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BRITESMILE INC  
Form 10-Q  
May 15, 2003

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 29, 2003

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 registrant 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.

Yes X No \_\_\_\_\_  
-

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12B-2)

Yes \_\_\_\_\_ No X  
-

The Company had 2,429,940 shares of common stock outstanding at May 13, 2003.

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BRITESMILE, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

March 29, 2003

CURRENT ASSETS:

Cash and cash equivalents.....	\$ 1,271
Trade accounts receivable, net of allowance for doubtful accounts of \$531 and \$506, respectively.....	1,491
Inventories.....	2,145
Prepaid expenses and other.....	287
	-----
Total current assets.....	5,194
	-----
PROPERTY AND EQUIPMENT, net.....	19,418
OTHER ASSETS.....	
	2,229
	-----
TOTAL ASSETS.....	\$ 26,841
	=====

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See notes to condensed consolidated financial statements

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BRITESMILE, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

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

March 29, 2003

CURRENT LIABILITIES:

Accounts payable.....	\$	4,856
Accrued expenses .....		2,750
Deferred revenue .....		968
Note payable to related party.....		500
Accrual for store closure.....		201
Subordinated convertible debenture, net of discount.....		755
Capital lease obligations with related parties - current portion.....		701

Total current liabilities..... 10,731

Note payable to related party, less current portion.....		1,025
Line of credit borrowings.....		4,190
Capital lease obligations with related parties - less current portion.....		1,717
Accrual for store closure.....		988
Accrued variable rent payable to EVL.....		2,625
Convertible 2% debenture.....		3,500
Other long-term liabilities.....		766

Total long-term liabilities..... 14,811

Total liabilities..... 25,542

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### SHAREHOLDERS' EQUITY:

Common stock, \$.001 par value; 50,000,000 shares authorized; 2,428,464 shares issued and outstanding.....	36
Additional paid-in capital.....	139,420
Accumulated deficit.....	(138,157)
	-----
Total shareholders' equity .....	1,299
	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$ 26,841
	=====

See notes to condensed consolidated financial statements.

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

	13 Weeks Ended March 29, 2003
	-----
<b>REVENUES:</b>	
Center whitening fees, net.....	\$ 3,151
Associated Center whitening fees, net.....	4,906
Product sales.....	919
	-----
Total revenues, net.....	8,976
	-----
<b>OPERATING COSTS AND EXPENSES:</b>	
Operating and occupancy costs.....	3,494
Selling, general and administrative expenses.....	6,046
Research and development expenses.....	239
Depreciation and amortization.....	1,586

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Total operating costs and expenses.....	11,365
Loss from operations.....	(2,389)
OTHER INCOME (EXPENSE), net:	
Interest expense.....	(116)
Interest income.....	4
Total other expense, net.....	(112)
Loss before income tax provision.....	(2,501)
INCOME TAX PROVISION.....	1
Net loss .....	\$ (2,502)
BASIC AND DILUTED NET LOSS PER SHARE.....	\$ (1.03)
WEIGHTED AVERAGE SHARES - BASIC AND DILUTED.....	2,428,464

See notes to condensed consolidated financial statements.

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

13 Weeks En  
March 29, 2

CASH FLOWS FROM OPERATING ACTIVITIES:

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Net loss.....	\$	(2,500)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization.....		1,580
Store closure accrual.....		400
Cost for issuance of stock warrants and stock options.....		700
Change in assets and liabilities, net. ....		-----
Net cash used in operating activities.....		(790)
-----		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment.....		(710)
-----		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit borrowing .....		(160)
Payments on capital lease .....		(50)
Payments on EVL center loan .....		(520)
Payments on line of credit borrowing .....		(520)
Proceeds from exercise of stock options .....		-----
Net cash provided by financing activities.....		(750)
-----		
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,250)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD.....		3,520
-----		
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD.....	\$	1,270
=====		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest.....	\$	140
Cash paid for income taxes.....	\$	200

See notes to condensed consolidated financial statements.

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## BRITESMILE, INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) March 29, 2003

#### 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 29, 2003, the Company had 14 Centers and 4,682 Associated Centers in operation.

#### 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 of America 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 annual 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 29, 2003 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending December 27, 2003.

