000 shares of common stock. These shares were issued pursuant to the exemption available under Section 4(2) of the Securities Act of 1933. We did not engage in any public solicitation or general advertising. We issued the stock certificates and affixed the appropriate legends to the restricted stock.

On April 26, 2002, as part of a loan conversion agreement, we issued 2,000,000 restricted common shares to one (1) accredited investor at a price of \$0.05 per share as well as warrants for the purchase of 1,000,000 shares of common stock. These shares were issued pursuant to the exemption available under Section 4(2) of the Securities Act of 1933. We did not engage in any public solicitation or general advertising. We issued the stock certificates and affixed the appropriate legends to the restricted stock.

In January 2002, we issued a total of 264,775 shares of common stock to four (4) employees and one (1) consultant upon the exercise of their stock options granted pursuant to the Company's incentive stock option plan. These shares were issued at a price of \$0.10 per share, for a total purchase price of \$26,477.50. These shares were issued pursuant to the exemption available under Section 4(2) of the Securities Act of 1933. We did not engage in any public solicitation or general advertising. We issued the stock certificates and affixed the appropriate legends to the restricted stock.

Item 6: Management's Discussion and Analysis

Forward-Looking Statements

Historical results and trends should not be taken as indicative of future operations. Management's statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may differ materially from those included in the forward-looking statements. The Company intends 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 is including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," "prospects," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on the operations and future prospects of the Company on a consolidated basis include, but are not limited to: changes in economic conditions generally and the retail market specifically, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included herein and in the Company's other filings with the Securities and Exchange Commission.

Results of Operations

For the year ended December 31, 2004, we generated total revenue of \$519,972, compared to revenue in the amount of \$193,988 for the year ended December 31, 2003. Our increase in revenue is primarily attributable to the receipt of payments under our agreements entered into during the reporting period with Dermal Defense and Cross Global. We received \$325,000 for distribution and licensing rights granted in the year ended December 31, 2004. We generated \$174,020 in revenue from product sales in the year ended December 31, 2004.

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We incurred operating expenses in the amount of \$1,228,163 for the year ended December 31, 2004. Our expenses for the year ended December 31, 2004 consisted of selling and administrative costs of \$1,084,674, depreciation and amortization of \$111,339, and stock based compensation in the amount of \$32,150. We incurred expenses in the amount of \$1,456,087 for the year ended December 31, 2003. Our expenses for the year ended December 31, 2003 consisted of selling and administrative costs of \$1,016,020, depreciation and amortization of \$61,815, and stock based compensation in the amount of \$378,252. The decrease in expenses from fiscal 2003 to fiscal 2004 is primarily attributable to the payment of significantly less stock based compensation.

Our net loss for the year ended December 31, 2004 was \$804,972, compared to a net loss of \$1,310,220 in the prior year.

Assets

As of December 31, 2004, we had current assets of \$248,063 and total assets in the amount of \$1,547,570. As of December 31, 2004, our current assets consisted of cash of \$92,434, accounts receivable of \$19,940, inventory of \$112,642, \$21,126 due from a related party, and \$1,921 in prepaid expenses and other current assets.

Liabilities and Stockholders Deficit

Our total liabilities as of December 31, 2004 were \$969,317. Our liabilities consisted of accounts payable and accrued liabilities in the amount of \$346,317 and unearned revenue in the amount of \$623,000.

Liquidity and Capital Resources

As of December 31, 2004, we had current assets of \$248,063. Our total current liabilities as of December 31, 2004 were \$969,317. As a result, on December 31, 2004, we had a working capital deficit of \$721,254.

Management believes that we will have sufficient capital to finance our operations for the next twelve months based upon revenues anticipated to be received in the current fiscal year and royalty payments due under the Agreements with Cross Global and Dermal Defense.

Off Balance Sheet Arrangements

As of December 31, 2004, there were no off balance sheet arrangements.

Going Concern

Our independent auditors have stated in their Auditor's Report included in the Form 10-KSB that we have incurred operating losses, accumulated deficit, and negative cash flow from operations. As of December 31, 2004, we had incurred cumulative net losses of approximately \$10,561,000.

Our ability to raise additional capital through future issuance of common stock is unknown. The successful development of our business plan and our attainment of profitable operations is unknown. These factors, among others, raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments related to recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should we be unable to continue as a going concern.

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Revenue Recognition

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

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Item 7: Financial Statements

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F-2 Independent Auditor's Report

F-3 Consolidated Balance Sheet - December 31, 2004

F-4 Consolidated Statements of Operations - Years Ended December 31, 2004 and December 31, 2003

F-5 Consolidated Statements of Stockholders' Equity (Deficit) - Years Ended December 31, 2004 and December 31, 2003

F-6 Consolidated Statements of Cash Flows - Years Ended December 31, 2004 and December 31, 2003

F-7 Notes to Consolidated Financial Statements

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SKINVISIBLE, INC.
CONSOLIDATED FINANCIAL STATEMENTS

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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, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2004 and 2003. 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 audits.

We conducted our audits 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 audits provide 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, 2004, and the consolidated results of its operations and cash flows for the years ended December 31, 2004 and 2003 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. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Sarna & Company Certified Public Accountants

Sarna & Company Certified Public Accountants

March 28, 2005

Westlake Village, California

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SKINVISIBLE, INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2004

ASSETS

Current assets	
Cash	\$ 92,434
Accounts receivable	19,940
Inventory	112,642
Due from related party	21,126
Prepaid expense and other current assets	1,921
Total current assets	248,063
Fixed assets, net	
	47,894
Intangible and other assets	
Patents and trademarks, net	61,613
License and distributor rights	50,000
Prepaid royalty fees	1,140,000
Total assets	\$ 1,547,570

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable and accrued liabilities	\$ 346,317
Unearned revenue	623,000
Total current liabilities	969,317
Long-term liabilities	
	--
Total liabilities	969,317
Commitments and contingencies	
	--
Stockholders' equity	
Common stock; \$0.001 par value; 100,000,000 shares	
55,625,248 shares issued and outstanding	55,625
Additional paid-in capital	11,083,799
Accumulated deficit	(10,561,171)
Total stockholders' equity	578,253
Total liabilities and stockholders' equity	\$ 1,547,570

See Accompanying Notes to Consolidated Financial Statements

Table of ContentsSKINVISIBLE, INC.
CONSOLIDATED STATEMENT OF OPERATIONS

	For the year ended December 31, 2004	For the year ended December 31, 2003
Revenues	\$ 519,972	\$ 193,988
Cost of revenues	96,781	136,125
Gross profit	423,191	57,863
Operating expenses		
Depreciation and amortization	111,339	61,815
Stock based compensation	32,150	378,252
Selling general and administrative	1,084,674	1,016,020
Total operating expenses	1,228,163	1,456,087
Loss before provision for income taxes	(804,972)	(1,398,224)
Other income (expense)		
Forfeited license deposit	--	100,000
Loss on disposal of fixed assets	--	(12,016)
Interest income	--	20
Total other income	--	88,004
Provision for income taxes	--	--
Net loss	\$ (804,972)	\$ (1,310,220)
Basic income (loss) per common share	\$ (0.01)	\$ (0.03)
Diluted income (loss) per common share	\$ (0.01)	\$ (0.03)
Basic weighted average common shares outstanding	55,625,248	43,218,767

See Accompanying Notes to Consolidated Financial Statements

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SKINVISIBLE, INC.
 CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 FOR THE YEAR ENDED DECEMBER 31, 2004

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance, December 31, 2002	38,789,808	38,790	9,442,838	(8,445,979)	1,035,649

Issuance of stock for cash, weighted
 average