BRITESMILE INC
Form 10-Q
May 13, 2002

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: March 30, 2002

or

[ ] Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the Transition Period from _____ to ___________

Commission File Number: 1-11064

BRITESMILE, INC.
(Exact name of business issuer as specified in its charter)

UTAH	87-0410364
(State or other jurisdiction of incorporation or organization)	(IRS employer identification no.)

490 North Wiget Lane Walnut Creek, California	94598
(Address of principal executive offices)	(Zip Code)

(925) 941-6260
(Issuer's telephone number, including area code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act 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.

X yes ___ no _____

The Company had 36,414,461 shares of common stock outstanding at April 11, 2002.

BRITESMILE, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BRITESMILE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
($ in thousands, except share data)

	March 30, 2002
	(Unaudited)
CURRENT ASSETS:	
Cash and cash equivalents.......................................	$ 2,675
Cash, restricted as to use......................................	843
Trade accounts receivable, net of allowance for doubtful accounts of $471 and $615, respectively..................................	2,681
Inventories...	3,008
Prepaid expenses and other......................................	859
Notes receivable-current portion................................	307
Total current assets.................................	10,373
PROPERTY AND EQUIPMENT, net..	21,708
OTHER ASSETS...	1,614
TOTAL ASSETS...	$ 33,695

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated balance sheets.

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BRITESMILE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY
($ in thousands, except share data)

	March 30, 2002 (Unaudited)
CURRENT LIABILITIES:	
Accounts payable..	$ 5,369
Accrued expenses	2,047
Deferred revenue	1,375
Note payable to related party, net of discount..................	500
Accrual for store closures.......................................	310
Line of credit...	117
Capital lease obligation with related party -current portion.....	641
Total current liabilities.............................	10,359
Note payable to related party, less current portion.................	1,528
Subordinated convertible debenture, net of discount.................	734
Capital lease obligations with related party, less current portion...	2,435
Accrual for store closures..	681
Other long-term liabilities...	871
Total long-term liabilities.....................	6,249
Total liabilities...................................	16,608
SHAREHOLDERS' EQUITY:	
Common stock, $.001 par value; 50,000,000 shares authorized; 36,404,461 and 36,226,961 shares issued and outstanding, respectively..	36
Additional paid-in capital......................................	137,760
Accumulated deficit...	(120,709)
Total shareholders' equity	17,087
Total liabilities and shareholders' equity..........................	$ 33,695

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated balance sheets.

BRITESMILE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited
($ in thousands except share data)

	13 Weeks Ended March 30, 2002
REVENUES:	
Center whitening fees, net	$ 3,065
Associated Center whitening fees, net	5,201
Product sales	1,067
Total revenues, net	9,333
OPERATING COSTS AND EXPENSES:	
Operating and occupancy costs	3,619
Selling, general and administrative expenses	7,867
Research and development expenses	111
Depreciation and amortization	1,483
Total operating costs and expenses	13,080
Loss from operations	(3,747)
OTHER INCOME (EXPENSE), net:	
Interest expense	(393)
Interest income	26

Total other income (expense), net........................	(367)
Loss before income tax provision......................	(4,114)
INCOME TAX PROVISION..	18
Net loss	$ (4,132)
BASIC AND DILUTED NET LOSS PER SHARE............................	$ (0.11)
WEIGHTED AVERAGE SHARES - BASIC AND DILUTED.....................	36,372,138

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated statements of operations.

BRITESMILE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
($ in thousands, except share data)

	13 Weeks En March 30, 2
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss...	$ (4,13
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization................................	1,48
Store closure accrual..	(21
Cost for issuance of stock warrants and stock options.........	28
Changes in assets and liabilities................................	(1,69

Net cash used in operating activities...............	(4,27
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment.................................	(67
Net cash used in investing activities...............	(67
CASH FLOWS FROM FINANCING ACTIVITIES:	
Procceds from line of credit..	11
Principal payments on long-term debt...............................	(5
Proceeds from debt financing	
Proceeds from exercise of stock options	39
Net cash provided by financing activities...........	46
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,48
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD..	7,16
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD........................	$ 2,67
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest..	$ 23
Cash paid for income taxes......................................	$ 7
Equipment acquired under capital lease...........................	$

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated statements of cash flows.