The Company uses the intrinsic value method to account for its stock based compensation plans. Had compensation cost for the Company's stock-based compensation plans been determined using fair value at the grant award dates using the Black-Scholes option pricing valuation model, the Company's reported net loss applicable to common shareholders and basic and diluted net loss per share would have been increased to the pro forma amounts indicated below (in thousands, except per share data):

	13 Weeks Ended March 29, 2003	13 Weeks Ended March 30, 2002
	-----	-----
Loss as reported.....	\$ 2,502	\$ 4,132
Compensation expense reported under APB25.....	\$ -	\$ -
Compensation expense computed using fair value method.....	\$ 910	\$ 242
	-----	-----
Pro forma loss.....	\$ 3,412	\$ 4,374
	=====	=====

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Pro forma basic and diluted		
loss per share.....	\$ (1.41)	\$ (1.80)
	=====	=====

BRITESMILE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
March 29, 2003

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 28, 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 totaling 464,175 shares and warrants totaling 138,132 shares (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. Impact of Recently Issued Accounting Standards and Accounting Bulletins

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses accounting for restructuring and similar costs. SFAS 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company adopted the provisions of SFAS 146 effective December 28, 2002 and adoption did not have an impact on the consolidated financial statements. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

5. Commitments and Contingencies

BriteSmile, Inc. v. Discus Dental, Inc. and Salim Nathoo, filed in the United States District Court for the Northern District of California. The Company filed an initial complaint against Discus Dental, Inc. ("Discus"), Culver City, California, on July 8, 2002, asserting claims of infringement of the Company's U.S. Patents No. 6,343,933 and U.S. Patent No. 6,361,320. On February 28, 2003, the Company amended its existing lawsuit against Discus by adding Salim Nathoo ("Nathoo") as a defendant. The complaint, as amended, further alleges misappropriation of the Company's trade secrets, civil conspiracy, and unfair competition and business practices by Discus and Nathoo; breach of contract and

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breach of fiduciary duty by Mr. Nathoo, and tortious interference with contract by Discus. The complaint alleges that Nathoo and Discus conspired to misappropriate BriteSmile's trade secrets in violation of Nathoo's contractual obligations to the Company. The amended lawsuit alleges that, as BriteSmile's Medical Director, Nathoo had and continues to have, an obligation to keep BriteSmile's trade secrets confidential. The lawsuit alleges that beginning in 2001, Discus Dental and Nathoo entered into an agreement whereby Discus Dental paid Nathoo at least \$2.5 million over a less than two year period for Nathoo's "consulting" services, which included paying Nathoo to share with Discus certain of the Company's trade secrets. The lawsuit alleges further that in, December 2002, a third party informed BriteSmile of Nathoo's activities, and that when confronted by BriteSmile, Nathoo admitted to receiving \$2.5 million from Discus. The Company seeks a permanent injunction against both Discus and Nathoo to prevent further infringement of its patents and improper disclosure of the Company's trade secrets, lost profits, treble damages and attorneys fees for willful patent infringement, punitive damages, and other relief.

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On March 25, 2003, Discus filed its Answer to the Amended Complaint and Counterclaims. In its Answer, Discus denies any liability for BriteSmile's claims. Discus also raises affirmative defenses, including claims that its products and processes do not infringe BriteSmile's patents, and that BriteSmile's patents are invalid and unenforceable. Discus asserts counterclaims against BriteSmile, seeking (i) judicial declarations that BriteSmile's patents are invalid, unenforceable, and have not been infringed, (ii) tortious interference with prospective economic advantage and economic business relations, and (iii) unfair competition. Discus asks for declarations that its products and processes do not violate BriteSmile's patents, that BriteSmile's patents are unenforceable, that BriteSmile has no protectable trade secrets, that BriteSmile's contracts with dentists which contain contractual restrictions on the purchase and use of competitive systems are unenforceable and should be enjoined, lost profits, treble damages and attorneys fees. The Company has commenced discovery concerning the claims and defenses asserted in the lawsuit.

