BSML INC
Form 10-K
April 13, 2009

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 27, 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)

Utah	87-0410364
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7777 Glades Road, Suite 100, Boca Raton, Fl 33434
(Address of principal executive offices, Zip Code)

(561) 988-4098
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value $0.001 Per Share

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

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

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 28, 2008, was approximately $1,254,373.

The number of shares outstanding of the registrant's common stock as of February 24, 2009 was 14,481,042.

Documents incorporated by reference. The registrant incorporates information required by Part III (Items 10, 11, 12, 13, and 14) of this report by reference to the registrant's definitive proxy statement to be filed pursuant to Regulation 14A for the June 2007 Annual Shareholders Meeting.

BSML, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

THIS ANNUAL REPORT ON FORM 10-K CONTAINS, IN ADDITION TO HISTORICAL INFORMATION, FORWARD-LOOKING STATEMENTS THAT INVOLVE SUBSTANTIAL RISKS AND UNCERTAINTIES. THE COMPANY’S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS ANTICIPATED BY THE COMPANY AND DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES ARE DISCUSSED BELOW IN THE SECTION ENTITLED “FORWARD-LOOKING STATEMENTS” AND ELSEWHERE IN THIS ANNUAL REPORT. THE FOLLOWING DISCUSSION SHOULD BE READ TOGETHER WITH OUR FINANCIAL STATEMENTS AND RELATED NOTES THERETO INCLUDED ELSEWHERE IN THIS DOCUMENT.

PART I.

ITEM 1. BUSINESS

Overview

BSML, Inc. (“BSML” or the “Company” or “we”) is a Utah corporation, formerly known as BriteSmile, Inc. We formally changed our name to BSML, Inc., in the fourth quarter of 2006. Some of discussion in this Annual Report on Form 10-K regarding operations during 2006 and prior periods may reference our prior name of BriteSmile, Inc.

The Company and its affiliates distribute, market, and sell advanced teeth whitening products and services through its 16 Centers (defined below) throughout the United States. Unless specified to the contrary herein, references to BSML or to the Company refer to us and our subsidiaries on a consolidated basis. Our operations include the sale of technologically advanced teeth whitening processes that are offered at professional salon settings known as BriteSmile Professional Teeth Whitening Centers (“Centers”). In addition, the Company sells certain of its products including its whitening pen, toothpaste and mouthwash products through the internet and third party retail channels. The Company also offers certain cosmetic dental procedures such as veneers and Invisalign products (a series of clear, removable, plastic aligners that are custom-made for a patient’s teeth) at its Centers. Prior to March 2006, the Company also offered its products and systems through independent dental offices, known as BriteSmile Professional Teeth Whitening Associated Centers (“Associated Centers”).

On March 13, 2006, the Company and its wholly owned subsidiaries, BriteSmile International Limited, an Ireland corporation, and BriteSmile Development, Inc., a Delaware corporation (collectively, the “Sellers”) completed an asset sale to Discus Dental, Inc., a California corporation (“Discus”), wherein Discus acquired the assets and the operations of our Associated Centers and substantially all of our intellectual property for approximately $26.8 million, plus the assumption of certain liabilities. Also, we settled our patent infringement litigation with Discus in exchange for a payment of $8.7 million, resulting in total consideration of approximately $35.5 million to BSML, prior to consideration of deal costs that totaled approximately $1.3 million, legal expenses and income taxes.

The assets sold to Discus included certain of our tangible assets and proprietary rights related to the Associated Centers business, including the BriteSmile name and trademark, and substantially all of the our intellectual property rights. Discus acquired our intellectual property subject to certain existing technology and trademark licenses in favor of Sellers that permit the continued operation of the Centers and sales of certain retail products under the BriteSmile trademark. Discus also acquired all of our rights and claims against third parties relating to the intellectual property, except for our claims against third parties that may have infringed certain patents in the whitening strips field, which we retained under a license from Discus. During February 2008, all litigation associated with this transaction was settled. (See “Legal Proceedings,” below.)

This Annual Report on Form 10-K presents financial information in Item 6, “Selected Financial Data,” Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8 “Financial Statements and Other Supplementary Data,” among other sections. The financial data of the Associated Centers has been prepared in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Accordingly, the results of operations for the Associated Centers for all years presented have been reflected as discontinued operations. The continuing operations in the financial statements consist of sales, costs of sales and operating expenses of our Centers business, including our corporate expenses.

During December 2007, the Company named Andrew Rudnick Chief Executive Officer. The Company also entered into an Support Services Agreement with Sleek Inc. (“Sleek”), a company controlled by Mr. Rudnick. Pursuant to the

Support Services Agreement, Sleek agreed to provide marketing, consulting, cash management, personnel management, and other services to the Company. Mr. Rudnick Services have been terminated and all agreements with sleek have been cancelled. .. (See "Legal Proceedings," below.) The Company also relocated its Corporate Offices to Boca Raton, Florida, in February 2008.

In April of 2008 Jeff Nourse was name Chief executive Officer.

The Company maintains executive offices and principal facilities at 777 Glades Road, Suite 100 Boca Raton, Fl 33434. Our telephone number is (561) 988-4098. The Company maintains a web site at www.britesmile.com. The information on our web site should not be considered part of this Report on Form 10-K.

Marketing and Distribution

Our teeth-whitening and cosmetic dental procedures and products are marketed primarily via consumer advertising. We devote significant resources to direct-to-consumer marketing through a variety of channels including radio, print, and on-line advertising. In addition, we distribute promotional certificates to consumers using e-mail and direct mailings. In the U.S., using a toll-free number, consumers can call our Call Center and speak to a trained advisor who can make an appointment at a Center for a whitening procedure.

Competition

The Company's light-activated teeth whitening ("LATW") procedure competes with all teeth whitening products and services. These include in-office bleaching systems, professionally administered take home bleaching systems, and over-the-counter consumer products such as pastes, gels, brush-ons and strips. Competition continues to proliferate as consumer demand for whitening increases.

Numerous manufacturers and individual brands compete in the various product arenas. Companies continue to enter the LATW arena with products of their own. Some of these companies are also in the professional teeth whitening tray business. A significant development in 2001 was the launch of Crest WhiteStrips™, a new methodology for at-home whitening. These strips are sold over-the-counter and in dental offices. Many of these competing products have a treatment time substantially longer (weeks or more) than BSML's LATW procedure, are less efficacious, and cause greater sensitivity.

When Discus acquired our Associated Centers business, it agreed not to use the intellectual property acquired from the Company to compete in the Center channel. However, Discus owns other tooth whitening technologies that could be used to compete against us in the Center channel.

Virtually all professional whitening systems use some form of peroxide (usually a hydrogen peroxide) for in-office procedures, or, in the case of some at-home products, a milder carbamide peroxide. Our LATW system uses a 15% hydrogen peroxide solution, a relatively low percentage for an in-office procedure. As a result, our process has lower sensitivity relative to many competing systems.

Sources of Supply

Historically, we have subcontracted the manufacturing of LATW devices with a single manufacturer, Peak Industries in Longmont, Colorado. We have recently contracted for the purchase of LATW devices from Docland, Inc. of California. We believe we have and will continue to have access to sufficient quantities of goods and materials at competitive prices to enable us to operate effectively.

Fulfillment Services Agreement with Oraceutical

In 2004, we entered into an agreement with Oraceutical, LLC ("Oraceutical") to outsource the Company's whitening component and product fulfillment services beginning in 2005. Robert Eric Montgomery ("Montgomery"), the Chairman & CEO of Oraceutical, LLC, was a member of our Board of Directors until September 2005 and a member of BriteSmile Development Inc.'s Board of Directors until December 2005. BriteSmile Development Inc. is an affiliate of the Company.

Contractual Relationship with Centers

Prior to April 2008, a licensed dentist and a dental hygienist or licensed dental assistant administered the Company's LATW process at BriteSmile Centers. Typically, the dentists created a professional corporation (the "PC"), which entered into various agreements with the Company. Pursuant to such agreements, the licensed dentist had exclusive authority regarding dental matters, including administration of the LATW procedure. Pursuant to a Management Agreement between us and the PC, we managed the business and marketing aspects of the Center including provision and maintenance of furnishings and equipment, advertising and office space.

In April 2008, the Company adopted a new teeth whitening protocol which allows the customer to self-administer the teeth whitening gel and activate the LATW device in a single 20-minute procedure. The procedure protocol eliminates the need for a licensed dentist and a dental hygienist or licensed dental assistant to administer LATW procedures. Accordingly, the Company intends to terminate its Management Agreements with the PCs and the licensed dentists and a dental hygienists or licensed dental assistants which they employ.

In connection with the Company's offering of cosmetic dental procedures, the Company will contract with licensed dentists to perform those services in the dentist's own office or will enter into new agreements with PCs owned or organized by licensed dentists to perform cosmetic dental procedures at the Company's Centers.

Patents, Trademarks and Licenses

Since inception, the Company has filed for and received many patents related to teeth whitening compositions, methods of tooth whitening, methods of LATW, compositions for use in LATW, peroxidase-activating oral compositions, compositions for making an artificial prosthesis, an adjustable articulated positioning device, a portable, high power arc lamp system, and a design for a device that provides light to teeth for whitening procedures. Similar patent applications have issued or are pending in various countries including the European Union, Canada, Japan and Australia. These patents and patent applications, along with the underlying technology, were sold to Discus. In connection with the sale, Discus granted the Company a license to all patents and know how relating to or used in the operation of the Centers business and a trademark license to use the BriteSmile tradename and marks in the Centers business and for licensed retail products for distribution in the retail channel.

Governmental Regulations

Our business operations are subject to certain federal, state and local statutes, regulations and ordinances (collectively, "government regulations"), including those governing health and safety. The LATW system is categorized as a Class 1 Medical Device as defined by the United States Food and Drug Administration ("FDA"). In most states, our historic teeth whitening procedure is deemed to be a part of the practice of dentistry. Generally, states impose licensing and other requirements on the practice of dentistry. In addition, some states prohibit general business corporations (such as the Company) from engaging in the practice of dentistry.

To our knowledge, our new, self-administered teeth whitening procedure is not presently subject to government regulation.

We regularly monitor developments in government regulations relating to the practice of dentistry. We believe that we have, and will continue to, structure all of our agreements, operations and marketing in accordance with applicable government regulations.

Product Liability

From time to time, we may become subject to suits alleging negligence, product liability or related causes of action. Currently there are no such claims pending. The Company maintains product liability insurance coverage for its products and services with coverage limits of $5 million per occurrence and $5 million per year.

Employees

As of March 27, 2009, we had 78 full-time employees and part-time employees, including professional and administrative personnel in the Centers. None of our employees are represented by a union, and we are not aware of any efforts to unionize any employees. We believe our labor relations are satisfactory.

Financial Information about Segments and Geographic Areas

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 and service of products for this one segment. Our profit and loss and our total assets for the last three fiscal years are reported in the financial statements included in Item 8 of this report. The reported amounts are prepared in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the results of operations for the Associated Centers for all years presented have been reflected as discontinued operations. The continuing operations in the financial statements consist of revenues, costs of goods sold and Center and corporate operating expenses.

ITEM 2. PROPERTIES

Effective February 2008, the Company moved its corporate offices to a leased facility in Boca Raton, Florida. This lease is on a month-to-month basis. Prior to this date and for the period presented in this Report on Form 10-K, the Company operated at its 14,162 square foot corporate office facility in Walnut Creek, California, on a month-to-month rental basis. This facility was used for administration and general office purposes.

Fifteen of the Centers are under operating lease agreements expiring from 2008 through July 2015. Two Centers are operating on a month-to-month rental basis. Each Center lease covers prime street-level retail spaces, with square footage ranging from 1,800 to 5,200 square feet, and feature improvements to create attractive salon settings. Equipment available at each Center includes BriteSmile LATW devices, dental chairs and dental cabinetry and equipment.

The Company amortizes leasehold improvements over the shorter of their economic lives or the lease term. Any lease that includes a rent holiday period is expensed on a straight-line basis over the lease term (including any rent holiday period). Landlord incentives or allowances under operating leases are amortized over the shorter of the economic life or the lease term.

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company is the subject of legal actions. The Company is subject to legal proceedings and claims in the ordinary course of business. There are no current pending legal actions involving the Company that are expected to have a material adverse effect on the Company's consolidated financial position or results of operations. The Company is party to certain legal proceedings and claims in the ordinary course of business. There are no current pending legal activities that are expected to have a material adverse effect on the company's financial position or results of operations.