BRITESMILE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

March 30, 2002

1. Description of Business and Nature of Operations

BriteSmile, Inc., a Utah corporation ("BriteSmile" or the "Company"), and its affiliates develop and sell advanced teeth whitening products, services and technology. Unless specified to the contrary herein, references to BriteSmile or to the Company refer to the Company and its subsidiaries on a consolidated basis. The Company's operations include the development of technologically advanced teeth whitening processes that are distributed in professional salon settings known as BriteSmile Professional Teeth Whitening Centers ("Centers"). The Company also offers its products and technologies through arrangements with existing independent dental offices known as BriteSmile Professional Teeth Whitening Associated Centers ("Associated Centers"). As of March 30, 2002, the Company had 14 Centers and 4,217 Associated Centers in operation.

Centers are located in major metropolitan areas nationwide and offer clients a salon-like environment dedicated solely to the business of teeth whitening. Centers are staffed by licensed dentists and trained dental assistants. Alternatively, consumers can visit an Associated Center, where a local dentist administers the BriteSmile procedure in the dentist's established office. To date, the Company has entered into contracts with 4,217 Associated Centers, including 3,375 in the United States, and 842 in 35 countries outside the United States. The Company is not engaged in the practice of dentistry. Each licensed dentist who operates a Center or Associated Center maintains full control over dental matters, including the supervision of dental auxiliaries and the administration of the teeth whitening procedure.

The Company developed its current teeth whitening technology (the "BriteSmile Light Activated Teeth Whitening System," "BS2000," or "LATW") and began distribution in 1999. In November 1999 the Company introduced its new BriteSmile 3000 LATW keycard system (the "BS3000") to Associated Centers. The BS3000, a mobile version of the BS2000, can be installed quickly and provides improved flexibility and mobility in dental offices. In May 2001, the Company introduced its more versatile mobile device, the BS3000PB, which is the device currently shipped to Associated Centers. The BS2000, BS3000, and BS3000PB teeth whitening devices utilize a light technology. The unique delivery arm of these devices permits blue green light to reach all 16 front teeth simultaneously, whitening the teeth by activating BriteSmile's wavelength-specific gel during three consecutive twenty-minute sessions.

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker, or chief decision making group, in deciding how to allocate resources and in assessing performance. Our President and CEO is our chief decision maker. Our business is focused on one industry segment, products and procedures to whiten teeth. All of our revenues and profits are generated through the sale, licensing, and service of products for this one segment.

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions in Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the 13 weeks ended March 30, 2002 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending December 28, 2002.

BRITESMILE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 30, 2002

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001.

The accompanying consolidated financial statements include the accounts of the Company, its subsidiaries, and entities (Centers) in which the Company has a controlling interest. The Company consolidates the Centers as the Company has a controlling financial interest in the Centers in accordance with the criteria of EITF 97-2, "Application of FASB Statement No. 94 and APB Opinion #16 to Physician Practice Management Entities ("PPM") and Certain Other Entities with Contractual Management Arrangements." The agreements with the Centers are 30 year, non-terminable agreements, that provide the Company a financial interest in the PPM and exclusive authority over all decision making other than the dispensing of medical services. All intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

The Company recognizes revenue related to retail products at the time such products are sold to customers.

The Company recognizes revenue from teeth whitening procedures performed at its Centers when the procedures have been performed.

During the last quarter of the transition period ended December 30, 2000 and retroactive to April 1, 2000, the Company has changed its method of accounting to recognize revenue from Associated Centers, ratably over the estimated period in which the Associated Centers perform the procedures, commencing when the key card is shipped. Previously, the Company recognized revenues from Associated Centers when the keycard to activate the machine was shipped. Revenue is reported net of discounts and allowances. As of March 30, 2002, the Company recorded deferred revenue totaling $1.4 million, which will be recognized as revenue in the second quarter of 2002.