Salim Nathoo v. BriteSmile Leasing. On March 6, 2003, Nathoo filed a lawsuit against BriteSmile Leasing, a subsidiary of the Company in the New Jersey state court. In this action, Nathoo alleges that the Company breached its agreement to pay Nathoo money, and that such failure should result in the reversion of certain patent rights, which were previously assigned by Nathoo to the Company, back to Nathoo. Nathoo also seeks the payment of profits derived from the patent rights. The Company has filed an answer to the complaint, together with counterclaims alleging the same causes of action as in the Company's California litigation against Nathoo. The Company has also removed Nathoo's New Jersey action to federal court, and has filed a motion to transfer it to California, and consolidate it with the California lawsuit.

Smile Inc. Asia Pte. Ltd. v. BriteSmile. 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

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transfer. The Company believes that the claims asserted by Smile are entirely without merit and will vigorously defend the lawsuit. The Company has commenced discovery with regard to Smile's claims.

BriteSmile v. Discus Dental, filed in Contra Costa County Superior Court, California. On May 31, 2002, the Company filed a complaint against Discus Dental, Inc. in Contra Costa County Superior Court, California, alleging causes of action for intentional interference with contractual relationship, negligent interference with contractual relationship, violation of Unfair Business Practice Act - Loss Leader, violation of Unfair Business Practice Act, trade libel and injunctive relief. The complaint alleges that Discus Dental and other defendants yet to be identified wrongfully interfered with the Company's contractual relationships with its Associated Center dentists, in part by writing letters with the purpose of inducing certain of the Company's Associated Dentists to terminate their contracts with the Company and switch to Discus' Zoom! system, and by making false and disparaging statements concerning the Company's teeth whitening system. The Complaint seeks damages for loss of business, punitive damages, injunctive relief, and costs of suit. On June 27, 2002, Discus filed a demurrer to the Company's complaint, challenging the legal sufficiency of the complaint. On June 30, 2002, the court ruled that the Company will be able to pursue its claims as alleged in the complaint except for the second cause of action alleging negligent interference with contractual relationship. This case was stayed on March 11, 2003 and will remain stayed until a status conference scheduled for September 2003.

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### 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

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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:

- o 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.
- o 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;
- o The loss of product market share to competitors and/or development of new or superior technologies by competitors;
- o Ongoing operating losses associated with the development, marketing and implementation of new, light-activated teeth whitening technologies;
- o Failure of the Company to secure additional financing to complete its aggressive plan for the rollout of a broad base of Associated Centers;
- o 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;
- o Failure to develop marketing strategies and delivery methods to penetrate non-U.S. markets; and
- o 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 of America. 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

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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. Revenue is subsequently recognized over the period that the whitening procedures, which can be performed via the key cards and access codes, are performed, currently estimated at 25 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 and Equipment

BriteSmile evaluates its property, equipment and improvements for impairment whenever indicators of impairment exist. No impairment charge was recorded during the first quarter of 2003 or 2002.

### Store Closures

BriteSmile recorded significant reserves in connection with store closures made in prior years. These reserves include estimates pertaining to employee separation costs and the settlements of contractual obligations, primarily

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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 28, 2002.

The following table sets forth unaudited operating results for the thirteen week period ended March 29, 2003 and March 30, 2002, as a percentage of sales in each of these periods. This data has been derived from the unaudited financial statements.

	Thirteen Weeks ended ----- March 29, 2003	Thirteen Weeks ended ----- March 30, 2002
<b>Income Statement Data:</b>		
<b>Revenues:</b>		
Center whitening fees, net	35.1%	32.8%
Associated Center whitening fees, net	54.9%	55.8%
Product sales	10.0%	11.4%
	-----	-----
Total revenues, net	100.0%	100.0%
	-----	-----
<b>Operating Costs and Expenses:</b>		
Operating and occupancy costs	38.9%	38.7%

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Selling, general and administrative expenses	67.4%	84.3%
Research and development expenses	2.7%	1.2%
Depreciation and amortization	17.7%	15.9%
	-----	-----
Total operating costs and expenses	126.6%	140.1%
	-----	-----
Loss from operations	-26.6%	-40.1%
	-----	-----

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Interest expense, net	-1.2%	-3.9%
	-----	-----
Loss before income tax provision	-27.9%	-44.0%
Provision for income taxes	0.0%	0.2%
	-----	-----
Net Loss	-27.9%	-44.2%
	=====	=====

The following are explanations of significant period-to-period changes for the 13 weeks ended March 29, 2003 and March 30, 2002:

### Revenues

Total Revenues, net. Total revenues, net decreased by \$357,000, or 3.8%, to \$9.0 million for the 13 weeks ended March 29, 2003, from \$9.3 million for the 13 weeks ended March 30, 2002.