Andrew Rudnick & Sleek, Inc., v. BSML, Inc., Circuit Court, 17th Judicial Circuit, Broward County, Florida, Case No. 08 30137. On June 30, 2008, Andrew Rudnick, the Company's former CEO, and Sleek, Inc. a company controlled by Rudnick (the "Rudnick Plaintiffs") filed suit against the Company alleging breach of an Amended and Restated Support Services Agreement and breach of a Separation and Release of Claims Agreement and fraud in the inducement relating to both agreements. The Rudnick Plaintiffs subsequently amended the complaint to allege conversion and to seek specific performance and permanent injunctive relief against the Company. The Company intends to defend itself vigorously against the allegations of the amended complaint and to assert various counter claims against the Rudnick Plaintiffs. The Company recorded an expense and charge to paid in capital for the fair value of 1,240,000 shares to be issued to Sleek, Inc., an entity controlled by Mr. Rudnick, the former CEO of the Company, as of December 29, 2007, because the notification of the transfer agent to issue the shares was considered ministerial. However, due to delays, resulting from a dispute between the Company and Mr. Rudnick during the first and second quarters of 2008, the Company determined during the second quarter of 2008 that it no longer had an obligation to issue the shares. Accordingly, the number of common shares outstanding was reduced by 1,240,000 as of December 27, 2008.

2012710 Ontario Inc. Pure Laser Hair Removal & Treatment Clinic (carrying on business as Pure Med Spa, Pure Laser Hair Removal and Treatment Clinics, Inc.) and Investment Partnership (2006) LP v. BSML, Inc., and Jeff Nourse , Ontario Superior Court of Justice, Court File CV-08-00359260-0000. In July 2008, 2012710 Ontario Inc. Pure Laser Hair Removal & Treatment Clinic and Investment Partnership (2006) LP (the "Canadian Plaintiffs") brought an action against the Company and Jeff Nourse, the Company's current CEO, alleging, among other claims, breach of Mr. Nourse's fiduciary duty while an officer with Pure Med Spa, breach of duties following his resignation from Pure Med Spa, breach of a non-competition agreement, interference with Pure Med Spa's suppliers, interference with potential investors, misappropriation of Pure Med Spa's website, and improper disclosure of Pure's confidential information. The Canadian Plaintiffs seek compensatory damages and punitive damages. This matter was dismissed with prejudice on April 1, 2009.

Douglas Wu vs BSML, Inc. and Andrew Rudnick, Contra Costa County Superior Court, California, Case No. C08-00358. On February 21, 2008, Mr. Wu filed a complaint asserting a single cause of action alleging breach of contract for failing to pay $70,000 in severance allegedly due upon Mr. Wu's termination of employment. The Company denies the allegations of the complaint. The claim against Mr. Rudnick was subsequently dismissed for lack of jurisdiction. On November 12, 2008, the Company and Mr. Wu reached a settlement in principal whereby the Company agreed, without admitting liability, that the Company would pay $23,333 to Mr. Wu not later than December 31, 2008. In exchange Mr. Wu agreed to execute a general release and to dismiss the lawsuit. The parties signed a written settlement agreement, and the case was dismissed with prejudice on January 21, 2009.

Green River Junction, Inc. v. BSML, Inc, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 08CV2372. In May 2008, Green River Junction, Inc. ("Green River Plaintiffs") brought action against the Company alleging, among other claims breach of contract, unjust enrichment and wrongful withholding of commissions. On September 23, 2008, the parties participated in a court-ordered settlement conference. On October 22, 2008, the Company settled the lawsuit with the Green River Plaintiffs. The settlement calls for the Company to pay as full settlement of all claims the sum of $180,000. Payments are due as follows: $30,000 immediately; $3,000 in December 2008; monthly payments of $9,000 from January through September 2009 and monthly payments of $11,000 from October 2009 through March 2010.

The following claims have been settled or dismissed prior to February 22, 2008:

Claims of Longlife Health Ltd.

Discus Dental Inc. (“Discus”), the purchaser of the Company’s Associated Center business and other assets in March 2006, notified the Company in the first quarter of 2007 of a pending dispute over collection of receivables from Longlife Health Ltd. (“Longlife”), the Company’s former distributor in the United Kingdom. Subsequent to the sale of the Associated Centers business, Discus terminated Longlife’s distribution agreement. Longlife thereafter alleged that the termination of the distribution agreement was wrongful and, in response, withheld payment of receivables due to Discus. A portion of the receivables in question was a component of the assets sold to Discus. As a result, Discus notified the Company that Longlife’s claims gave rise to a claim that the Company was in breach of certain representations made in the March 2006 Asset Purchase Agreement and exercised its rights to block disbursement to the Company of $3.5 million in funds escrowed at the time of the sale.

In October 2007, the Company reached a settlement with Longlife and Discus regarding these issues. Under the terms of the settlement, $1,005,396 was paid to Discus from the escrowed funds, with Discus remitting $581,588 of these funds to Longlife in settlement of its claim. The Company received $109,443 from the escrowed funds. The balance of the escrowed funds (plus interest) was released in the settlement of the litigation with Oraceutical LLC, as discussed below.

Claims of Oraceutical LLC, Oraceutical Innovative Properties LLC, and R. Eric Montgomery:

In April 2007, Oraceutical LLC, Oraceutical Innovative Properties LLC, and R. Eric Montgomery, a former director of the Company (collectively, “Oraceutical”) filed suit in California state court naming as defendants the Company and its subsidiary, BriteSmile Development, Inc. (“BDI”), the Company’s former Chief Executive Officer Julian C. Feneley (“Feneley”), and the Company’s former Chairman of the Board Anthony M. Pilaro (“Pilaro”). The complaint also names as defendants Discus and its subsidiary BriteSmile Professional, Inc., neither of whom is affiliated with the Company.

Oraceutical’s Amended Complaint sought to recover at least $11.3 million plus punitive and exemplary damages. The Amended Complaint asserted claims against the Company and BDI for breach of contract, breach of the implied covenant of good faith and fair dealing, fraud, violations of California law and accounting, and asserted a fraud claim against Feneley and Pilaro. The complaint also included a declaratory judgment claim against the Company, BDI and Discus.

Oraceutical’s claims were based on an Asset Purchase Agreement, as subsequently amended (the “APA”), entered into between Oraceutical, the Company and BDI in July 2003. Pursuant to the APA, BDI acquired intellectual property consisting primarily of 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 for a purchase price of $6.4 million, plus a participation interest, after offsets and deductions, in third-party royalties and infringement recoveries relating to the intellectual property acquired.

In March 2006, certain assets of the Company, including the intellectual property acquired from Oraceutical, were sold to Discus in a transaction valued at $35.5 million, of which $8.7 million was allocated to settlement of patent infringement litigation against Discus. In connection with this transaction, the Company and Discus deposited $3.5 million in escrow (as discussed above with reference to the Longlife claim). In its complaint, Oraceutical claimed that the value of the patent infringement settlement should be substantially more than $8.7 million. Oraceutical also asserted that the Company and Discus placed an artificially low value on the settlement of the patent infringement claims and asserted that if the claims were valued fairly, Oraceutical would have shared in a portion of the recovery under the terms of the APA. The declaratory judgment claims asserted by Oraceutical also sought a declaration that Discus was bound by the terms of the APA as the party who acquired the subject intellectual property from BDI.

In June 2007, the Company filed a counterclaim against Oraceutical alleging fraud and misrepresentation in connection with representations made to the Company at the time the Company acquired the intellectual property which, in part, was the subject of the litigation, together with claims for breach of the APA.

Effective January 2, 2008, Oraceutical, the Company, BDI, Feneley, Pilaro, and Discus entered into a global settlement of these claims and counterclaims. As consideration for the settlement, the parties agreed to disburse all remaining funds held in escrow as follows: $1,366,115 was released to Oraceutical, $73,225 was released to Discus, $95,000 was released to Pilaro, as reimbursement of legal fees and the balance of the escrowed funds of $1,137,923 was released to the Company. In addition, the parties gave mutual releases of all claims between them arising before the date of the settlement agreement, Oraceutical and the Company entered into an Amended and Restated Consulting Agreement which amends and restates in its entirety the Consulting Agreement entered into between them on July 1, 2003, and the Company delivered to Oraceutical, with Discus's consent, an Assignment of Patent License Agreement pertaining to whitening strips. Oraceutical agreed that, other than the rights assigned pursuant to the Patent License Agreement, it has no right, title or interest in the intellectual property that was transferred by the Company to Discus, nor any rights, interests, royalties, recoveries or other proceeds thereof. All of the claims asserted in the litigation were dismissed with prejudice on February 15, 2008.

Smile Inc. Asia Pte. Ltd. v. BriteSmile. In April 2002, Smile Inc. Asia Pte. Ltd. ("Smile") sued the Company and BriteSmile Management, Inc., a wholly-owned subsidiary of the Company ("BriteSmile Management"), in Utah state court. Among other charges, the complaint sought $10 million in damages and alleged that BriteSmile Management breached its 1998 distributor agreement for laser-aided teeth whitening devices with Smile (exclusive as to Singapore and other surrounding countries) by failing to fill orders placed and to perform other obligations under the agreement. On August 7, 2007, the Company settled this matter through payment to Smile of $1.5 million under the terms of a settlement agreement that provided for the mutual release of all claims asserted in the lawsuit.

BriteSmile, Inc. v. Discus Dental, Inc. and Salim Nathoo, filed in the United States District Court for the Northern District of California (the "Discus Patent Litigation"). This case was dismissed in March 2006 in connection with the sales transaction with Discus.

BriteSmile Development, Inc. v. Discus Dental, Inc. BSML Development, Inc., a wholly owned subsidiary of BSML, Inc. filed on October 28, 2005, a patent infringement suit against Discus in federal court in California. This case was dismissed in March 2006 in connection with the dismissal of the Discus Patent Litigation.

BriteSmile Inc. v. Discus Dental, Inc., filed in Contra Costa County Superior Court, California. This case was dismissed in March 2006 in connection with the Discus Patent Litigation.

The Procter & Gamble Company v. Oraceutical LLC, IDEX Dental Sciences, Inc., Robert Eric Montgomery, BriteSmile, Inc. and BriteSmile Development, Inc., filed in the United States District Court for the Southern District of Ohio. In June 2003, Procter & Gamble Company ("P&G") filed a complaint against the defendants listed above alleging that Oraceutical LLC, IDEX Dental Sciences, Inc. and Eric Montgomery (collectively, the "REM Group") had breached an agreement between the REM Group and P&G (the "Standstill Agreement") by entering into a binding memorandum of understanding with the Company and BSML Development, Inc. on May 9, 2003.

On February 17, 2006, the parties entered into a global settlement of the litigation proceedings between the parties. As part of the settlement, the Company granted to P&G a nonexclusive license to certain patents relating to teeth whitening strips and P&G paid $4 million of which the Company received approximately $1 million, with the remainder paid to the Company's legal counsel in the matter and to the REM Group.

Gregg A. Coccari v. BriteSmile, Inc., an arbitration proceeding with the American Arbitration Association filed on August 11, 2005. This matter was settled in February 2007. Under the terms of the settlement, Mr. Coccari, former Chief Executive Officer, received approximately $700,000 in cash payments, of which $200,000 was paid by the Company's insurance carrier, and 80,000 shares of the Company's common stock valued at approximately $141,000.

Mayer, Brown, Rowe & Maw LLP v. BSML, Inc. and BSML Development, Inc., filed in the California Superior Court for San Francisco County. Mayer, Brown, Rowe & Maw LLP ("MBR&M"), the Company's former patent litigation counsel in the Discus Patent Litigation, filed a complaint alleging causes of action for breach of contract, breach of the implied covenant of good faith and fair dealing, and unjust enrichment arising from the attorney-client relationship between MBR&M and the Company. On November 17, 2006, the Company and MBR&M agreed to a settlement under which the Company paid MBR&M a total of $5 million in full settlement of all outstanding claims. All related litigation matters were subsequently dismissed.

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

None

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common stock of the Company trades on the OTC Bulletin Board under the symbol "BSML" The following table sets forth, for each full quarterly period during 2008 and 2007, high and low closing sales price information as reported by Nasdaq, the OTC Bulletin Board, or other electronic services, as the case may be.

	High	Low
Quarters Ended:		
December 27, 2008	$0.09	$0.06
September 28, 2008	$0.20	$0.20
June 28, 2008	$0.40	$0.40
March 29, 2008	$0.30	$0.30
Quarters Ended:		
December 29, 2007	$0.60	$0.21
September 30, 2007	$0.65	$0.36
June 30, 2007	$1.49	$0.40
March 31, 2007	$1.91	$1.20

As of December 27, 2008, there were 263 holders of record of the Company's common stock (counting Cede & Company as one holder of record). This number excludes any estimate by the Company of the number of beneficial owners of shares held in street name, the accuracy of which cannot be guaranteed.