3. Loss Per Common Share

The Company computes loss per common share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." In accordance with FAS 128, basic net loss per share is calculated as net loss divided by the weighted-average number of common shares outstanding, less shares subject to repurchase. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding and dilutive common stock equivalents outstanding during the period. Common equivalent shares from stock options and warrants (using the treasury stock method) and convertible notes payable have been excluded from the calculation of net loss per share as their effect is anti-dilutive.

4. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories consist primarily of dental supplies, retail products and component parts for the repair of teeth whitening systems.

5. Reclassifications

Certain reclassifications have been made in the prior period's condensed consolidated financial statements to conform with the current period presentation.

6. Revisions to Previously Issued Financial Statements

The Company provides equipment and sells key card and supplies (procedure kits) to Associated Centers to enable the Associated Center to perform the whitening procedures for its customers. The Company also provides the use of whitening equipment to the Associated Center. Prior to December 29, 2001, the Company

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recognized revenue related to the sale of the procedure kits upon shipment of the key cards and whitening supplies. Following discussion with the staff of the Securities and Exchange Commission regarding application of Staff Accounting Bulletin No. 101,

"Revenue Recognition in Financial Statements," the Company revised its revenue recognition policy related to these agreements to defer revenues, and to amortize these revenues into operations over the estimated period in which the procedures are performed by the Associated Centers, which is generally 30 days. As a result of this revision, the Company has restated its quarterly financials for 2001. The following is the restatement for the comparative quarter ended March 31, 2001:

	As previously reported	As restated
Consolidated Statement of Operations Data:		
Total Associated Centers revenue	$.4,813	$ 4,026
Total revenues	9,704	8,917
Net loss	4,893	6,143
Net loss per share, basic and diluted	$(0.17)	$(0.21)

7. Financing Arrangements

Following is a summary of the Company's long and short term debt financing arrangements (in thousands):

	March 30, 2002	December 29, 2001

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Note Payable to EVL, a related party, due May 10, 2006	$ 2,028	$ 2,083
5% Subordinated Convertible Notes due and payable on June 29, 2005 (including discount of $66 and $71)	734	729
Line of credit	117	-
	$ 2,879	$ 2,812

8. Impact of Recently Issued Accounting Standards and Accounting Bulletins

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 eliminates the pooling of interests method of accounting for business combinations, except for qualifying business combinations that were initiated prior to July 1, 2001. Under SFAS No. 142, goodwill and indefinite lived intangible assets are not longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. The Company believes that SFAS Nos. 141 and 142 will not have a material impact on its consolidated financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company believe that SFAS no. 142 will not have a material impact on its consolidated financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and provides a single accounting model for long-lived assets to be disposed of. The Company adopted SFAS No. 144 on December 30, 2001, and believes that SFAS No. 144 will not have a material impact on its consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements and Risk Factors

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements may be deemed to include information that is not historical. The statements contained in this Report that are not purely historical are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act. These statements relate to the Company's expectations, hopes, beliefs, anticipations, commitments, intentions and strategies regarding the future. They may be identified by the use of words or phrases such as "believes," "expects," "anticipates," "should," "plans," "estimates," and "potential," among others. Forward-looking statements include, but are not limited to, statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations regarding the Company's financial performance, revenue and expense levels in the future, and the sufficiency of its existing assets to fund future operations and capital spending needs. Actual results could differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The Company believes that many of the risks set forth here and in the Company's 10-K Annual Reports filed with the SEC are part of doing business in the industry in which the Company operates, and will likely be present in all periods reported. The forward-looking statements contained in this Report are made as of the date of this Report and the Company assumes no obligation to update them or to update the reasons why actual results could differ from those projected in such forward-looking statements. Among others, risks and uncertainties that may affect the business, financial condition, performance, development, and results of operations of the Company include:

- Government regulation of the Company's products and teeth whitening procedures, including: (i) current restrictions or controls on the practice of dentistry by general business corporations, and (ii) future, unknown enactments or interpretations of current regulations which could, in the future, affect the Company's operational structure and relationships with licensed dentists.