Center Whitening Fees, net. Center whitening fees increased by \$100,000 or 2.8% to \$3.2 million for the 13 weeks ended March 29, 2003 from the 13 weeks ended March 30, 2002. The number of procedures performed in the Centers decreased 1.5% to 6,747 in the first quarter of 2003, compared to 6,850 in the same quarter of 2002. The increase in revenue can be attributed to a decrease in discounting at the Centers as well as an increase in the base price of the procedure from \$550 to \$600.

Associated Center Whitening Fees, net. Associated Center whitening fees, net decreased by \$290,000, or 5.6%, to \$4.9 million for the 13 weeks ended March 29, 2003, from \$5.2 million for the 13 weeks ended March 30, 2002. The decrease was primarily due to the reduction in procedures during the first quarter of 2003. The number of procedures in the Associated Centers decreased 11.8% to 28,240 procedures in the first quarter of 2003 compared to 32,025 procedures in the same quarter of 2002.

Product Sales. Product sales decreased by 15.7% to \$899,000 for the 13 weeks ended March 29, 2003, from \$1.1 million for the 13 weeks ended March 30, 2002. Product sales represent the Company's toothpaste, mouthwash, whitening gum, and the Sonicare toothbrush products sold at Centers and Associated Centers.

### Operating Costs and Expenses

Operating and Occupancy Costs. Operating and occupancy costs as a percentage of revenues was 38.9% for the thirteen weeks ended March 29, 2003, compared to

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38.7% in the thirteen weeks ended March 30, 2002. The \$125,000 decrease was the result of lower Center operating expenses during the first quarter of 2003 compared to the same period in 2002. On a percentage basis, the 1.0% increase is a result of lower revenue.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses decreased significantly as a percentage of sales to 67.4% for the first quarter of 2003 compared to 84.3% in the corresponding period in 2002. The \$1.8 million decrease was in line with the expense restructuring instituted in late fiscal 2001. The Company expects that savings as a result of the new infrastructure will continue to be achieved throughout Fiscal 2003.

**Research and Development Expenses.** Research and development expenses increased as a percentage of sales to 2.7% for the first of 2003 compared to 1.2% in the corresponding period in 2002. The \$239,000 expense incurred in the first quarter of 2003 was primarily related to the development of new products to expand the Company's leadership position in the teeth-whitening industry.

**Depreciation and Amortization.** Depreciation and amortization increased as a percentage of sales to 17.7% for the first quarter of 2003 compared to 15.9% in the corresponding period in 2002. The increase of \$103,000 in depreciation and

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amortization expense to \$1.6 million for the first quarter of 2003 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 decreased to \$112,000 for the first quarter of 2003 compared to interest expense, net of \$367,000 in the corresponding quarter of 2002. Interest expense decreased primarily as a result of recognizing \$158,000 in non-cash interest expense for warrants issued to a lender during the first quarter of 2002.

### Liquidity and Capital Resources

To date, the Company has yet to achieve profitability. The Company does not expect to be profitable in 2003. The Company has implemented initiatives to increase sales and decrease expenses to assure its viability for the next 12 months. The Company also has developed a contingency plan in anticipation of prolonged negative business impact resulting from the stagnant economy.

To date, the Company's principal sources of liquidity have been proceeds from issuance of common stock and debt. At March 29, 2003, the Company had \$1.3 million in cash and borrowing capacity under lines of credit totaling \$2.3 million.

The Company obtained the following additional borrowing availability:

- o \$500,000 convertible notes received in the second quarter of 2003.
- o \$1.5 million increase, effective January 2003, in the Credit Agreements with CAP Advisers. The increase is specifically for international capital expenditures.
- o \$2.5 million Center Loan with CAP America Trust. This credit facility is for general working capital needs (\$800,000) and capital expenditures and specific revenue generating initiatives (\$1.7

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million).

The Company believes that cash on hand along with available borrowing capacity discussed above will be sufficient to sustain operations for the next twelve months.