Dividends

The Company has not paid any cash dividends on its common stock since its inception and currently has no plan to do so in the future.

Recent Sales of Unregistered Securities

There were no sales of securities in 2008 or 2007 There have been no repurchases of equity securities by BSML during the years ended December 27, 2008, or December 29, 2007

In 2008, the Company recognized stock-compensation costs of approximately $ 169,000. The $169,000 recognized in 2008, consisted of 1,128,831shares of restricted $0.001 par value common stock with a fair value of $0.15 per share, issued to the Company's Chief Executive Officer who is also Chairman of the Company's Board of Directors as a recruitment incentive. In 2007 Company recognized stock-compensation costs of approximately $326,000, 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.

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.

Stock Options

Since March 1998, the Company has granted options to purchase shares of common stock to employees, directors, or key consultants pursuant to the Company's 1997 Stock Option and Incentive Plan (the "1997 Plan") as well as through separate agreements. For the period ended December 27, 2008, options for 261,000 shares of common stock were granted, none were exercised and 287,750 were forfeited. As of December 27, 2008 75,000 options for shares of common stock remain outstanding. The weighted average exercise prices of the outstanding options is $0.40 per share. Most of our options vest and become exercisable in increments over time.

In addition to stock option activities, 574,290 shares of restricted stock were granted to our then Chief Executive Officer in November 2006. Of this amount, 114,858 shares vested immediately and additional amounts of 114,858 shares vest on the next four anniversaries of the date of grant. In connection with this grant, stock compensation expense of approximately $263,000 was recognized in 2006. This individual resigned in December 2007 and he and the Company agreed that all of these shares would vest immediately upon his resignation

In 2008 the Company granted 1,128,000 shares of restricted common stock to the current CEO..

Also, 240,000 shares of restricted stock were granted to our then Chief Executive Officer in January 2005. Some 80,000 of these shares vested immediately. This individual resigned later in 2005, forfeiting the remaining 160,000 shares of the restricted stock grant. Related to settlement of legal action with this individual, an additional 80,000 shares were subsequently awarded to him.

The Company has registered with the SEC, on Form S-8, up to 1,166,668 shares of common stock subject to stock options which have been granted under the Company's 1997 Plan, and up to 112,500 shares of common stock subject to stock options or warrants which have been granted to consultants or advisers outside the 1997 Plan. No additional shares were registered on Form S-8 during 2008.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below with respect to the Company's consolidated statements of earnings and consolidated balance sheets for the periods indicated are derived from the consolidated financial statements of the Company. The Company's year-end is the last Saturday in December. The data set forth should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the audited consolidated financial statements and related notes thereto.

	December 27, 2008	December 29, 2007	December 30, 2006	December 31, 2005	December 25, 2004
			(in thousands)		

Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 187	$ 3,512	$ 4,734	$ 5,518	$ 18,880
Total assets	$ 5,014	$ 11,408	18,065	27,842	45,075
Long-term obligations, less current maturities			—	—	15,650
Shareholders' equity (deficit)	$ (2,643)	$ (1,132)	2,482	2,451	12,582

	Fiscal Year Ended				
	2008	2007	2006	2005	2004
	(in thousands, except per share data)				
Consolidated Statement of Operations data:					
Total revenues, net	$ 18,128	$ 25,038	$ 26,214	$ 21,754	$ 21,857
Operating and occupancy costs	13,836	14,097	14,203	13,774	11,335
Selling, general and administrative expenses	5,156	14,775	20,910	21,516	17,280
Depreciation and amortization	830	1,427	1,618	1,897	3,362
Restructuring expense			—	—	142
Loss from operations	(1,694)	(5,261)	(10,517)	(15,433)	(10,262)
Amortization of discount on debt			(530)	(2,606)	—
Gain on mark-to-market of financial instruments related to convertible debt			—	3,811	1,060
Loss on early extinguishment of debt			(5,039)	—	—
Loss on Impairment	(438)	(386)			
Other Income	422	(8)			
Interest Income	29	368			
Loss from continuing operations	(1,681)	(4,365)	(14,939)	(15,765)	(10,181)
Income (loss) from discontinued operations (1)		(798)	19,308	(2,007)	2,361
Net income (loss)	(1,681)	(5,163)	4,369	(17,772)	(7,820)
Net income (loss) attributable to common shareholders	(1,681)	(5,163)	4,369	(17,772)	(7,820)
Net loss per common share from continuing operations, basic and diluted	$ (.13)	$ (.40)	$ (1.42)	$ (1.50)	$ (0.99)
Net income (loss) per common share from discontinued operations, basic	$ (.0)	$ (.07)	$ 1.83	$ (0.19)	$ 0.23
Net income (loss) per common share from discontinued operations, diluted	$ (.0)	$ (.07)	$ 1.83	$ (0.19)	$ 0.21
Net income (loss) attributable to common shareholders, basic and diluted	$ (.13)	$ (.47)	$ 0.41	$ (1.69)	$ (0.76)
Weighted average shares outstanding-basic	12,387,823	10,902,223	10,557,239	10,543,553	10,291,714
Weighted average shares outstanding-diluted (2)	12,387,823	10,902,223	10,574,606	10,543,553	11,073,098

(1) Includes loss on settlement net of tax of $798 in 2007 and gain on sale of assets, net of tax, of $14.9 million and gain on settlement of litigation, net of tax, of $3.3 million and income from discontinued operations of $1.1 million in 2006.

(2) Shares shown are used in the determination of per share income only if the result is not anti-dilutive.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Management's discussion and analysis of its financial condition and results of operations is 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 ("GAAP"). The preparation of these consolidated 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 and sales taxes, warranty obligations, financing operations, leases, restructuring, 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.

We develop, distribute, market and sell advanced teeth whitening technology, products, systems and services and provide certain cosmetic dental procedures such as veneers and the Invisalign products (a series of clear, removable, plastic aligners that are custom-made for a patient's teeth). Unless specified to the contrary herein, references to the Company or to BSML refer to us and our subsidiaries on a consolidated basis. Our operations include the development of technologically advanced teeth whitening processes and cosmetic dental procedures that are provided and distributed in professional salon settings known as BriteSmile Professional Teeth Whitening Centers ("Centers"). Prior to the sale of the business in March 2006 (as described below), the Company previously also offered its products and systems through existing independent dental offices, known as BriteSmile Professional Teeth Whitening Associated Centers ("Associated Centers").

The Company's Associated Centers business was sold in March 2006. The financial data of the Associated Centers has been prepared in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144), issued by the Financial Accounting Standards Board ("FASB"). Accordingly, the results of operations for the Associated Centers for all years presented have been reflected as discontinued operations. There were no assets or liabilities of the Associated Centers business as of December 27, 2008, or December 29, 2007.

Our products and services are ultimately directed to domestic consumers in the marketplace for aesthetic enhancement. As such, general economic factors that affect consumer confidence and spending also affect the Company. Our primary source of revenue is from consumers who are seeking to whiten their teeth using the most advanced technology available. This technology is offered through our Centers, via the internet and through various shopping programs on QVC. Currently, there are sixteen BriteSmile Centers in eleven metropolitan areas of the United States. We promote demand for our products and services by advertising directly to the consumer, while also offering a range of whitening and post-whitening maintenance retail products that generate additional revenue.

We focus on optimizing the productivity of the existing base of Light Assisted Teeth Whitening ("LATW") systems in our Centers, both in terms of the number of procedures performed per system and retail product revenue per procedure or venue.

In addition, we seek to leverage a cost base that includes, among other items, the cost of materials for the procedures and retail products, property and equipment lease expenses, employee salaries and marketing expenses.

We initially focused on building the footprint of our Center network and building brand awareness. We believe that future growth in revenue and earnings will primarily stem from higher productivity of our Centers, expansion of our Center network into existing or new markets, including additional cosmetic dental services, the introduction of new products and procedures into our Centers, and the expansion of our retail offerings.

From time to time the Company is the subject of legal actions in the ordinary course of business, including claims of alleged personal injury, infringement of trademarks and other intellectual property rights. However, the Company believes any such claims that have been presented to the Company as of the date of this report are without merit and the Company will vigorously defend against any such claims.

Critical Accounting Policies And Estimates

The consolidated financial statements are prepared in accordance with GAAP, which require the Company to make estimates and assumptions. The Company believes that the following critical accounting policies require significant management judgments, estimates and assumptions in the preparation of the consolidated financial statements.

Revenue Recognition

The Company recognizes revenue related to retail products at the time such products are shipped to customers and procedure revenues at the time the procedure is performed. Revenue is reported net of Sales Tax discounts and allowances. Under the SmileForever program, Center customers may, for an additional fee, receive a limited number of touch-up procedures over a specified term, typically one to two-years. The revenue associated with this program is deferred and recognized over the contractual term. Additionally, in cases where SmileForever revenue is bundled with procedure revenue and / or revenue from retail product sales, revenue is allocated to SmileForever using the fair values of the components of the bundle according to the requirements of EITF 00-21, and any revenue so allocated is then deferred and recognized over the contractual term. At December 27, 2008, and December 29, 2007, the deferred revenue balances associated with the SmileForever program were $1.1 million and $3.3 million, respectively.

Prior to the sale of the Associated Centers business in March 2006, the Company’s operations in that business involved the shipment of key cards and activation codes to Associated Center, thereby permitting them to perform procedures. As regards domestic Associated Centers, the Company deferred the revenue generated on the sale of key cards and activation codes and recognized the revenue over the estimated performance period. As regards its customers outside of the United States, primarily distributors who sold to dentists, the Company deferred the revenue generated on the sale of key cards and activation codes and recognized related income over the estimated sell-through period for the distributor. Additionally, revenue from procedure sales was deferred if any of the components necessary to perform the procedure had not been sent to the dentist or distributor. The Company’s policy was to refuse the return of key cards or access codes during the course of the agreement with an Associated Center or a distributor.

Inventories

Inventories are stated at the lower of average cost or market. The Company 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 market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Property, Equipment and Improvements

The Company evaluates its property, equipment and improvements for impairment whenever indicators of impairment exist. In 2008, a loss on disposal of property and equipment was recognized in the approximate amount of $438,000. In 2007, a loss on disposal of property and equipment for $1,000 was recognized.

Center Closures

The Company has recorded accruals in connection with Center closures. These accruals, which are periodically adjusted, 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 closures may differ from these estimates. In total, the Center closure reserve decreased by approximately $331,000 to approximately $25,000 as of December 27, 2008.

Sales Tax Liability

Through the date of this Report, certain states have issued initial assessments against the Company claiming insufficient remittance of sales taxes on revenues from past procedure sales to Associated Centers, which the Company is disputing. Based upon the circumstances and the advice of its independent counsel and advisors, management has estimated and accrued approximately $1,115,000 through December 27, 2008, for potential additional sales tax liability related to these assessments and related state sales tax matters.

The Company may further increase its accrual in 2009 in response to tax assessments received through the date of this Report. The Company intends to vigorously challenge the imposition of these tax assessments, and believes it has substantial grounds for its position. Nonetheless, the Company may attempt to negotiate a resolution of such assessments and may also initiate discussions with some other states that have not asserted additional assessments against the Company. An unfavorable outcome with respect to some or all of these tax assessments discussions could have a material adverse affect on the Company’s consolidated financial position and results of operations, and no assurance can be given that these tax matters will be resolved in the Company’s favor in view of the inherent uncertainties involved in tax proceedings. The Company believes that it has provided adequate accruals for additional taxes and related interest expense and penalties that may ultimately result from the assessments, and will re-evaluate the adequacy of its accruals as new information or circumstances warrant.

Results of Operations

The following are explanations of significant changes for 2008 compared to 2007:

Revenue decreased from $25.0 million in 2007 to $18.1 million 27% in 2008. Economic conditions adversely affected operations.

For the year ended December 27, 2008, no one customer accounted for 10% or more of revenue.

Operating and occupancy costs decreased by two percent from $14.1 million in 2007 to $13.8 million in 2007. Reflecting a smaller more efficient operation.

Selling, general and administrative expenses decreased by 68%, totaling $5.2million in 2008 compared to $14.8 million in 2007 due principally to a decrease in professional fees and advertising expenses.

Depreciation and amortization expense decreased 43% to $.8 million in 2008 from $1.4 million in 2007 primarily as a result of certain assets reaching the end of their depreciable lives.

Interest expense decreased to $0 in 2008 from $ 8,000 in 2007 as a result of less debt outstanding, on average, due to our payment of debt instruments following the sale of the Associated Centers business in March 2006.

Interest income decreased to $0.03 million in 2008 from $0.4 million in 2007 as a result of the pay out of previously restricted cash balances following the sale of the Associated Centers business.