- Failure of the Company to generate, sustain or manage growth, including failure to develop new products and expand Center and Associated Center locations and revenues;

- The loss of product market share to competitors and/or development of new or superior technologies by competitors;

- Ongoing operating losses associated with the development, marketing and implementation of new, light-activated teeth whitening technologies;

- Failure of the Company to secure additional financing to complete its aggressive plan for the rollout of a broad base of Associated Centers;

- Unproven market for the Company's new whitening products, whitening process, and "Whitening Center" and "Associated Center" concepts, in light of competition from traditional take-home whitening products and bleaching tray methods;

- Failure to develop marketing strategies and delivery methods to penetrate non-U.S. markets; and

- Lack of product diversity.

Critical Accounting Policies And Estimates

General

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to customer programs and incentives, bad debts, inventories, income taxes, warranty obligations, financing operations, restructuring, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition

BriteSmile recognizes revenue related to retail products at the time such products are sold to customers.

BriteSmile recognizes revenue at Company operated Centers at the time a whitening procedure is performed.

BriteSmile records deferred revenue at the time of sale of key cards and access codes to Associated Centers. Deferred revenue is recorded for the full value of the key cards and access codes at the time of sale only if BriteSmile is contractually entitled to invoice the Associated Center for the full value of the sale and the Associated Center is obligated to pay such invoice, thereby creating a corresponding account receivable. Deferred revenue is subsequently recognized as revenue over the estimated period that the whitening procedures which can be performed via the key cards and access codes are expected to be used, currently 30 days from the date of shipment. A material change to the estimated time period over which the key cards and access codes are used could have a significant impact on BriteSmile's revenue in the period of change as well as future periods.

BriteSmile's policy is not to accept any return of key cards or access codes during the course of the agreement with an Associated Center; however, it does provide credits to the ultimate whitening customer for a "whitening guarantee." BriteSmile recognizes those credits by reducing its revenue.

Bad Debt

BriteSmile maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. A considerable amount of judgment is required in assessing the ultimate realization of accounts receivable including the current credit-worthiness of each customer. If the financial condition of BriteSmile's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory

BriteSmile is required to state its inventories at the lower of cost or market. BriteSmile writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions, as well as for damaged goods. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Property, Equipment and Improvements - Carrying Value Near Recoverability Estimate

BriteSmile evaluates its property, equipment and improvements for impairment whenever indicators of impairment exist. Management determined that impairment indicators did exist in Fiscal 2001 based upon continued operating losses and negative cash flow. BriteSmile's current estimates of recoverability for its property, equipment and improvements indicated those assets would not have been recoverable if management's estimates of future cash flows had been 295% lower than its current estimate. BriteSmile's recoverability estimates are based on current revenue levels continuing to grow at approximately 20% per annum compared to an historical growth rate of approximately 114%. BriteSmile has further assumed that operating costs will increase by approximately 3% per annum compared to an historical increase of approximately 157%. The Company completed a major restructuring of its cost structure in the fourth quarter of Fiscal 2001 with plans to reduce operating costs by approximately $14 million per year compared to Fiscal 2001. Had BriteSmile's recoverability estimates resulted in a determination that these assets were not recoverable, BriteSmile would have recognized an impairment loss in Fiscal 2001.

Store Closures

During Fiscal 2001 (fiscal year ended December 2001) and the Transition Period (nine-month transition period ended December 2000), BriteSmile recorded significant reserves in connection with store closures. These reserves include estimates pertaining to employee separation costs and the settlements of contractual obligations, primarily property leases. Although the Company does not anticipate significant changes, the actual costs related to the closures may differ from these estimates.

Legal Contingencies

BriteSmile is currently a party to certain legal action. Management does not believe that current pending litigation will have a material adverse effect on BriteSmile's consolidated financial position. This conclusion has been developed in consultation with outside counsel handling BriteSmile's defense in the matter. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in management's assumptions and the effectiveness of BriteSmile's strategies related to these legal actions.