Cash flows used in operations improved by \$3.5 million to \$(790,000) for the first quarter of 2003 from \$(4.3 million) during the first quarter of 2002, primarily due to the decrease in the net loss and changes in working capital.

Net cash used in financing activities was \$(751,000) for the first quarter of 2003, compared to cash provided by financing activities of \$462,000 for the same period in 2002. During the first quarter of 2003, the Company repaid debt, where as during the first quarter of 2002, the Company received proceeds from the exercise of stock options of approximately \$400,000. Capital expenditures were \$715,000 for the first quarter of 2003, compared to \$673,000 for the same period in 2002. The capital expenditures in the first quarter of 2003 were primarily related to the purchase of BS3000PB systems for new international Associated Centers.

### Inflation

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.

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### ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We believe there has been no material change in our exposure to Market Risk from that discussed in our 2002 Annual Report on Form 10-K

### ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation, as of a date within 90 days of the filing date of this Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

BriteSmile, Inc. v. Discus Dental, Inc. and Salim Nathoo, filed in the United States District Court (the "Discuss Patent Litigation") for the Northern District of California. The Company filed an initial complaint against Discus Dental, Inc. ("Discus"), Culver City, California, on July 8, 2002, asserting claims of infringement of the Company's U.S. Patents No. 6,343,933, and U.S. Patent No. 6,361,320. On February 28, 2003, the Company amended the Discus Patent Litigation by adding Salim Nathoo ("Nathoo") as a defendant. The complaint, as amended, further alleges misappropriation of the Company's trade secrets, civil conspiracy, and unfair competition and business practices by Discus and Nathoo; breach of contract and breach of fiduciary duty by Mr. Nathoo, and tortious interference with contract by Discus. The complaint alleges that Nathoo and Discus conspired to misappropriate BriteSmile's trade secrets in violation of Nathoo's contractual obligations to the Company. The amended lawsuit alleges that, as BriteSmile's Medical Director, Nathoo had and continues to have, an obligation to keep BriteSmile's trade secrets confidential. The lawsuit alleges that beginning in 2001, Discus Dental and Nathoo entered into an agreement whereby Discus Dental paid Nathoo at least \$2.5 million over a less than two year period for Nathoo's "consulting" services, which included paying Nathoo to share with Discus certain of the Company's trade secrets. The lawsuit alleges further that in, December 2002, a third party informed BriteSmile of Nathoo's activities, and that when confronted by BriteSmile, Nathoo admitted to receiving \$2.5 million from Discus. The Company seeks a permanent injunction against both Discus and Nathoo to prevent further infringement of its patents and improper disclosure of the Company's trade secrets, lost profits, treble damages and attorneys fees for willful patent infringement, punitive damages, and other relief.

On March 25, 2003, Discus filed its Answer to the Amended Complaint and Counterclaims. In its Answer, Discus denies any liability for BriteSmile's claims. Discus also raises affirmative defenses, including claims that its products and processes do not infringe BriteSmile's patents, and that BriteSmile's patents are invalid and unenforceable. Discus asserts counterclaims against BriteSmile, seeking (i) judicial declarations that BriteSmile's patents are invalid, unenforceable, and have not been infringed, (ii) tortious interference with prospective economic advantage and economic business relations, and (iii) unfair competition. Discus also asks for declarations that its products and processes do not violate BriteSmile's patents, that BriteSmile's patents are unenforceable, that BriteSmile has no protectable trade secrets, that BriteSmile's contracts with dentists which contain contractual restrictions on the purchase and use of competitive systems are unenforceable and should be enjoined, lost profits, treble damages and attorneys fees. The Company has commenced discovery concerning the claims and defenses asserted in the Discus Patent Litigation.

Salim Nathoo v. BriteSmile Leasing. On March 6, 2003, Nathoo filed a lawsuit against BriteSmile Leasing, a subsidiary of the Company in the New Jersey state court. In this action, Nathoo alleges that the Company breached its agreement to pay Nathoo money, and that such failure should result in the reversion of certain patent rights, which were previously assigned by Nathoo to the Company, back to Nathoo. Nathoo also seeks the payment of profits derived from the patent rights. The Company has filed an answer to the complaint, together with counterclaims alleging the same causes of action as in the Company's California litigation against Nathoo. The Company has also removed Nathoo's New Jersey

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action to federal court, and has filed a motion to transfer it to California, and consolidate it with the California lawsuit.