Income tax provision (credit) 2008 is $0, 2007 predominately relates to refunds received from prior income taxes of $178,000 (Federal of $126,000 and state of $52,000).

Discontinued operations No loss was recorded for 2008, in 2007 resulted in a loss of $0.8 million The 2007 loss is principally the result of the settlement of litigation with Longlife Health Ltd.

Related Party Transactions

For fiscal 2008, the Company paid $1.0 million for merchandise and other charges from Oracuetical, LLC, a related party. In addition, the Company paid rental costs of approximately $.06 million to another related party for a sublease in New York City.

For fiscal 2007, the Company paid $1.5 million for merchandise and other charges from Oracuetical, LLC ("Oraceutical"), a related party. In addition, the Company paid rental costs of approximately $.5 million to another related party for a sublease in New York City.

Liquidity and Capital Resources

General

At December 27, 2008 the Company had $187,000 in unrestricted cash. The Company expects that its principal uses of cash will be to provide working capital to meet corporate expenses and satisfy outstanding liabilities. The financial statements reflect a going concern basis of accounting. While the Company was able to pay its debts as of the date of this report, and had a plan to generate positive cash flow from its Centers business operations, the Company has yet to achieve profitability on an annual basis from operations and may require additional funds to continue to operate. The Company's ongoing operations may be negatively impacted if it is unable to either generate internally or obtain such funds through new debt or equity issuance. There can be no assurance that such funds will be available and if so, at an acceptable cost.

The Company had the following contractual obligations as of December 27, 2008:

	Payments Due By Period (in thousands)				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases	$3,304	$2,245	$ 481	$120	$456
Consulting and office equipment service contracts	33	28	5	0	0
Total contractual cash obligations	$3,337	$2,273	$ 486	$120	$ 456

Sources and Uses of Cash

In 2008, the Company used $5.4 million in cash from operating activities. The Company's net loss for 2008 was $2.1 million. Non-cash charges aggregated $3.7 million. Reduction of accrued liabilities of $1.9 million and reduction in deferred revenue was $2.2 million.

In 2007, the Company used $4.8 million in cash in operating activities. The Company's net loss for 2007 was $5.1 million, of which $0.8 million, net of tax, was related to the settlement of a claim. The Company had a net loss from continuing operations of $4.4 million. Non-cash charges aggregated $3.0 million, including depreciation of $1.4 million and loss on disposal of $.001 million, and resulted in an increase in the cash flow from operating activities. For fiscal 2007, changes in working capital accounts and in other operating assets and liabilities used $4.8 million in cash.

In 2008,the Company had capital expenditures of $0.2million. In 2007, the Company's investing activities were related to the release of previously restricted cash balances of $3.8 million, net of capital expenditures of $0.2 million.

.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not undertake any specific actions to cover our exposure to interest rate risk, and we are not party to any interest rate risk management transactions. We believe our exposure to foreign exchange rate risk is insignificant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements and associated notes are set forth on pages F-1 through F-36.

ITEM 9A. CONTROLS AND PROCEDURES

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer that: (i) pertains to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provides reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements for external reporting in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are being made only in accordance with authorization of the Company's management and directors; and (iii) provides reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedure may deteriorate. As a non-accelerated filer, management has assessed the effectiveness of the Company's internal control over financial reporting as of December 27, 2008. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in Internal Control — Integrated Framework.

As a result of this assessment, the Company's management has determined that there is one deficiency that constitutes a material weakness in the Company's internal control over financial reporting for the period. A material weakness in internal control over financial reporting is a control deficiency (within the meaning of the Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 5), or a combination of control deficiencies, that results in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected. The four deficiencies that the Company's management has determined constitutes a material weakness is discussed below.

Material Weakness No. 1 Entity Level Controls

During the Company's assessment of the Entity Level control environment, management noted that design over the entity level controls was not sufficient to prevent a material weakness. The Company identified the following areas that were considered weaknesses at the Entity Level. The deficiencies in the design of the controls result in a reasonable possibility that a material misstatement may not be prevented or detected in the annual or interim financial statements in a timely manner.

- Audit committee oversight of financial reporting
- Senior management oversight of financial reporting
- Inadequate number of technically skilled accounting personnel within the Company's corporate accounting department with relevant financial reporting expertise to identify technical accounting issues on a timely basis
- Ineffective process of identifying and assessing risks within the Company

Based on our evaluation under the framework in Internal Control, Integrated Framework, our management concluded that our internal control over financial reporting was not effective as of December 27, 2008.

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this annual report, has concluded that our disclosure controls and procedures were not effective based on his evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Changes in Internal Control Over Financial Reporting. Other than as discussed above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls. A system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the system will meet its objectives. The design of a control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon assumptions about the likelihood of future events.

No Attestation Report. This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 11. EXECUTIVE COMPENSATION

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Report:

Financial Statements

Exhibits

3.01 Articles of Restatement of the Articles of Incorporation of the Company as filed with the Utah Division of Corporations and Commercial Code on January 17, 2003 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2002).

3.02 Articles of Amendment to the Articles of Incorporation of the Company as filed with the Utah Division of Corporations and Commercial Code effective January 30, 2004 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2003).

3.03 Bylaws adopted May 2, 1996, (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1996).

3.04 Amendment to Bylaws adopted July 23, 1999 (incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 1999).

10.01 Registration Rights Agreement dated April 1, 1996 between the Company, LCO Investments Limited, Richard S. Braddock, and Pinnacle Fund, L.P. (incorporated by reference to the Current Report on Form 8-K of the Company dated April 1, 1996).

10.02 Registration Rights Agreement dated May 8, 1997 among the Company, LCO Investments Limited, and Richard S. Braddock (incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1997).

10.03 Registration Rights Agreement dated as of May 4, 1998 between the Company and LCO Investments Limited (incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1998).

10.04* Revised 1997 Stock Option and Incentive Plan of the Company, as amended through June 20, 2001 (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001).

10.05* Form of Option Agreement between the Company and certain directors of the Company (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001).

10.06* Form of Option Agreement between the Company and certain employees of the Company (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001).

10.07 Registration Rights Agreement dated as of June 3, 1999 between the Company and the non-management purchasers (incorporated by reference to the Company's Current Report on Form 8-K as filed June 21, 1999).

10.08

Amended and Restated Registration Rights Agreement dated as of June 3, 1999 between the Company and the management purchasers (incorporated by reference to the Company's Current Report on Form 8-K as filed June 21, 1999).

10.09 Registration Rights Agreement dated as of June 3, 1999 between the Company and certain non-management purchasers in the June 1999 Private Placement (incorporated by reference to the Company's Current Report on Form 8-K dated June 4, 1999).

10.10 Amended and Restated Registration Rights Agreement dated as of June 3, 1999 between the Company and certain management purchasers (incorporated by reference to the Company's Current Report on Form 8-K as filed June 4, 1999).

10.11 Registration Rights Agreement dated as of January 18, 2000 between the Company and the Pequot Funds (incorporated by reference to the Company's Current Report on Form 8-K dated January 18, 2000).

10.12 Agreement of Sublease dated December 1999 between the Company and LCO Properties, Inc. (incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended April 1, 2000).

10.13 Form of Warrants granted to note purchasers pursuant to the Securities Purchase Agreement dated as of June 27, 2000 (incorporated by reference to the Company's Transition Report on Form 10-K for the Nine-month Transition Period ended December 30, 2000).

10.14 Form of Registration Rights Agreement between the Company of the purchasers of Notes pursuant to the Securities Purchase Agreement dated as of June 27, 2000 (incorporated by reference to the Company's Transition Report on Form 10-K for the Nine-month Transition Period ended December 30, 2000).

10.15 Convertible Promissory Note dated December 5, 2000 in the principal amount of $5,000,000 (incorporated by reference to the Company's Current Report on Form 8-K dated December 5, 2000).

10.16 Warrant to Purchase 250,000 Shares of common stock of the Company dated December 5, 2000 (incorporated by reference to the Company's Current Report on Form 8-K dated December 5, 2000).

10.17 Amended and Restated Agreement between Excimer Vision Leasing L.P. and the Company dated February 2001 (incorporated by reference to the Company's Transition Report on Form 10-K for the Nine-month Transition Period ended December 30, 2000).

10.18 Amendment dated September 18, 2002 to Amended and Restated Agreement between Excimer Vision Leasing L.P. and the Company dated February 2001 (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 28, 2002).

10.19 Amendment dated January 1, 2003 to Amended and Restated Agreement between Excimer Vision Leasing L.P. and the Company dated February 2001 (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 28, 2002).

10.20 Loan Agreement between Excimer Vision Leasing L.P. and the Company dated as of March 1, 2001 (incorporated by reference to the Company's Transition Report on Form 10-K for the Nine-month

Transition Period ended December 30, 2000).

10.21	Unsecured Credit Agreement between BSML International and CAP Advisers Limited dated March 2002 (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001).
10.22	Credit and Security Agreement dated December 13, 2001 between BSML International and CAP Advisers Limited (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001).
10.23	Supplemental Agreement dated March 2002 to Credit and Security Agreement dated December 13, 2001 between BSML International and CAP Advisers Limited (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001).
10.24	Supplemental Agreement dated July 19, 2002 to Credit and Security Agreement dated December 13, 2001, as amended, and to Unsecured Credit Agreement dated March 8, 2002 (incorporated by reference to the Quarterly Report on Form 10-Q of the Company for the 13 weeks ended June 29, 2002).
10.25	Supplemental Agreement dated January 9, 2003 to Credit and Security Agreement dated March 2002 (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 28, 2002).
10.26	Amendment to Lease Agreement between Excimer Vision Leasing L.P. and the Company dated March 8, 2002 (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001).
10.27	Form of Guaranty of Fiscal 2002 Shortfall Summary of Terms dated March 2002 in connection with commitments from certain shareholders and/or directors of the Company to secure up to $4 million of additional working capital (incorporated by reference to the Company's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001).
10.28	Form of Convertible Promissory Note issued in connection with November 20, 2002 convertible note offering (incorporated by reference to the Current Report on Form 8-K of the Company filed on November 25, 2002).
10.29	CAP Line Conversion Agreement dated as of November 20, 2003 between the Company and LCO Investments Limited (incorporated by reference to the Current Report on Form 8-K of the Company filed on November 28, 2003).
10.30	Demand Promissory Note dated November 20, 2003 payable by the Company to LCO Investments Limited in the principal amount of $2,000,000 (incorporated by reference to the Current Report on Form 8-K of the Company filed on November 28, 2003).
10.31	Amendment to Lease Agreement between Excimer Vision Leasing L.P. and the Company dated December 12, 2003 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2003).
10.32	Receivable Conversion Agreement dated November 20, 2003 between the Company and Excimer Vision Leasing L.P. (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2003).

10.33	Amended and Restated Consulting Agreement dated December 27, 2003 between the company and John Warner (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2003).
10.34*	Employment Agreement, Confidentiality and Rights Ownership Agreement, Common Stock Purchase Option and Restricted Stock Grant Agreement each dated January 9, 2005 between the Company and Gregg A. Coccari (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2004).

10.35	Form of Securities Purchase Agreement dated as of December 16, 2004, between the Company and the Investors, together with exhibits including form of Senior Convertible Note dated December 16, 2004, due December 16, 2009; form of Warrant to Purchase Common Stock of the Company dated December 16, 2004; and form of Additional Investment Right between the Company and the Investors (incorporated by reference to the Current Report on Form 8-K of the Company filed on December 21, 2004).
10.36	July 2003 Asset Purchase Agreement between BDI and R. Eric Montgomery (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on August 12, 2003).
10.37	Consulting Agreement between BDI and Oraceutical Innovative Properties (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on August 12, 2003).
10.38	$2 million promissory note issued by BDI to LCO Investments Limited (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on August 12, 2003).
10.39	Supply Agreement dated December 21, 2004 between the Company and Oraceutical, LLC (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2004).
10.40	$2.5 million loan agreement between BSML and CAP America Trust: See Agreement dated May 7, 2003 between the Company and CAP America Trust (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2004).
10.41	Amendment to Lease Agreement between Excimer Vision Leasing L.P. and the Company dated July 12, 2005 (incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on November 8, 2005).
10.42*	Letter Agreement between BSML and Nhat Ngo dated October 13, 2005. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005).
10.43*	Letter Agreement between BSML and Robert Sieban, Jr. dated October 13, 2005. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005).
10.44*	Letter Agreement between BSML and Ken Czaja dated November 18, 2005. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005).
10.45*	Letter Agreement between BSML and Julian Feneley dated November 21, 2005. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005).

