

BSML INC
Form 10-Q
August 20, 2008
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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: June 28, 2008

.. **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

BSML, INC.

(Exact name of registrant as specified in its charter)

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UTAH
(State or other jurisdiction of
incorporation or organization)

87-0410364
(IRS employer
identification no.)

301 Yamato Road

Boca Raton, Florida
(Address of principal executive offices)

33431
(Zip Code)

(561) 988-9046

(Issuer's telephone number, including area code)

Former name:

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if 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

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

BSML, Inc. had 11,203,713 shares of common stock outstanding at June 28, 2008.

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BSML, INC. AND SUBSIDIARIES

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Table of Contents**ITEM 1. FINANCIAL STATEMENTS****BSML, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(\$ in thousands, except share data)

	June 28, 2008 (Unaudited)	December 29, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 243	\$ 3,512
Trade accounts receivable, net	391	241
Inventories	915	753
Investments, restricted as to use		2,288
Prepaid expenses and other current assets	245	370
Total current assets	1,794	7,164
Property and equipment, net	2,526	3,036
Investments, restricted as to use	575	290
Deposits	859	899
Other assets	9	19
Total assets	\$ 5,763	\$ 11,408
LIABILITIES AND SHAREHOLDERS (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 2,101	\$ 1,555
Accrued liabilities	2,973	4,970
Accrual for Center closures	123	129
Prepaid and gift certificate liability	600	1,721
Deferred revenue	1,715	2,746
Total current liabilities	7,512	11,121
Long term liabilities:		
Accrual for Center closures	202	202
Deferred revenue		585
Other long term liabilities	453	632
Total long term liabilities	655	1,419
Total liabilities	8,167	12,540
Shareholders (deficit):		
Common stock, \$0.001 par value, 50,000,000 shares authorized and <u>11,203,713</u> shares issued and outstanding at June 28, 2008 and December 29, 2007, respectively	39	39
Preferred stock, no par value, 5,000,000 shares authorized, none outstanding at June 28, 2008 and December 29, 2007		
Additional paid-in capital	175,452	175,452

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Accumulated deficit	(177,895)	(176,623)
Total shareholders (deficit)	(2,404)	(1,132)
Total liabilities and shareholders (deficit)	\$ 5,763	\$ 11,408

See notes to condensed consolidated financial statements.

Table of Contents**BSML, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)****(\$ in thousands, except share data)**

	13 Weeks Ended June 28, 2008	13 Weeks Ended June 30, 2007	26 Weeks Ended June 28, 2008	26 Weeks Ended June 30, 2007
Revenues	\$ 4,343	\$ 6,778	\$ 9,754	\$ 13,939
Operating costs and expenses:				
Operating and occupancy costs	3,179	3,585	7,209	7,229
Selling, general and administrative expenses	1,427	3,693	3,071	7,359
Depreciation and amortization	427	361	771	723
Total operating costs and expenses	5,033	7,639	11,051	15,311
Loss from operations	(690)	(861)	(1,297)	(1,372)
Other income/(expense), net	(5)	176	25	317
(Loss) from continuing operations before income tax provision	(695)	(685)	(1,272)	(1,055)
Income tax provision		19		37
(Loss) attributable to common shareholders	\$ (695)	\$ (704)	\$ (1,272)	\$ (1,092)
Basic (loss) per common share	\$ (.06)	\$ (.07)	(.11)	(.10)
Diluted (loss) per common share	\$ (.06)	\$ (.07)	(.11)	(.10)
Shares used in computing (loss) per common share, basic	11,204	10,744	11,204	10,731
Shares used in computing (loss) per common share, diluted	11,204	10,744	11,204	10,731

See notes to condensed consolidated financial statements.

Table of Contents**BSML, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****Unaudited**

(\$ in thousands, except share data)

	26 Weeks Ended June 28, 2008	26 Weeks Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,272)	\$ (1,092)
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation and amortization	771	723
Stock compensation expense	22	283
Changes in assets and liabilities:		
Trade accounts receivable	(150)	(140)
Inventories	(162)	230
Prepaid expenses and other	126	(23)
Other assets and Deposits	50	28
Accounts payable	547	(865)
Accrued liabilities	(2,019)	(471)
Gift certificate and prepaid appointment deferred revenue	(1,121)	(523)
Store closure accrual	(6)	(12)
Deferred revenue	(1,616)	(65)
Other long term liabilities	(179)	(110)
Net cash used by operating activities	(5,009)	(2,037)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(261)	(106)
Investments, restricted as to use	2,001	10
Net cash provided by (used in) investing activities	1,740	(96)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,269)	(2,133)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	3,512	4,734
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 243	\$ 2,601
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$	\$
Cash paid for income taxes	\$	\$ 308

See notes to condensed consolidated financial statements.

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BSML, INC. AND SUBSIDIARIES

SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business and Basis of Presentation

The accompanying financial statements for the interim periods are unaudited and include the accounts of BSML and its subsidiaries, which are collectively referred to as we, us, our, BSML, or the Company. The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial reporting pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). While these statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by US generally accepted accounting principles for complete financial statements. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2007 (fiscal 2007). All significant intercompany transactions have been eliminated. BSML, Inc. is a Utah corporation formerly known as BriteSmile, Inc. The Company and its affiliates develop, distribute, market and sell advanced teeth whitening technology, products, systems and services. 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).