BriteSmile recognizes the costs of legal services in the periods incurred.

Overview

Operating and occupancy costs are composed primarily of three main groups: 1) the cost of goods for both the Center and Associated Center whitening procedure kits and retail products; 2) the financing costs for the devices in the Associated Centers; and 3) the operating and occupancy costs for the Centers.

Selling, general and administrative expenses are composed of expenses associated with all corporate and administrative functions that support existing operations and provide an infrastructure to support future growth, including management and staff salaries, employee benefits, travel, information systems, operating costs of the Call Center, training, field support, and marketing and advertising.

Expenses of recruiting and training sales, market support, and training staff are also included in general and administrative expenses.

The following discussion should be read in conjunction with the Financial Statements and the Notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001.

The following table sets forth unaudited operating results for the thirteen week period ended March 30, 2002 and March 31, 2001, as a percentage of sales in each of these periods. This data has been derived from the unaudited financial statements.

	Thirteen Weeks ended March 30, 2002	Thirteen Weeks ended March 31, 2001
Income Statement Data:		
Revenues:		
Center whitening fees, net	32.8%	44.9%
Associated Center whitening fees, net	55.8%	45.1%
Product sales	11.4%	10.0%
Total revenues, net	100.0%	100.0%
Operating Costs and Expenses:		
Operating and occupancy costs	38.7%	35.9%
Selling, general and administrative expenses	84.3%	110.3%
Research and development expenses	1.2%	6.1%
Depreciation and amortization	15.9%	13.6%
Total operating costs and expenses	140.1%	165.9%

Loss from operations	-40.1%	-65.9%
Interest income (expense), net	-3.9%	-2.4%
Loss before income tax provision	-44.0%	-68.3%
Provision for income taxes	0.2%	0.6%
Net Loss	-44.2%	-68.9%

The following are explanations of significant period-to-period changes for the 13 weeks ended March 30, 2002 and March 31, 2001:

Revenues

Total Revenues, net. Total revenues, net increased by $416,000, or 4.7%, to $9.3 million for the 13 weeks ended March 30, 2002, from $8.9 million for the 13 weeks ended March 31, 2001. As of March 30, 2002, the Company recorded deferred revenue totaling $1.4 million. This revenue will be amortized into revenue in April 2002 in accordance with the Company's revised policy of recognizing revenue over the estimated 30-day period in which the whitening procedures are performed after shipment of key cards to Associated Centers.

Center Whitening Fees, net. Center whitening fees, net decreased slightly by $940,000, or 23.5%, to $3.1 million for the 13 weeks ended March 30, 2002, from $4.0 million for the 13 weeks ended March 31, 2001. $265,000 of this decrease was primarily due to the closure of three underperforming Centers that were open for a portion of the first quarter of 2001, and $675,000 of the decrease was in the existing 14 Centers. The number of procedures performed in the Centers decreased to 6,850 in the first quarter of 2002, compared to 9,154 in the same quarter of 2001.

Associated Center Whitening Fees, net. Associated Center whitening fees, net increased by $1.2 million, or 29.2%, to $5.2 million for the 13 weeks ended March 30, 2002, from $4.0 million for the 13 weeks ended March 31, 2001. This increase was primarily due to the operation of 4,217 Associated Centers at the end of the 13 weeks ended March 30, 2002 compared to 1,795 Associated Centers in operation at the end of the 13 weeks ended March 31, 2001. Of the 4,217 Associated Centers in operation at March 30, 2002, 842 were international locations. The number of procedures sold in the Associated Centers increased 49.2% to 32,025 procedures in the first quarter of 2002 compared to 21,460 procedures in the same quarter of 2001. During the 13 weeks ended March 30, 2002, the Company opened 258 new Associated Centers.

Although the Company does not believe that its business follows seasonal trends, it has recognized that at various times during the months of July and August and again during December and January, a substantial number of Associated Centers (both domestic and international) shut down their practices for vacation. As a result, the frequency of key card purchases by Associated Centers during these months declines as well.