10.46*	Letter Agreement between BSML and Christopher Edwards dated January 19, 2006. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005).
10.47	Asset Purchase Agreement among BSML, BSML International Limited, BSML Development, Inc. and Discus Dental, Inc. dated December 30, 2005 (incorporated by reference to the Current Report on Form 8-K of the Company filed on January 4, 2006).
10.48	Limited Liability Company Membership Interest Purchase Agreement between BSML and Dental Spas, LLC dated January 13, 2006 (incorporated by reference to the Current Report on Form 8-K of the Company filed on January 19, 2006).
10.49	Contribution Agreement between BSML and BSML Spas, LLC dated January 13, 2006. (incorporated by reference to the Current Report on Form 8-K of the Company filed on January 19, 2006).
10.50*	Letter Agreement between BSML and Ken Czaja dated May 4, 2006 (Incorporated by reference to the Company's current report on Form 10-Q filed on August 21, 2006).
10.51*	Employment agreement, dated December 6, 2006, between Dr. Julian Feneley and the Company (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on December 12, 2006, and incorporated herein by reference.)
10.52*	Employment agreement, dated December 29, 2006, between Richard De Young and the Company (previously filed as an exhibit to the Company's Annual Report on Form 10-K, filed with the Commission on April 9, 2007, and incorporated herein by reference).
10.53	Agreement by and between 18 West 57th Street, LLC, and LCO Properties, Inc., dated as of August 14, 2007 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on August 17, 2007, and incorporated herein by reference).
10.54	Employment Agreement between the Company and Andrew Rudnick dated as of December 6, 2007 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on December 11, 2007, and incorporated herein by reference).
10.55	Support Services Agreement between the Company and Sleek, Inc., dated as of December 6, 2007 (previously filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on December 11, 2007, and incorporated herein by reference).
14	Code of Ethics (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2003).
21.1	Subsidiaries of the Company. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005).
23	Consent of Stonefield Josephson Inc. (filed herewith)

31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* Denotes management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BSML, INC.

By: /s/ Jeffery Nourse

Jeffery Nourse
Chief Executive Officer
(Principal Executive Officer)

By: /s/ James P. Cullin

James P. Cullin
Vice President of Finance
(Principal Financial and Accounting Officer)

Date: April 13, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeffery Nourse Jeff Nourse	Chairman of the Board of Directors	April 13, 2009
/s/ Louise Talbot Louise Talbot	Director	April 13, 2009
/s/	Director	April 13, 2009

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of BSML, Inc.
Boca Raton, FL

We have audited the accompanying consolidated balance sheets of BSML, Inc. as of December 27, 2008 and December 29, 2007, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the two years in the period ended December 27, 2008 and December 29, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BSML, Inc. as of December 27, 2008, and December 29, 2007, and the results of its operations and its cash flows for each of the two years in the period ended December 27, 2008 and December 29, 2007 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has yet to achieve profitability and had an accumulated deficit of $178,204,000 and a working capital deficiency of $5,104,000 as of December 27, 2008 and incurred a net loss from continuing operations and net cash used by operating activities of $1,681,000 and $5,422,000, respectively, for the fiscal year ended December 27,2008. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Stonefield Josephson, Inc.

Los Angeles, California
April 13, 2009

BSML, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 27, 2008	December 29, 2007
ASSETS:		
Current Assets;		
Cash and cash equivalents	$ 187	$ 3,512
Trade accounts receivable	573	241
Inventories	863	753
Investments, restricted as to use	108	2,288
Prepaid expenses and other current assets	365	370
Total current assets	2,096	7,164
Property and equipment, net	2,142	3,036
Investments, restricted as to use		290
Deposits	755	899
Other	21	19
Total assets	$ 5,014	$ 11,408
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities;		
Accounts payable	$ 3,175	$ 1,555
Accrued liabilities	2,621	4,970
Accrual for Center closures	25	129
Prepaid and Gift certificate liability	456	1,721
Deferred revenue	922	2,746
Total current liabilities	7,199	11,121
Long-term liabilities		
Accrual for Center closures		202
Deferred revenue	205	585
Accrued rental costs	253	632
Total long-term liabilities	458	1,419
Total liabilities	7,657	12,540
Commitments and Contingencies		
Shareholders' equity (deficit):		
Common stock, $.001 par value, 50 million shares authorized and 12,332,544 and 12,443,713 shares issued and outstanding, respectively	40	39
Preferred stock, 5 million shares authorized, none outstanding at either date		
Additional paid-in capital	175,621	175,452
Accumulated deficit	(178,204)	(176,623)
Total Shareholders' equity (deficit)	(2,643)	(1,132)

Total liabilities and shareholders’ equity (deficit)	$	5,014	$	11,408

See accompanying notes to consolidated financial statement.

BSML, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except data share)

	For fiscal year ended: December 27, 2008	December 29, 2007
Revenues	$ 18,128	$ 25,038
Operating costs and expenses		
Operating and occupancy costs	13,836	14,097
Selling, general and administrative expenses	5,156	14,775
Depreciation and amortization	830	1,427
Total operating costs and expenses	19,822	30,299
Loss from operations	(1,694)	(5,261)
Interest income	29	368
Loss on Impairment	(438)	
Interest expense		(8)
Other income (expense)	422	386
Loss from continuing operations before income tax provision	(1,681)	(4,515)
Income tax provision (credit)		(150)
Net loss from continuing operations	(1,681)	(4,365)
Discontinued operations:		
Income (loss) from discontinued operations, net of tax (fiscal year ended December 29, 2007 includes loss on settlement of claim, net of tax of $798 thousand;		(798)
Net income (loss) attributable to common shareholders	$ (1,681)	$ (5,163)
Amounts per common share:		
Basic and diluted net loss from continuing operations	$ (0.13)	$ (0.40)
Basic net income (loss) from discontinued operations	$ (0.00)	$ (0.07)
Basic net income (loss)	$ (0.13)	$ (0.47)
Diluted net income (loss)	$ (0.13)	$ (0.47)
Shares used in computing above amounts:		
Basic and diluted net loss from continuing operations	12,387,823	10,902,223
Basic net and diluted lossfrom discontinued operations	12,387,823	10,902,223

See accompanying notes to consolidated financial statements.

BSML, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	The fiscal year ended: December 27, 2008	December 29, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (1,681)	$ (5,163)
Adjustments to reconcile to net cash (used in) operations:		
Depreciation and amortization	830	1,427
Loss on disposal of property and equipment (gain)	1	1
Impairment charges	438	—
Loss on legal settlements from discontinued operations	—	798
Stock compensation expense	169	1,408
Settlement of litigation (issuance of common stock)		141
Changes in assets and liabilities:		
Trade accounts receivable	(332)	(28)
Inventories	(110)	520
Prepaid expenses and other current assets	5	(127)
Other assets	142	40
Accounts payable	1,620	(215)
Accrued liabilities	(1,513)	(1,749)
Accrual for Center closures	(104)	(97)
Prepaid and Gift certificate liability	(1,265)	(54)
Deferred revenue	(2,204)	(611)
Other long-term liabilities	(379)	(260)
Net cash provided by (used by) operating activities-discontinued operations		(857)
Net cash (used in) operating activities	(5,422)	(4,826)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment-continuing operations	(373)	(239)
Proceeds from assets held for sale continuing operations		35
Investments, restricted as to use	2,470	3,808
Proceeds from sale of investment	—	—
Net cash provided by (used in) investing activities	2,097	3,604
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,225)	(1,222)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	3,512	4,734
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 187	$ 3,512
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$	$ 8
Cash(received) paid for income taxes		(158)
SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES		

Common stock issued for services	$ 169	$ 1,408
Common stock issued for settlement of litigation	---	$ 141

See accompanying notes to consolidated financial statements.

BSML, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Common Shares	Common Stock at Par	Additional Paid-In Capital	Accumulated Deficit	Total
Balance at December 25, 2005	10,549	38	173,340	(175,829)	(2,451)
Stock option compensation expense			281		281
Expenses paid by related party			20		20
Non-cash compensation-stock grant	115	1	262		263
Net income and comprehensive income				4,369	4,369
Balance at December 30, 2006	10,664	39	173,903	(171,460)	2,482
Stock option compensation expense			81		81
Non-cash compensation-stock grant	1,699		1,327		1,327
Settlement of litigation	80		141		141
Net (loss) and comprehensive (loss)	—	—	—	(5,163)	(5,163)
Balance at December 29, 2007	12,443	$ 39	$ 175,452	$ (176,623)	$ (1,132)
Non-cash compensation-stock grant	1,129	1	169		169
Cancellation of prior restricted stock	(1,240)				
Net (loss) and comprehensive (loss)	—	—	—	(1,681)	(1.681)

Balance at December 27, 2008	12,332	$	40	$	175,621	$	(178,722)	$	(2.643)

See accompanying notes to consolidated financial statements.

BSML, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

BSML, Inc. is a Utah corporation ("BSML" or the "Company") formerly known as BriteSmile, Inc. The Company and its affiliates develop, distribute, market and sell advanced teeth whitening technology, products, systems and services and provide certain cosmetic dental procedures such as veneers and the Invisalign products (a series of clear, removable, plastic aligners that are custom-made for a patient's teeth) in various locations throughout the United States. The Company's operations include the development of technologically advanced whitening processes and cosmetic dental procedures that are provided and distributed in professional salon settings known as BriteSmile Professional Teeth Whitening Centers ("Centers"). Prior to March 2006, the Company also offered its products and technologies through arrangements with existing independent dental offices known as BriteSmile Professional Teeth Whitening Associated Centers ("Associated Centers"). The Company's Associated Centers business was sold in March 2006; see Note 3. The Company's business is focused on one industry segment: products and procedures to whiten teeth.

The financial data of the Associated Centers has been prepared in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144), issued by the Financial Accounting Standards Board ("FASB"). Accordingly, the results of operations for the Associated Centers for all years presented have been reflected as discontinued operations. There were no assets or liabilities of the Associated Centers business as of December 30, 2006.

Going concern

As of the date of this Report, the Company had yet to achieve profitability. The Company had an accumulated deficit of $178,204,000 and working capital deficiency of $5,104,000 as of December 27, 2008, and net loss from continuing operations and net cash used by operating activities of $1,681,000 and $5,422,000, respectively, for the fiscal year ended December 27, 2008. The Company's principal sources of liquidity historically have been proceeds from issuance of common stock and debt and related financial instruments, and in the prior fiscal year, from the sale of its Associated Centers business. The Company's long-term debt was fully paid in March 2006 from the sale proceeds as required by the debt holders. The Company is not certain if its cash will be sufficient to maintain operations of the company at least through the next year due to the uncertainty of the Company's ability to generate positive cash flow.

Except for items resulting from discontinued operations which has been accounted for in accordance with SFAS No. 144, the consolidated financial statements otherwise 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 2009.

Accordingly, BSML management believes that these factors raise substantial doubt as to whether the going concern basis of accounting reflected in these consolidated financial statements continues to be appropriate. The Company's liquidity position may improve or deteriorate depending on these changing conditions. The accompanying consolidated financial statements do not include any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Summary of Significant Accounting Policies

Year-End

The Company’s year-end is the last Saturday in December of each year. The Company’s fiscal 2008 included 52 weeks and its fiscal years 2007 and 2006 included 52 and 52 weeks, respectively.

Consolidation

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 for financial reporting purposes because the Company has a controlling financial interest in the Centers. All inter-company balances and transactions have been eliminated upon consolidation.

Reclassifications

Certain amounts for the prior year have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are recorded at cost which approximates fair value.

Cash and Short-Term Investments, Restricted as to Use

At December 27, 2008, and December 29, 2007, the Company had restricted cash balances of $108,000 and $2,578,000, respectively, relating to remaining funds to be received in connection with sale of the Associated Center business in 2006, collateralized letters of credit and merchant banking reserve requirements. As further described in Notes 10, in February 2008, restricted cash of approximately $1.5 million was released to pay obligations; the balance of approximately $1.1 million that was released to the Company has been reported as unrestricted at December 29, 2007.

Concentrations of Credit Risk

Credit Risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist principally of cash and cash equivalents.

The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located throughout the United States of America. The Company’s policy is designed to limit exposure to any one institution. The Company has not experienced any significant losses on its cash and cash equivalents. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company’s investment strategy. The Company does not require collateral on these financial instruments. The Company maintains cash balances that sometimes exceed the Federal Deposit Insurance Corporation (“FDIC”) insured level of $250,000 per account; as of December 27, 2008, the Company had no bank cash balances that exceeded the

FDIC insured limit per account.

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of entities comprising the Company's customer base. No one customer accounted for 10% or more of revenue during any of the years covered in this Report.

Supply Risk

The Company believes it has access to sufficient quantities of goods and materials at competitive prices to enable it to operate effectively. However, the Company currently has only one contracted supplier for its whitening gel and BTG products. See Note 11.