Smile Inc. Asia Pte. Ltd. v. BriteSmile. 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 and will vigorously defend the lawsuit. The Company has commenced discovery with regard to Smile's claims.

BriteSmile v. Discus Dental, filed in Contra Costa County Superior Court, California. On May 31, 2002, the Company filed a complaint against Discus Dental, Inc. in Contra Costa County Superior Court, California, alleging causes of action for intentional interference with contractual relationship, negligent interference with contractual relationship,

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violation of Unfair Business Practice Act - Loss Leader, violation of Unfair Business Practice Act, trade libel and injunctive relief. The complaint alleges that Discus Dental and other defendants yet to be identified wrongfully interfered with the Company's contractual relationships with its Associated Center dentists, in part by writing letters with the purpose of inducing certain of the Company's Associated Dentists to terminate their contracts with the Company and switch to Discus' Zoom! system, and by making false and disparaging statements concerning the Company's teeth whitening system. The Complaint seeks damages for loss of business, punitive damages, injunctive relief, and costs of suit. On June 27, 2002, Discus filed a demurrer to the Company's complaint, challenging the legal sufficiency of the complaint. On June 30, 2002, the court ruled that the Company will be able to pursue its claims as alleged in the complaint except for the second cause of action alleging negligent interference with contractual relationship. This case was stayed on March 11, 2003 and will remain stayed until a status conference scheduled for September 2003.

### ITEM 2. CHANGES IN SECURITIES.

On December 24, 2002, the Company asked shareholders of approximately 62% of the common stock of the Company to sign written consents to effect a reverse stock split for the Company's common stock, which they did. The result was that fifteen shares of common stock before the effective date of the reverse split would become one share after the effective date. Because more than a majority of the shareholders approved this transaction, a vote of all of the shareholders was not necessary under Utah law. Pursuant to the consents signed by certain shareholders, the split became effective January 27, 2003. The Company paid the costs of soliciting certain shareholders for their consent and for printing and mailing information statements associated therewith.

In September 2002, the Company completed a voluntary stock option exchange offer for its eligible employees. Participating employees had the opportunity to cancel previously granted options in exchange for an equal number of new options granted on March 24, 2003, that date which was six months and one day following the date on which the Company canceled the old options. As a result of this

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program, 150,021 options were canceled. Effective March 24, 2003, the Company granted to the employee participants in the exchange program new options under the Company's 1997 Stock Option and Incentive Plan for 150,134 aggregate shares, at an exercise price of \$10.77 per share, the fair market value of the Company's common stock on that date.

In addition to the option grants on March 24, 2003 described above, during the period December 29, 2002 to March 29, 2003, the Company granted to key employees under its 1997 Plan non-qualified options to purchase an aggregate of 968 shares of the Company's common stock, at exercise prices ranging from \$5.53 to \$8.00 per share. The options vest over a period of time following their respective dates of grant.

For all option grants, the Company claimed exemption from registration under the Securities Act of 1933 in that the Company believes such grants were not "sales" within the meaning of the Act. Shares issuable upon exercise of the options have been or will be registered with the SEC pursuant to Registration Statements on Form S-8.

### ITEM 3. DEFAULT UPON SENIOR SECURITIES.

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

### ITEM 5. OTHER INFORMATION.

#### CAP America Trust Center Loan

On May 7, 2003, the Company and CAP America Trust entered into a Loan Agreement for \$2.5 million to be used for capital expenditures and other specific revenue generating initiatives to be agreed and defined by BriteSmile and CAP America. The Company may make drawings on account of the loan from time to time during the draw down period beginning on May 7, 2003 and ending on May 10, 2006. Up to

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\$1,700,000 of loan proceeds may be used for the specific revenue generating initiatives, and up to \$800,000 for general working capital. Interest is fixed at 6%, payable monthly, with CAP America having the right to reset the interest rate to 200bps over the 1 year London Interbank Offered Rate ("libor") after giving the Company 30 days notice. A variable fee payment based on the number of teeth whitening procedure performed at the Centers will commence on May 11, 2006, and continue until May 10, 2011. Variable fees will be payable 40 days after the end of the month in which the procedures are performed, except for fees due for April/May 2011, which will become payable on the maturity date. To date, no loan proceeds have been drawn by the Company under this loan.