The Company continues to execute its strategic plan of expanding distribution into the professional dental practice channel through its Associated Centers. The Company also anticipates opening additional Associated Centers in domestic and international locations over the next twelve months, resulting in increased Associated Center whitening fees. There can be no guarantee that the Company will be successful in executing its business plan.

Product Sales. Product sales increased by 20.4% to $1.1 million for the 13 weeks ended March 30, 2002, from $886,000 for the 13 weeks ended March 31, 2001. Product sales represent the Company's toothpaste, mouthwash, whitening gum, and the Sonicare toothbrush products sold at Centers and Associated Centers. Product sales are expected to increase during the next twelve months as a result of the introduction of additional oral care products to be sold at Centers, Associated Centers, and through the Company's E-Commerce website.

Operating Costs and Expenses

Operating and Occupancy Costs. Operating and occupancy costs as a percentage of revenues was 38.7% for the thirteen weeks ended March 30, 2002, compared to 35.9% in the thirteen weeks ended March 31, 2001. $104,000 of this increase was the result of higher lease financing costs due to the higher number of Associated Centers in operation. On a percentage basis, the 2.8% increase is a result of the product mix and promotions.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased significantly as a percentage of sales to 84.3% for the first quarter of 2002 compared to 110.3% in the corresponding period in 2001. The $2.0 million decrease was in line with the expense restructuring instituted in late fiscal 2001 as discussed in further detail in the Liquidity and Capital Resources section. The Company expects that savings as a result of the new infrastructure will continue to be achieved throughout Fiscal 2002.

Research and Development Expenses. Research and development expenses decreased as a percentage of sales to 1.2% for the first of 2002 compared to 6.1% in the corresponding period in 2001. The $111,000 expense incurred in the first quarter of 2002 was primarily related to research studies to expand the Company's leadership position in the teeth-whitening industry.

Depreciation and Amortization. Depreciation and amortization decreased as a percentage of sales to 15.9% for the first quarter of 2002 compared to 13.6% in the corresponding period in 2001. The increase of $269,000 in depreciation and amortization expense to $1.5 million for the first quarter of 2002 is the result of a greater number of BS3000 and BS3000PB devices in operation as a result of the increase in the number of active Associated Centers.

Interest Expense,net. Interest expense, net increased to $367,000 for the first quarter of 2002 compared to interest expense, net of $215,000 in the corresponding quarter of 2001. Interest expense increased primarily as a result of recognizing $158,000 in non-cash interest expense for 80,000 warrants (see Additional Working Capital Guarantees in the Liquidity and Capital Resources section).

Net Loss. The net loss decreased $2.0 million to $4.1 million for the first quarter of 2002 compared to a net loss of $6.1 million in the corresponding quarter of 2001. This represents a 32.7% improvement due to a combination of the factors described above. Net loss per share for the first quarter of 2002 was ($0.11) versus ($0.21) reported for the first quarter of 2001.

Liquidity and Capital Resources

The Company's principal sources of liquidity have been issuances of convertible debt, common stock and common stock equivalents. At March 30, 2002, the Company had $2.7 million of cash and cash equivalents. The Company expects to sign contracts for additional Associated Centers during the next twelve months. This expansion is contingent upon several factors, including available cash resources and acceptance by consumers and Associated Center dentists of the Company's LATW services. The Company expects that its principal uses of cash will be to provide working capital, to finance capital expenditures, and to satisfy other general corporate expenses. In particular, the Company plans to use its cash to finance its marketing strategy.

During the first quarter of 2002, the Company obtained a $2.5 million line of credit from CAP Advisers, and $4 million in shortfall guarantees. See "CAP Advisers Line of Credit," and "Additional Working Capital Guarantees" below. The Company also amended its EVL Lease Agreement to defer payment of monthly rental on LATW devices to year 2003. See "EVL Lease Line Amendment" below.