Revenue Recognition

The Company recognizes revenue related to retail products at the time such products are shipped to customers and procedure revenues at the time the procedure is performed. Revenue is reported net of sales tax, discounts and allowances. In the third quarter of 2004, the Company introduced its SmileForever program. Under this program, Center customers could, for an additional fee, receive a limited number of touch-up procedures over a specified term, typically one to two years. The revenue associated with this program is deferred and recognized over the contractual term. Additionally, in cases where SmileForever revenue is bundled with procedure revenue and / or revenue from retail product sales, revenue is allocated to SmileForever using the fair values of the components of the bundle per the requirements of Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," ("EITF 00-21"), and the revenue so allocated is then deferred and recognized over the contractual term. At December 27, 2008 and December 29, 2007, the deferred revenue balances associated with this program were approximately $1.1 million and $3.3 million, respectively.

Prior to the sale of the Associated Centers business, the Company's operations involved the shipment of key cards and activation codes to Associated Centers, thereby permitting them to perform procedures. For domestic Associated Centers, the Company deferred the revenue generated on the sale of key cards and activation codes and recognized the revenue over the estimated performance period. For its customers outside of the United States, primarily distributors who sold to dentists, the Company deferred the revenue generated on the sale of key cards and activation codes and recognized related income over the estimated sell-through period for the distributor. Additionally, revenue from procedure sales was deferred if any of the components necessary to perform the procedure had not been sent to the dentist or distributor. The Company's policy was to refuse the return of key cards or access codes during the course of the agreement with an Associated Center or a distributor.

Comprehensive Income

The Company has no comprehensive income other than as presented on its consolidated statements of operations.

Allowance for Doubtful Accounts: Trade

The Company maintains allowances for doubtful accounts for estimated losses resulting from the potential inability of its customers to make required payments. As of December 27, 2008 and December 29, 2007, the Company's trade accounts receivable were essentially all related to one customer that the Company deemed credit worthy; therefore, no allowance for doubtful accounts has been established. If the financial condition of this customer deteriorates, or if the Company establishes trade credit relationships with other customers, allowances may be required.

Inventories

Inventories are stated at the lower of average cost or market. The Company 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 market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Inventories consist primarily of teeth whitening products and components, marketing materials and displays, and replacement component parts for the teeth whitening systems.

Property and Equipment

Property and equipment is stated at cost. Expenditures for maintenance and repairs are charged to expense as incurred, and expenditures for additions and betterments are capitalized. Furniture, fixtures and equipment are depreciated over their estimated useful lives, ranging from three to seven years, using the straight-line method. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the remaining term of the lease (useful life of five to ten years). Property and equipment consists of the following at year end 2008 and 2007 (in thousands):

	2008	2007
Furniture, fixtures and equipment	$6,684	$6,654
Leasehold improvements	10,863	11,626
	17,547	18,280
Less accumulated depreciation and amortization	(15,405)	(15,244)
Net property and equipment	$2,142	$3,036

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. Management's review of its inventory of tax positions indicated that there are two positions that are judged not to meet the standard of "more likely than not" to be upheld upon audit. Specifically, prior to 2006 the Company recorded gift card revenue as earned when utilized as opposed to when the cash was received. In addition the Company recorded revenue from its Smile Forever Program over an estimated two year period as opposed to a one year period of deferral as permitted under the tax code. The Company no longer is offering the Smile Forever program These positions would create a timing differences as to when revenue is recognized on the Company's financial statements as compared to its tax return. However any tax, if due, would be offset by the substantial net operating loss deductions the company has. Accordingly, in accordance with FIN48 the Company has not recorded a liability for uncertain tax positions nor did we record any unrecognized tax benefits and no adjustments were recorded to the beginning balance of retained earnings on the balance sheet.

Advertising

Costs of advertising are expensed as incurred. Advertising costs related to continuing operations were $1.1 million, and $4.4 million for 2008, and 2007, respectively. Advertising costs related to discontinued operations, included in "Income (loss) from discontinued operations, net of tax" in the accompanying consolidated statements of operations, were $0.5 million for 2006 respectively.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R), the restatement of SFAS No. 123, "Accounting for Stock-Based Compensation" This standard requires that compensation cost relating to share-based payment transactions with employees be recognized in its financial statements. Prior to January 1, 2006, the Company accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations. The pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition. The Company has adopted SFAS No. 123(R) on a modified prospective basis, which requires that compensation cost relating to all new awards and to awards modified, repurchased, or cancelled be recognized in financial statements beginning January 1, 2006. Additionally, SFAS No. 123(R) requires that compensation cost for the portion of awards that were outstanding as of January 1, 2006, and for which the requisite vesting period was not completed as of January 1, 2006, to be recognized as the requisite vesting is rendered on or after January 1, 2006. Such compensation expense is based on the value of the portion of the share-based award that is ultimately expected to vest during the period. SFAS No. 123(R) further requires that the tax benefits resulting from tax deductions in excess of the compensation cost recognized for related options be classified as financing cash flows rather than operating cash flows as required prior to the adoption of SFAS No. 123(R). No options were exercised during fiscal 2007 or 2006, and the Company therefore had no such tax benefits relating to option exercises.

In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

Option valuation models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected life of the option. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Product Development Cost

Costs associated with the development of new products or services are charged to operations as incurred. The Company incurred no such development costs in 2008 or 2007.

Income Taxes

The Company uses the liability method of accounting for income taxes pursuant to SFAS No. 109, "Accounting for Income Taxes." Under the liability method, deferred tax assets and liabilities are provided on differences between the financial reporting and taxable loss, using the enacted tax rates.

The Company has elected to record interest and penalties recognized in accordance with FIN No. 48 in the consolidated financial statements as a component of income tax expense. Any subsequent change in classification of interest and penalties will be treated as a change in accounting principles subject to the requirements of SFAS No. 154, "Accounting Changes and Error Corrections."

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company does not generally perform a periodic assessment of assets for impairment in the absence of such information or indicators. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, the Company measures fair value based on quoted market prices or based on discounted estimates of future cash flows. Long-lived assets to be disposed are carried at fair value less costs to sell.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in establishing its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable, accounts payable, and accrued liabilities: The carrying amount reported in the consolidated balance sheet for accounts receivable, accounts payable, accrued liabilities and other current liabilities approximates its fair value.

Debt: As of December 27, 2008 and December 29, 2007, the Company had no debt.

Loss Per Common Share Basic net loss per common share is calculated as net loss divided by the weighted-average number of common shares outstanding. Diluted net loss per common share is calculated as net loss divided by the weighted-average number of common shares including equivalent shares from stock options and warrants, using the treasury stock method, and convertible notes payable, provided that the result is not anti-dilutive. The following numbers of shares represented by options, warrants (prior to application of the treasury stock method) and convertible debt were excluded from the determination of diluted per share earnings because the result was anti-dilutive:0.3, 0.4 million in 2008, 2007 respectively.

Recent Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principals” (“SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 162 will become effective following approval by the Securities and Exchange Commission. Company does not believe SFAS 162 will have an impact on our consolidated financial statements.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 160, “Noncontrolling Interests in Consolidated Financial Statements- an Amendment of ARB No. 51s,” which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The provisions of SFAS No. 160 are effective for fiscal years beginning on or after December 15, 2008. The Company has evaluated SFAS No. 160 and does not believe its adoption will have a significant impact on its consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” which provides that companies may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the “fair value option,” will enable some companies to reduce the variability in reported earnings caused by measuring related assets and liabilities differently. Companies may elect fair-value measurement when an eligible asset or liability is initially recognized or when an event, such as a business combination, triggers a new basis of accounting for that asset or liability. The election is irrevocable for every contract chosen to be measured at fair value and must be applied to an entire contract, not to only specified risks, specific cash flows,or portions of that contract. SFAS No. 159 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2007. Retrospective application is not allowed. Companies may adopt SFAS No. 159 as of the beginning of a fiscal year that begins on or before November 15, if the choice to adopt early is made after SFAS No. 159 has been issued and within 120 days of the beginning of the fiscal year of adoption and the entity has not issued any financial statements in accordance with GAAP for any interim period of the fiscal year that includes the early adoption date. Companies are permitted to elect fair-value measurement for any eligible item within the scope of SFAS No. 159 at the date they initially adopt SFAS No. 159. The adjustment to reflect the difference between the fair value and the current carrying amount of the assets and liabilities for which a company elects fair-value measurement is reported as a cumulative-effect adjustment to the opening balance of retained earnings upon adoption. Companies that adopt SFAS No. 159 early must also adopt all requirements of SFAS No. 157 at the early adoption date. Management is assessing the impact of adopting SFAS No. 159 and currently does not believe the adoption will have a material impact on its consolidated results of operations or financial condition.

.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," which establishes new principles and requirements for business combinations as to how the acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. The statement also addresses other business combination issues: goodwill acquired, gain from a bargain purchase and various disclosure requirements.

From time to time, new accounting pronouncements are issued by the FASB and other standard-setting bodies 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.

3. Discontinued Operations

Sale of Business

On March 13, 2006, the Company and its wholly owned subsidiaries, BriteSmile International Limited, an Ireland corporation, and BriteSmile Development, Inc. ("BDI"), a Delaware corporation (collectively, the "Sellers") completed an asset sale with Discus Dental, Inc., a California corporation ("Discus"), where Discus acquired the assets and the operations of the Associated Centers for approximately $26.8 million plus the assumption of certain operating liabilities. Simultaneously, the parties entered into a global settlement of the litigation proceedings between the parties. Discus and the Company agreed that $8.7 million of the purchase price of $35.5 million, prior to consideration of related deal costs, legal expenses and income taxes, for the Associated Centers business and the Company's intellectual property should be in settlement of all litigation between the Company and Discus. All litigation between the Company and Discus has now been dismissed; see Note 10.

The assets sold to Discus included certain tangible assets and proprietary rights related to the Associated Centers business, including the BriteSmile name and trademark, and substantially all intellectual property rights. Discus acquired the intellectual property subject to certain existing technology and trademark licenses in favor of Sellers that permit the operation of the Centers business of the Sellers and sales of certain retail products under the BriteSmile trademark. Discus also acquired all rights and claims against third parties relating to the intellectual property, except for the Company's claims against third parties who may have infringed certain patents in the whitening strips field. The Company retained these claims under a license from Discus.

Based on the purchase prices described above for the sale of the Associated Centers business, the proceeds were greater than the carrying values of the assets and liabilities sold and thus there is no impairment of the related recorded values.

.

4. Accrual for Store Closures

The following table sets forth the activity related to store closures during the fiscal years ended December 27, 2008 and December 29, 2007, respectively (in thousands):

	Accrual for Store Closures at Beginning of Year	Restructuring Expense	Cash Paid	Accrual for Store Closures at End of Year
2008 lease liability	$ 331	$	$ (206)	$ 25
2007 lease liability	$ 428	$ 45	$ (142)	$ 331

5. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 27, 2008	December 29, 2007
Salaries and benefits	$ 659	$ 321
Professional services/settlement of litigation	355	2,084
Property taxes	109	508
Sales taxes	1,115	1,223
Advertising	-	293
Other accrued expenses	383	541

Total	$ 2,730	$ 4,970

6. Leases

The Company is party to leases for its Centers throughout the United States. These leases expire at various dates ranging from 2008 through 2015. Certain of the leases also provide for renewal options; there are no purchase options. Future minimum payments under with initial terms of one year or more consisted of the following at December 27, 2008 (in thousands):

2009	$ 2,487
2010	815
2011	526
2012	530
2013	367
Thereafter	223
Total minimum lease payments	$ 4,949

Rent expense attributable to continuing operations was $3.1 million, and $4.1 million, , for 2008,and 2007 respectively.

As of December 30, 2006, the Company is no longer party to capital leases, all such leases being fully paid and or cancelled subsequent to the sale of the Associated Centers business.

7. Income Taxes

Income tax expense consists of (in thousands):

	2008	2007

Current:				
Federal (see below)	$	(0)	$	(126)
State (see below)		(0)		(52)
Total	$	(0)	$	(178)

The 2007 provision includes refunds of the prior year federal and state income taxes. Federal income taxes in 2006 result from application of Alternative Minimum Tax requirements. Of the $178,000 credit for income taxes in fiscal 2007, $28,000 relates to discontinued operations and $150,000 relates to continuing operations

Deferred income taxes reflect the net tax effects of net operating loss and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows (in thousands):

		2008		2007
Deferred tax assets:				
Current:				
Reserves and accruals	$	910	$	1,407
Other, net		7		7
Current deferred tax asset		917		1,414
Long-term:				
Net operating loss carryforwards		53,413		51,978
		3,146		3,283

Depreciation and amortization		
Stock based compensation	595	595
Other	409	—
Long-term deferred income tax assets	57,563	55,856
Total deferred tax assets	58,480	57,270
Valuation allowance	(58,480)	(57,270)
Net deferred tax assets	$ —	$ —

A reconciliation of the Federal statutory tax rate to the Company's effective tax rate is as follows:

	2008	2007
Provision at statutory tax rate	(34.0)%	(34.0)%
State income tax, net of Federal benefit	-	.6%
Permanent difference	(7.3)%	(19.3)%
Valuation allowance	41.3%	49.2%
Total	0	(3.5)%

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance incecreased by $1.2 million during 2008 and decreased by $4.4 million during 2007 ..