LCO Investments Limited ("LCO") is the Company's major shareholder. LCO is a wholly owned subsidiary of the ERSE Trust. CAP Advisers Limited is a co-trustee of the ERSE Trust. Mr. Anthony Pilaro, a director and co-CEO of the Company, is also Chairman of CAP Advisers Limited. CAP America Limited is a co-trustee of CAP America Trust, the lender under the Center Loan described above. CAP America Limited is owned and controlled by LCO.

Acquisition Of Certain Human Oral Care Intellectual Property

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On May 9, 2003, the Company and its wholly-owned subsidiary, BriteSmile Development, Inc. ("BDI"), entered into a binding memorandum of understanding (the "MOU") with R. Eric Montgomery ("Montgomery") and certain entities owned and controlled by him (collectively, the "REM Group"). Pursuant to the MOU, BDI agreed to acquire certain United States and foreign patents, patent applications, continuations, continuations-in-part, trade secrets, technologies, know-how, trademarks and trade names relating to human oral care ("HOC") for a purchase price equal to \$6,000,000 plus a 50% participation interest in royalties and infringement recoveries relating to the HOC intellectual property to be acquired from the REM Group. In addition, the REM Group agreed to convey certain other United States and foreign patents, patent application, continuations, continuations-in-part, inventions, trade secrets, technologies, know-how, trademarks and trade names which are implicated by certain agreements between the Company, the REM Group and a third party to a new entity to be owned and controlled by REM.

BDI agreed to pay the \$6.0 million portion of the purchase price to the REM Group as follows:

- (i) \$750,000 upon signing of the MOU and delivery to BDI of a license from the REM Group to certain patents for a static mixer device used in teeth whitening. The REM Group signed the MOU and delivered the license for the static mixer device and BDI paid the REM Group \$750,000 on May 9, 2003;
- (ii) \$1,000,000 upon closing of the definitive agreements for the transition;
- (iii) \$1,000,000 when certain contingencies are satisfied by the REM Group; and
- (iv) \$3,250,000 paid quarterly in amounts equal to the aggregate of 5% of net revenues from sales of whitening crayon or pen products sold by the Company and 1% of net revenues from light activated teeth whitening or other in-office or chair side whitening procedures. If these payments do not equal \$3,250,000 within five years of the date of the definitive agreements, BDI will owe the REM Group the unpaid amount at that time. At the option of BDI, up to 50% of these quarterly payments may be paid in common stock of the Company so long as the Company's common stock is publicly traded on a major stock exchange at a price of at least \$1.00.

The MOU also provides that Montgomery will enter into a consulting agreement with BDI (the "BDI Consulting Agreement") for a five year term at a rate of \$180,000 per year. Under the BDI Consulting Agreement, Montgomery agreed to consult exclusively for BDI and the Company in the HOC field. BDI will own all new HOC intellectual property arising from work under the BDI Consulting Agreement subject to payment to the REM Group of 5% of net retail and 3% of net wholesale revenues for each new product for a term of ten years from the date of first commercial sale or, in cases where at least one patent claim issues that covers the new product, until the applicable patent expires.

At the end of the term of the BDI Consulting Agreement, BDI shall have a perpetual right of first disclosure as to all new HOC products invented by the REM Group and their successors and the right of first refusal to purchase or license such products. Should BDI elect to acquire such new HOC intellectual property, BDI will be required to fund certain portions of the research and

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development costs and to pay the REM Group 3% of net revenues for those products for ten years if there is no patent issued for those products or for the term of any patent which covers the products.

If during the term of the BDI Consulting Agreement, BDI and the REM Group create new products, BDI will own all new HOC intellectual property arising from such joint products and BDI will fund the third party intellectual property prosecution costs and third party clinical trials related to such new products. However, the REM Group will fund a portion of the research and development costs for the new product. BDI will also pay the REM Group an amount equal to 5% of the net retail and 3% of the net wholesale revenues for each new product arising from any of these development programs. Such amounts will be payable for each product for a period of ten years from the date of first commercial sale of that product or, in cases where at least one patent claim issues that covers that product, until the applicable patent expires.