Post September 11 Expense Reductions. During the weeks following the September 11, 2001 terrorist attacks, the Company saw an immediate drop in revenue. The New York area Associated Centers, and the Company's own Center in New York, were the hardest hit. The Company assessed the operating variables that could be controlled and immediately responded to the decline in sales. Management has and is implementing several cost saving initiatives totaling approximately $14 million over the next twelve months. Through the first three months of Fiscal 2002, the Company has hit its cost targets and expects to do the same throughout Fiscal 2002 to achieve the $14 million cost reduction goal. The Company expects to achieve these cost savings in the areas of Center operations, procedure kit production, various selling, general and administrative costs including legal and consulting fees, and leveraging its marketing spend more effectively by utilizing smaller media specific agencies, thereby reducing agency fees. As a result, management expects selling, general and administrative expenses to be leveraged more efficiently as sales from Centers and Associated Centers increase in the future. Depending upon the operating results, the Company may increase its advertising spend.

CAP Advisers Line of Credit. In December 2001, as amended in March 2002, BriteSmile International, a wholly-owned subsidiary of the Company, entered into Credit and Security Agreements with CAP Advisers which provide for a $2.5 million line of credit facility to the Company and its subsidiary.

EVL Lease Amendment. The Company pays EVL a monthly rental for each LATW device leased, consisting of a fixed amount, plus a "variable rent" payment in the amount of $125 for each key card or access code sold to an Associated Center where EVL is the lessor of the LATW device. Each key card or access code enables Associated Center dentists to perform 5 teeth whitening procedures (i.e. variable rent of $25 per procedure).

On March 8, 2002, the Company and EVL amended their lease agreement to provide that the variable rent portion of the monthly rental payments during 2002, in the amount of $25 for each BriteSmile procedure, will be deferred and paid to EVL in twelve equal monthly installments beginning January 9, 2003, with interest payable on the deferred amount at a rate equal to LIBOR, as quoted by The Bank of Nova Scotia for the applicable adjustment dates for deposits in U.S. Dollars for one month maturities, plus 200 basis points.

Additional Working Capital Guarantees. In March 2002 the Company received Commitment Letters from the Guarantors to severally purchase, on or before December 31, 2002, up to $4 million of additional shares of common stock of the Company (or to otherwise secure, collateralize, or make available such funds to the Company). The aggregate purchase amount committed by the Guarantors equals the difference between $4 million, and the "Excess Cash Receipts" to be realized by the Company in 2002. "Excess Cash Receipts," for this purpose, is defined to mean cash received by the Company through sales of the Company's debt or equity securities, additional borrowings, or cash receipts in excess of current projections. In consideration for the Guarantors' Commitment Letters, the Company issued to the Guarantors five-year warrants to purchase an aggregate of 80,000 shares of common stock of the Company at an exercise price of $5.00 per share. See Item 5, "Other Information," below.

There can be no assurance that additional capital will not be required, or that it will be available on terms that are acceptable to the Company. Additionally, there can be no assurance that the Company's business will generate cash flows at or above current levels. Accordingly, the Company may choose to defer capital expenditure plans or further reduce operating expenditures.

Cash flow used in operations improved by $1.2 million to $(4.3 million) for the first quarter of 2002 from $(5.5 million) used in operating activities during the first quarter of 2001, primarily due to the decrease in the net loss recognized and the net effect of timing differences in the collection and disbursement of working capital components.

Net cash provided by financing activities was $462,000 for the first quarter of 2002, compared to $3.2 million for the same period in 2001. The $462,000 net cash consisted of: 1) $399,000 of proceeds from the exercise of stock options, 2) $118,000 cash from proceeds from the Company's international line of credit to fund the rollout of devices, and 3) $55,000 principal payment on long-term debt.

Capital expenditures were $673,000 for the first quarter of 2002, compared to $1.1 million for the same period in 2001. The capital expenditures in the first quarter of 2002 were primarily related to the purchase of BS3000PB systems for new domestic and international Associated Centers.