As of December 27, 2008, the Company had net operating loss carry forwards for Federal income tax purposes of approximately $136 million, which expire in the years 2009 through 2027, Federal research and development tax credits of approximately $362,000, which expire in the years 2008 through 2019, and alternative minimum tax credit carryovers of approximately $47,000. As of December 27, 2008, the Company had net operating loss carryforwards for state income tax purposes of approximately $117 million, which expire in the years 2008 through 2017.

.

A portion of the Federal and state losses is attributable to the professional corporations formed to comply with the corporate practice of medicine statutes in the jurisdictions where the company has operations. These professional corporations are not consolidated for income tax purposes. Utilization of the Company's net operating loss and credit carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and credits before utilization.

The Company files income tax returns in the U.S. federal and in the state of California. Our centers, which operate as professional corporations, also file federal income tax returns and state income tax returns in their respective states. The Company is currently not under any examination by nor has it received notices of examination from tax authorities.

9. Shareholders' Equity

The Company's shareholders authorized the creation of 5,000,000 shares of "blank check" preferred stock at the shareholders' meeting held on September 30, 2005. No shares had been issued as of December 29, 2007.

Valuation and Expense Information under SFAS No. 123(R)

SFAS No. 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model, which requires assumptions regarding future price volatility, expected life prior to exercise and expected future dividends. The Black-Scholes model also requires input of the risk-free Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. In the fiscal 2008 and 2007 calculation, the Company assumed the following regarding stock-based awards:

	Year Ended December 29, 2007
Risk-free interest rate	4.61%
Expected life of options (years)	2.66
Expected volatility	121%
	None

Expected dividends	
Forfeiture rate	10%

The assumptions above are based on multiple factors, including historical exercise patterns of employees. The Company uses historical data to estimate the options' expected term, which represents the period of time that options granted are expected to be outstanding. Volatility is also based on historical run-rate. Because, BSML has never paid and does not expect to pay dividends, it uses an expected dividend yield of zero when calculating the fair value of stock options. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve. The Company revised its expected forfeiture rate to 10%, effective July 2, 2006, to reflect the completion of restructuring efforts associated with the sale of the Associated Centers business in March 2006 (see Note 3). The Company generally uses this forfeiture rate except in specific cases where termination is known or likely, in which case the forfeiture rate to be applied is adjusted accordingly.

For the fiscal years 2008 and 2007, the Company recognized stock compensation expense related to stock options of approximately $169,000 and $81,000, respectively, as a result of the adoption of SFAS No. 123R.

In accordance with an employment agreement with the current CEO, Jeffery Nourse. the Company recognized stock compensation expense of $169,000 related to a grant of 1,128,000 restricted common shares. In 2007 The per share fair value on the date of the grant was $0.15. As of December 30, 2006, all shares of common stock related to this grant vested

All of the Company's stock compensation expense has been included as a component of selling, general and administrative expense.

Stock Option Plans

In January 1997, the Company adopted the 1997 Stock Option and Incentive Plan ("1997 Plan"). Under the terms of the 1997 Plan, as amended to date, and as approved by the Company's shareholders, 1,900,000 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. Prior to 2006, options granted were generally scheduled to vest over a two to five-year period. Option grants made in 2006 vested over six months, and were entirely vested at December 30, 2006. The Company's option grants have a maximum term of ten years. No further options can be issued as the 1997 Plan expired in January 2007.

A summary of the Company's stock option activity and weighted-average exercise price per share for the periods ended December 27, 2008 and December 29, 2007 is as follows:

	Options	Per share
Options outstanding at December 30, 2006	487,490	$ 13.88
Granted	40,000	$ 1.77
	(425,740)	$ 15.55

Forfeited or cancelled			
Options outstanding and exercisable at December 29, 2007	101,750	$	2.15
Granted	261,000		
Forfeited or cancelled	(287,750)		
Options outstanding and exercisable at December 27, 2008	75,000	$	.40

With respect to the options outstanding and exercisable at December 27, 2008, the weighted-average remaining contractual term and the aggregate intrinsic value amounts are 8.51 years and $21,070, respectively. The weighted average fair value of options granted during 2008, and 2007, using the Black-Scholes option pricing valuation model, was $.40 and $1.48, respectively.

A summary of the status of options outstanding and exercisable at December 27, 2008 is as follows:

Outstanding and Exercisable Options			
Range of Exercise Price per Share	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price per Share
$ 0.40 — $ 1.77	75,000	8.51	$0.40

Warrants

As of December 29, 2008, the Company had 0 warrants for common stock outstanding. The exercise price of the warrants is $6.00 per share. The warrants expired April 2008. During 2007, no warrants were exercised and 34,555 warrants were cancelled. As of December 30, 2006, the Company had 367,888 warrants for common stock outstanding with exercise prices ranging from $6 to $30 per share.

Shares Reserved for Future Issuance

In summary, the Company has reserved shares of common stock for future issuance as follows as of December 27, 2008:

Employee stock options outstanding	75,000
Non-employee stock options outstanding	0
Warrants outstanding	0

Notwithstanding the availability of stock options for grant under the 1997 Plan, the Company's Board of Directors has determined that no future stock option grants will be made.

10. Litigation

From time to time the Company is the subject of legal actions. There are no current pending legal actions involving the Company that are expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company is subject to legal proceedings and claims in the ordinary course of business, including claims of alleged personal injury, employee disputes, infringement of trademarks and other intellectual property rights. However, the Company believes any such claims that have been presented to the Company as of the date of this report are without merit and the Company will vigorously defend against any such claims.

Andrew Rudnick & Sleek, Inc., v. BSML, Inc., Circuit Court, 17th Judicial Circuit, Broward County, Florida, Case No. 08 30137. On June 30, 2008, Andrew Rudnick, the Company's former CEO, and Sleek, Inc. a company controlled by Rudnick (the "Rudnick Plaintiffs") filed suit against the Company alleging breach of an Amended and Restated Support Services Agreement and breach of a Separation and Release of Claims Agreement and fraud in the inducement relating to both agreements. The Rudnick Plaintiffs subsequently amended the complaint to allege conversion and to seek specific performance and permanent injunctive relief against the Company. As of the date of this Report, the Company had not filed its answer. The Company intends to defend itself vigorously against the allegations of the amended complaint and to assert various counter claims against the Rudnick Plaintiffs.

The following claims have been settled or dismissed:

2012710 Ontario Inc. Pure Laser Hair Removal & Treatment Clinic(carrying on business as Pure Med Spa, Pure Laser Hair Removal and Treatment Clinics Inc.) and Investment Partnership (2006) LP v. BSML, Inc., and Jeff Nourse, Ontario Superior Court of Justice, Court File CV-08-00359260-0000. In July 2008, 2012710 Ontario Inc. Pure Laser Hair Removal & Treatment Clinic and Investment Partnership (2006) LP (the "Canadian Plaintiffs") brought an action against the Company and Jeff Nourse, the Company's current CEO, alleging, among other claims, breach of Mr. Nourse's fiduciary duty while an officer with Pure Med Spa, breach of duties following his resignation from Pure Med

Spa, breach of a non-competition agreement, interference with Pure Med Spa's suppliers, interference with potential investors, misappropriation of Pure Med Spa's website, and improper disclosure of Pure's confidential information. The Canadian Plaintiffs sought compensatory damages and punitive damages. This matter was dismissed with prejudice on April 1, 2009.

Douglas Wu vs. BSML, Inc. and Andrew Rudnick, Contra Costa County Superior Court, California, Case No. C08-00358. On February 21, 2008, Mr. Wu filed a complaint asserting a single cause of action alleging breach of contract for failing to pay $70,000 in severance allegedly due upon Mr. Wu's termination of employment. The Company denies the allegations of the complaint. The claim against Mr. Rudnick was subsequently dismissed for lack of jurisdiction. On November 12, 2008, the Company and Mr. Wu reached a settlement in principal whereby the Company agreed, without admitting liability, that the Company would pay $23,333 to Mr. Wu not later than December 31, 2008. In exchange, Mr. Wu agreed to execute a general release and to dismiss the lawsuit. The parties signed a written settlement agreement, and the case was dismissed with prejudice on January 21, 2009.

Green River Junction, Inc. v. BSML, Inc, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 08CV2372. In May 2008, Green River Junction, Inc. ("Green River Plaintiffs") brought action against the Company alleging, among other claims breach of contract, unjust enrichment and wrongful withholding of commissions. On September 23, 2008, the parties participated in a court-ordered settlement conference. On October 22, 2008, the Company settled the lawsuit with the Green River Plaintiffs. The settlement calls for the Company to pay as full settlement of all claims the sum of $180,000. Payments are due as follows: $30,000 immediately; $3,000 in December 2008; monthly payments of $9,000 from January through September 2009 and monthly payments of $11,000 from October 2009 through March 2010. The amount of the settlement was fully accrued by the Company

Claims of Longlife Health Ltd

Discus Dental Inc. ("Discus"), the purchaser of the Company's Associated Center business and other assets in March 2006 (see Note 3), notified the Company in the first quarter of 2007 of a pending dispute over collection of receivables from Longlife Health Ltd. ("Longlife"), the Company's former distributor in the United Kingdom. Subsequent to the sale of the Associated Centers business, Discus terminated Longlife's distribution agreement. Longlife thereafter alleged that the termination of the distribution agreement was wrongful and, in response, withheld payment of the receivables due to Discus. A portion of the receivable in question was a component of the assets sold to Discus. As a result, Discus notified the Company that Longlife's claims gave rise to a claim that the Company was in breach of certain representations made in the March 2006 Asset Purchase Agreement and exercised its rights to block disbursement to the Company of $3.5 million in funds escrowed at the time of the sale.

In October 2007, the Company reached a settlement with Longlife and Discus regarding these issues. Under the terms of the settlement, $1,005,396 was paid to Discus from the escrowed funds, with Discus remitting $581,588 of these funds to Longlife in settlement of its claim. The Company received $109,443 from the escrowed funds. The balance of the escrowed funds (plus interest) was released in the settlement of the litigation with Oraceutical LLC; .

Claims of Oraceutical LLC, Oraceutical Innovative Properties LLC, and R. Eric Montgomery:

In April 2007, Oracautical LLC, Oraceutical Innovative Properties LLC, and R. Eric Montgomery, a former director of the Company (collectively, "Oraceutical") filed suit in California state court naming as defendents the Company and its subsidiary, BriteSmile Development, Inc. ("BDI"), the Company's former Chief Executive Officer Julian C. Feneley ("Feneley"), and the Company's former Chairman of the Board Anthony M. Pilaro ("Pilaro"). The complaint also names as defendants Discus and its subsidiary BriteSmile Professional, Inc., neither of whom is affiliated with the Company.

Oraceutical's Amended Complaint sought to recover at least $11.3 million plus punitive and exemplary damages. The Amended Complaint asserted claims against the Company and BDI for breach of contract, breach of the implied covenant of good faith and fair dealing, fraud, violations of California law and accounting, and asserted a fraud claim against Feneley and Pilaro. The complaint also included a declaratory judgment claim again the Company, BDI and Discuss.

Oraceutical's claims were based on an Asset Purchase Agreement, as subsequently amended (the "APA"), and entered into between Oraceutical, the Company and BDI in July 2003. Pursuant to the APA, BDI acquired intellectual property consisting primarily of certain United Stated and foreign patents, patent applications, continuations, continuations-in-part, trade secrets, technologies, know-how, trademarks and trade names relating to human oral care for a purchase price of $6.4 million, plus a participation interest, after offsets and deductions, in third-part royalties and infringement recoveries relating to the intellectual property acquired.

In March 2006, certain assets of the Company, including the intellectual property acquired from Oraceutical, were sold to Discus in a transaction valued at $35 million, of which $8.7 million was allocated to settlement of patent infringement litigation against Discuss. In connection with this transaction, the Company and Discus deposited $3.5 million in escrow (as discussed above with reference to the Lonlife claim). In its complaint, Oraceutical claimed that the value of the patent infringement claims and asserted that if the claims were valued fairly, Oraceutical would have shared in a portion of the recovery under the terms of the APA. Oraceutical also sought a declaration that Discus was bound by the terms of the APA as the party who acquired the subject intellectual property from BDI.