With respect to third party infringement and/or licensing activities, BDI will pay the REM Group 50% of such recoveries after payment of legal fees incurred in prosecution of third party claims, all patent prosecution and maintenance costs, and certain other amounts.

The parties must negotiate the terms of definitive agreements in order to close the transaction. There can be no assurance that the parties will be able to agree upon the terms and conditions of the required definitive agreements. However, the terms of the MOU shall automatically be extended month-to-month until a closing occurs.

Montgomery is a member of the board of directors of the Company. Also, one of the members of the REM Group is a party to a consulting agreement with the Company under which the Company pays \$25,000 per month for teeth whitening consulting services. The existing consulting agreement will terminate when the BDI Consulting Agreement is signed.

### Financing Arrangements for the MOU

On April 29, 2003 the Company, BDI, LCO and Montgomery entered into a letter agreement pursuant to which LCO and Montgomery agreed to loan a total of \$3,000,000 to BDI to fund implementation of the MOU, including \$2,750,000 for payments to Montgomery, and \$250,000 for BDI working capital.

LCO is the Company's major shareholder. LCO is a wholly owned subsidiary of the ERSE Trust. CAP Advisers Limited is a co-trustee of the ERSE Trust. Mr. Pilaro, a director and co-CEO of the Company, is Chairman of CAP Advisers Limited. Cap America Limited is owned and controlled by LCO.

Pursuant to the letter agreement, LCO loaned its initial installment of \$1,000,000 to BDI on May 9, 2003. BDI delivered a promissory note to LCO, with interest and principal due on May 9, 2008 (5 years from the date of the note). Interest accrues at 200 basis points above Libor as quoted by the Bank of Nova Scotia. The interest rate on the note is reset every thirty days at 200 basis points above then current Libor.

Pursuant to the letter agreement and related documents, LCO will lend to BDI an additional \$1,000,000 on similar terms upon closing of the definitive agreements for the MOU transaction, and Montgomery will lend BDI \$1,000,000 on similar terms at the time certain other conditions specified in the MOU are met.

The notes issued and to be issued to LCO and Montgomery by BDI will be guaranteed by the Company. For their loans to BDI, LCO received 66,666 warrants to purchase Common Stock of the Company effective April 29, 2003, and will receive 66,667 warrants to purchase Common Stock upon closing of the definitive

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agreements for the MOU transaction. For his loan to BDI, Montgomery received 3,000 warrants to purchase Common Stock of the Company effective April 29, 2003, and will receive 66,667 warrants to purchase Common Stock at the time certain other conditions specified in the MOU are met. All warrants granted or to be granted to LCO and Montgomery will be exercisable at \$15.00 per share. The shares of Common Stock underlying the warrants will be subject to certain limited "piggyback" registration rights in the event of future registered public offerings of Common Stock sold by the Company.

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

#### (A) EXHIBITS

- 10.1 Loan Agreement between CAP America Trust and BriteSmile, Inc. dated May 7, 2003 (filed herewith).

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- 99.1 Certifications of John L. Reed, CEO, and John C. Dong, CFO, pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002 (filed herewith).
- 99.2 Earnings Release of BriteSmile, Inc. dated May 13, 2003 for the 13 week period ended March 29, 2003 (filed herewith).
- 99.3 Press Release of BriteSmile, Inc. dated May 9, 2003 (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.

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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 13, 2003

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John L. Reed  
Chief Executive Officer

Date

/s/ John C. Dong

May 13, 2003

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John C. Dong  
Chief Financial Officer

Date

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CHIEF EXECUTIVE OFFICER CERTIFICATION

I, John L. Reed, Chief Executive Officer of BriteSmile, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BriteSmile, Inc. (the "Registrant");
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant,

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including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

- b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and
  - c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ John L. Reed

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John L. Reed  
Chief Executive Officer  
(Principal Executive Officer)

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CHIEF FINANCIAL OFFICER CERTIFICATION

I, John C. Dong, Chief Financial Officer of BriteSmile, Inc., certify that:

- 1. I have reviewed this Quarterly Report on Form 10-Q of BriteSmile, Inc. (the "Registrant");
- 2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances

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under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
  - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and
  - c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ John C. Dong

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John C. Dong  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