Inflation

Most of the Company's products are purchased in finished form and packaged by the supplier or at the Company's headquarters. The Company anticipates usual inflationary increases in the price of its products and does not intend to pass these increases along to its customers, primarily as a result of other operating efficiencies gained through changing the sourcing of certain of its products. In general, the Company does not believe that inflation has had a material effect on its results of operations in recent years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

Seasonality

Although the Company does not believe that its business follows seasonal trends, it has recognized that at various times during the months of July and August and again during December and January, a substantial number of Associated Centers (both domestic and international) shut down for vacation. As a result, the frequency of key card purchases by Associated Centers during these months declines as well. Additionally, the Company's Centers have recognized some seasonality during the same months because of customer vacations.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 23, 2002, Smile Inc. Asia Pte. Ltd. ("Smile") sued the Company and BriteSmile Management, Inc., a wholly owned subsidiary of the Company, in the Third Judicial District Court in Salt Lake City, Utah. The Complaint alleges that BriteSmile Management breached its 1998 distributor agreement with Smile by failing to fill orders placed and to perform other obligations under the agreement. The Complaint also alleges that BriteSmile Management and the Company fraudulently induced Smile to enter into the distributor agreement, and includes claims for damages based on alleged unjust enrichment, civil conspiracy, breach of the duty of good faith and fair dealing, interference with contractual and economic relations, and fraudulent transfer.

The Company believes that the claims asserted by Smile are entirely without merit. The Company intends to vigorously defend the lawsuit. The Company has not yet filed its answer to the complaint, nor commenced discovery with regard to

Smile's claims.

ITEM 2. CHANGES IN SECURITIES.

Option Grants. During the period December 30, 2001 to March 30, 2002, the Company granted to key employees under its 1997 Stock Option and Incentive Plan non-qualified options to purchase an aggregate of 618,184 shares of the Company's common stock, at exercise prices ranging from $4.13 to $9.69 per share. The options vest over a period of time following their respective dates of grant. The Company claimed exemption from registration under the Securities Act of 1933 for these grants in that the Company believes such grants were not "sales" within the meaning of the Act.

ITEM 5. OTHER INFORMATION.

2002 Shortfall Guarantees. In March 2002 the Company received Commitment Letters from the Guarantors to severally purchase, on or before December 31, 2002, up to $4 million of additional shares of common stock of the Company (or to otherwise secure, collateralize, or make available such funds to the Company). The aggregate purchase amount committed by the Guarantors equals the difference between $4 million, and the "Excess Cash Receipts" to be realized by the Company in 2002. "Excess Cash Receipts," for this purpose, is defined to mean cash received by the Company through sales of the Company's debt or equity securities, additional borrowings, or cash receipts in excess of current projections. As restated effective March 4, 2002, the Guaranty of Fiscal 2002 Shortfall Summary of Terms (the "Summary") provides that in consideration for the Guarantors' Commitment Letters, the Company has agreed to issue to the Guarantors five-year warrants to purchase an aggregate of 80,000 shares of common stock of the Company at an exercise price of $5.00 per share. A copy of the Summary is attached as an Exhibit. Originally, the Summary had provided that the 80,000 warrants to be granted to the Guarantors would have an exercise price of $4.75 per share, and that if called upon to purchase additional shares, the Guarantors would have a specified per-share purchase price. In its restated form, the Summary grants warrants at an exercise price of $5.00 per share, and does not specify a per-share purchase price if the Guarantors are called upon to provide any of the additional $4 million in guaranteed funds. Accordingly, the issuance of the warrants to the Guarantors does not result in any adjustment to the conversion price of certain Convertible Promissory Notes issued by the Company in August 2000, nor to the exercise price of certain warrants previously granted to the purchasers of the Convertible Promissory Notes in the same transaction.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(A) EXHIBITS

10(a) Form of Restated Guaranty of Fiscal 2002 Shortfall Summary of Terms, dated effective March 4, 2002, in connection with commitments from certain shareholders and/or directors of the Company to secure up to $4 million of additional working capital (filed herewith).

(B) REPORTS ON FORM 8-K

No Reports on Form 8-K were filed during the period for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRITESMILE, INC.

/s/ John L. Reed	May 10, 2002
John L. Reed Chief Executive Officer	Date
/s/ Peter P. Hausback	May 10, 2002
Peter P. Hausback Chief Financial Officer	Date