Going Concern

To date, the Company has yet to achieve profitability. The Company had an accumulated deficit of \$177,895,000 and working capital deficiency of \$5,718,000 as of June 28, 2008. The Company's net loss and net cash used by operating activities were \$1,272,000 and \$5,009,000, respectively, for the twenty-six weeks ended June 28, 2008. At June 28, 2008, the Company had \$243,000 in unrestricted cash and cash equivalents. The Company's principal sources of liquidity historically have been proceeds from issuance of common stock and debt and related financial instruments, and more recently, from the sale of its Associated Centers business. The Company is not certain if its cash will be sufficient to maintain operations of the continuing company at least through the next year due to the uncertainty of the Company's ability to generate positive cash flow from the Centers business operations.

The financial statements reflect a going concern basis of accounting. The Company cannot currently provide assurance that it can become profitable. If it cannot become profitable, and without additional financing, which may be impossible to secure, the Company may not have sufficient liquidity to support its operating requirements through 2008. Accordingly, BSML management believes that these factors raise substantial doubt as to whether the going concern basis of accounting reflected in these financial statements continues to be appropriate. Our liquidity projections may improve or deteriorate depending on these changing conditions. The accompanying financial statements do not include any adjustments that may be necessary if the Company unable to continue as a going concern.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 157 which did not have an impact on our consolidated financial statements.

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In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS 141(R), a replacement of SFAS No. 141, *Business Combinations*. The provisions of SFAS 141(R) establish principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest acquired and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of a business combination, and applies to business combinations for which the acquisition date is on or after December 15, 2008, and may not be early adopted. The effect of SFAS 141(R) on the Company will be dependent upon any business combination activity in the future.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of SFAS No. 161 will not affect our financial condition and results of operations, but may require additional disclosures if we enter into derivative and hedging activities.

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's consolidated financial statements upon adoption.

2. Stock Based Compensation

Effective January 1, 2006, we adopted FAS 123(R), which requires that compensation cost relating to share-based payment transactions be recognized in our financial statements. We have adopted FAS 123(R) on a modified prospective basis, which requires that compensation cost relating to all new awards and to awards modified, repurchased, forfeited/cancelled be recognized in our financial statements beginning January 1, 2006. Additionally, compensation cost for the portion of awards for which the requisite vesting period has not been completed that are outstanding as of January 1, 2006 will be recognized as the requisite vesting is rendered on or after January 1, 2006. The pro forma disclosures previously permitted under SFAS No. 123, *Accounting for Stock-Based Compensation*, are no longer an alternative to financial statement recognition.

In January 1997, the Company adopted the 1997 Stock Option and Incentive Plan (the 1997 Plan). Under the terms of the 1997 Plan, as amended to date, and as approved by the Company's shareholders, 1,900,000 of the Company's common stock shares are available for issuance. Options may be granted at exercise prices of no less than the fair market value on the date of the grant, as determined by the Board of Directors and quoted market prices. Options generally vest over a two to five-year period and have a maximum term of ten years. No further options can be issued as the 1997 Plan expired in January 2007.

For the 13-week and the 26-week periods ended June 28, 2008, and June 30, 2007, the Company recognized stock-compensation costs of approximately \$21,866 and \$283,000, respectively. Of the \$283,000 recognized in the 26-week period ended June 30, 2007, approximately \$140,000 had been previously accrued as an expense related to an expected legal settlement; this amount was reclassified to stock-compensation expense in the first quarter of 2007 matching the period of final settlement and issuance of shares. The Company recognized no tax benefit related to these share-based arrangements as we have been in a loss position historically and have a full valuation allowance against our tax benefits.

Based on current assumptions, currently outstanding option grants and restricted common shares expected to vest and become unrestricted in the future, the remaining value as stock-compensation cost in the future is approximately \$11,600.

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The following table represents stock option activity for the 26 week period ended June 28, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Options outstanding at December 29, 2007	101,750	\$ 2.15	7.66	
Granted	261,000	0.40	10	\$
Exercised				
Cancelled	287,750			
Options outstanding at June 28, 2008	75,000	0.40	9.5 years	
Vested or expected to vest at June 28, 2008	25,000	0.40	9.5 years	
Exercisable at June 28, 2008	25,000		3.0 years	\$

The Company made stock-based compensation awards to employees and directors in 2008, which accounts for the Company's stock-based compensation expense for 2008. The Company's stock-based compensation expense for the twenty-six (26) weeks ended June 30, 2008 is entirely due to employee stock and stock-based awards made prior to the beginning of the Company's fiscal 2007 year, 40,000 options awarded to directors and to an immediately vested stock award made to a non-employee. For options granted in the twenty-six (26) week periods ended June 28, 2008, and June 30, 2007, respectively, the Company used the Black-Scholes option pricing model to estimate the fair value of employee stock-based awards with the following assumptions:

	26 Weeks Ended June 28, 2008	26 Weeks Ended June 31, 2007
Risk-		