In June 2007, the Company filed a counterclaim against Oraceutical alleging fraud and misrepresentation in connection with representations made to the Company at the time of the Company acquired the intellectual property which, in part, was the subject of litigation, together with claims for breach of the APA.

Effective January 2, 2008, Oraceutical, the Company and BDI, Feneley, Pilaro, and Discus entered into a global settlement of these claims and counterclaims. As consideration for the settlement, the parties agreed to disburse all remaining funds held in escrow as follows: $1,366,155 was released to Oraceutical, $73,225 was released to Discus, $95,000 was released to Pilaro, as reimbursement of legal fees and the balance of the escrowed funds of $1,130,923 was released to the Company. In addition, the parties gave mutual releases of all claims between them arising before the date of the settlement agreement, Oraceutical and the Company entered into an Amended and Restated Consulting Agreement which amends and restates in its entirety the Consulting Agreement entered into between them on July 1, 2003, and the Company delivered to Oraceutical, with Discus's consent, an Assignment of Patent License Agreement pertaining to whitening strips. Oraceutical agreed that, other than the rights assigned pursuant to the Patent License Agreement, it had no right, title or interest in the intellectual property that was transferred by the Company to Discus, nor any rights, interests, royalties, recoveries or other proceeds thereof. All of the claims asserted in the litigation were dismissed with prejudice on February 15, 2008. The Company has accrued this lawsuit settlement in prior year and accordingly no additional accrual is necessary for the fiscal year ended December 29, 2007.

Smile Inc. Asia Pte. Ltd. v. BriteSmile. In April 2002, Smile Inc. Asia Pte. Ltd. ("Smile") sued the Company and BriteSmile Management, Inc., a wholly-owned subsidiary of the Company ("BriteSmile Management"), in Utah state court. Among other charges, the complaint sought $10 million in damages and alleged that BriteSmile Management breached its 1998 distributor agreement for laser-aided teeth whitening devices with Smile (exclusive as to Singapore and other surrounding countries) by failing to fill orders placed and to perform other obligations under the agreement.

On August 7, 2007, the Company settled this matter through payment to Smile of $1.5 million under the terms of a settlement agreement that provided for the mutual release of all claims asserted in the lawsuit.

BriteSmile, Inc. v. Discus Dental, Inc. and Salim Nathoo, filed in the United States District Court for the Northern District of California (the "Discus Patent Litigation"). As described in more detail in Note 3, this case was dismissed in

March 2006 in connection with the sales transaction with Discus.

BriteSmile Development, Inc. v. Discus Dental, Inc. BSML Development, Inc., a wholly owned subsidiary of BSML, Inc. filed on October 28, 2005, a patent infringement suit against Discus in federal court in California. As described in more detail in Note 3, this case was dismissed in March 2006 in connection with the dismissal of the Discus patent litigation.

BriteSmile Inc. v. Discus Dental, Inc., filed in Contra Costa County Superior Court, California. As described in more detail in Note 3, this case was dismissed in March 2006 in connection with the dismissal of the Discus patent litigation.

On February 17, 2006, the parties entered into a global settlement of the litigation proceedings between the parties. As part of the settlement, the Company granted to P&G a nonexclusive license to certain patents relating to teeth whitening strips and P&G paid $4 million of which the Company received approximately $1 million, with the remainder paid to the Company's legal counsel in the matter and to the REM Group.

Gregg A. Coccari v. BriteSmile, Inc., an arbitration proceeding with the American Arbitration Association filed on August 11, 2005. This matter was settled in February 2007. Under the terms of the settlement, Mr. Coccari, former Chief Executive Officer, received approximately $700,000 in cash payments, of which $200,000 was paid by the Company's insurance carrier, and 80,000 shares of the Company's common stock valued at approximately $141,000. As of December 30, 2006, the Company had accrued the full cost of this settlement.

Mayer, Brown, Rowe & Maw LLP v. BSML, Inc. and BSML Development, Inc., filed in the California Superior Court for San Francisco County. Mayer, Brown, Rowe & Maw LLP ("MBR&M"), the Company's former patent litigation counsel in the Discus patent litigation, filed a complaint alleging causes of action for breach of contract, breach of the implied covenant of good faith and fair dealing, and unjust enrichment arising from the attorney-client relationship between MBR&M and the Company. On November 17, 2006, the Company and MBR&M agreed to a settlement under which the Company paid MBR&M a total of $5 million in full settlement of all outstanding claims. All related litigation matters were subsequently dismissed.

11. Related Party Transactions

LCO Properties Sublease

On December 1, 1999 the Company, as sublessee, entered into an Agreement of Sublease with LCO Properties, Inc., a Delaware corporation, as sublessor. LCO Properties, Inc. is affiliated with the Company's principal shareholder, LCO Investments, Limited ("LCO"). The sublease covers approximately 4,821 square feet of space located in New York City for a Center. The sublease term is for ten years and called for initial lease payments of $402,000 per year, subject to increase in the event of increases in the rent payable under the primary lease for the property between LCO Properties, Inc., and its lessor. Rent expense for 2007 was approximately $462,000; the lease was terminated during the third quarter of the 2007.

LCO, a wholly owned subsidiary of ERSE Trust, is the Company's principal shareholder; CAP Advisers is a co-trustee of the ERSE Trust. Mr. Pilaro, the Company's former chairman, is also Chairman of CAP Advisers.

Consulting Agreement with Oraceutical, LLC ("Oraceutical")

In November 2000, the Company entered into a Consulting Agreement with Oraceutical. Montgomery, a former director of the Company, is the founding manager and president of Oraceutical. Effective July 2003, the Consulting Agreement was terminated and replaced by a new Consulting Agreement (the "BDI Consulting Agreement") between BDI and Oraceutical Innovative Properties ("OIP"), an affiliate of Oraceutical.

The BDI Consulting Agreement provided for a five-year term at a rate of $180,000 per year. As part of the settlement of the litigation with Oraceutical and its affiliate (as discussed in more detail in Note 10), this agreement was amended, effective January 2, 2008, to extend the term to December 31, 2012. In addition, the fixed-fee arrangement was eliminated; future compensation will be based upon a per diem rate of $3,200 plus expenses for any requested consulting services.

Fulfillment Services Agreement with Oraceutical

In 2004, BSML entered into an agreement with Oraceutical, LLC to outsource the Company's whitening component and product fulfillment services beginning in 2005. Montgomery, the Chairman & CEO of Oraceutical, LLC, is a former member of BSML's Board of Directors. During 2007, and 2006, $1,019,000, $1,516,000, and $2,254,000 respectively, were paid to Oraceutical under this agreement.

Related Party Payment

The following table summarizes the amounts paid to related parties in 2008 and 2007 (in thousands):

Related Party	Goods / Services Provided	2008	2007
Oraceutical	Merchandise/pack out charges and order fulfillment services	$1,019	$1,516
Oraceutical	Consulting		180
LCO Properties, Inc.	Monthly rent for New York Center	60	462
LCO (and affiliates)	Interest and pay off of debt and pay out for preferred stock	—	—
CAP America Trust	Interest and pay off of debt	—	—
EVL	Variable fees, fixed fees and pay off of deferred lease balance	—	—
Total		$1,079	$2,158

Nature of relationships in the above table: With respect to Oraceutical, LLC, a former BSML board member is a co-founder and managing director of Oraceutical. With respect to the other entities, they are deemed affiliates to the Company's former board chairman.

Support Services Agreement

Effective December 10, 2007, the Company executed a Support Services Agreement with Sleek, Inc. ("Sleek"). Sleek is a Massachusetts corporation which is controlled by Mr. Rudnick. Pursuant to the three-year agreement, Sleek has agreed to provide marketing, consulting, cash management, personnel management and other services to BSML. The Company has agreed to pay an administrative fee to Sleek equal to the aggregate of Sleek's actual costs, fees and expenses incurred in providing the services. As of December 29, 2007, the Company accrued approximately $31,000 for the services provided for the month. As part of the execution of this contract and as an inducement to Sleek to provide these services at cost, the Company issued Sleek 1.24 million shares with a market value of thirty cents per share on date of issuance; as of December 29, 2007, the Company recorded $372,000 of share-based payments as expense with an offsetting entry to additional paid-in capital. In addition, the agreement provides for additional equity compensation of 1.24 million shares for each $1 million of EBITDA (determined on a cumulative, rather than annual, basis); no additional amounts were accrued for the year ended December 29, 2007.

12. Benefit Plans

In March 2000, the Company adopted a 401(k) defined contribution plan covering substantially all employees. Employees become eligible to participate in the plan beginning the first month following their hire date. The plan contains provisions for an employer contribution at the discretion of management. To date, the Company has made no contributions to the plan. The Company pays the administrative fees of the plan. The administrative fees are not material to the Company's operations.

13. Subsequent Events

On February 10, 2009, BSML, Inc. (the "Company"), and its wholly owned subsidiary, Pure Acquisition Co., Inc., a Delaware corporation ("Pure Acquisition"), entered into an agreement (the "APA") to purchase certain assets of Pure Laser Hair Removal & Treatment Clinics, Inc., a Delaware corporation ("Pure"), John Street Holdings, LLC, a Delaware limited liability company ("JSH"), and certain subsidiaries of Pure and JSH (collectively, the "Subsidiaries," and together with Pure and JSH, the "Sellers").

Pursuant to the terms and subject to the conditions set forth in the APA, Pure Acquisition agreed to purchase substantially all of the assets of the Sellers (the "Purchased Assets") for a purchase price of: (i) Two Hundred Thousand Dollars ($200,000) (the "Cash Payment"); (ii) an unsecured promissory note in favor of Investment Partnership (2006) L.P. ("IP 2006") in the aggregate principal amount of Five Hundred Thousand Dollars ($500,000) (the "Note"); (iii) the Company's agreement for the twelve month period immediately following the closing of the purchase of the Purchased Assets, that IP 2006 can acquire the same type of equity securities offered by the Company in one or more offerings for a price per share equal to the price paid by third party investors up to a maximum of $2,500,000 (the "Investment Participation Agreement"); (iv) a twelve month warrant in favor of IP 2006 with the rights to purchase up to $2,500,000 (or such lesser amount as is available after IP 2006's exercise of rights under the Investment Participation Agreement) of common stock of the Company (the "Warrant"); and (v) assumption of certain liabilities (the "Assumed Liabilities") of the Sellers.
Further, on March 24, 2009, BDC agreed to accept Five Hundred Seventeen Thousand Dollars ($517,000) in full satisfaction of the obligations of Pure Acquisition under the BDC Loan. On April 2, 2009, as a condition precedent to the Credit Agreement, as described in the Current Report on Form 8-K filed with the SEC on April 2, 2009, Pure Acquisition paid the BDC loan in full and BDC released all of the collateral secured by the BDC Loan. Accordingly, neither Pure Acquisition nor the Company has any further obligation in favor of BDC.

The final closing conditions of the APA have been met, and the APA and related transactions closed as of April 1, 2009.

On March 27, 2009, BSML, Inc. (the "Company") entered into a Credit Agreement (the "Credit Agreement") between the Company, in its capacity as Borrower and a third-party lender (the "Lender").
The Credit Agreement provides for a four-year asset-based revolving credit facility under which up to Two Million Five Hundred Thousand Dollars ($2,500,000) will be available. Pursuant to the Credit Agreement, the Lender made initial term loans (the "Loans") to the Company, to be advanced to the Company in four installments The Loans mature on March 27, 2013 and bear interest at a rate of ten percent (10%) per annum, compounded monthly and payable quarterly beginning on August 1, 2009. The proceeds of the Loans will be used for working capital and other general corporate purposes.

On December 28, 2008, 1,504,347 shares of common stock were issued to Jeffery Nourse in lieu of salary. This transaction was fully accrued as of December 27, 2008

.

.

14. Product Line Revenue:

The Company operates in one business segment, products and procedures to whiten teeth. Components of the Company’s revenue for the years ended December 27, 2008 December 29, 2007,and December 30, 2006, respectively, are as follows (in thousands):

	2008	2007	2006
Center whitening fees, net	$14,916	$18,937	$19,125
Product and other revenue	3,211	6,101	7,089
Total	$18,127	$25,038	$26,214

Exhibit Index

Exhibit Number	Description
23	Consent of Stonefield Josephson Inc.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos: 333-61054, 333-43790, 333-112361, and 333-12179 each on From S-3, and Registration Statement Nos. 333-82283 and 333-16935 each on Form S-8, of our report dated April 14, 2008 relating to the consolidated financial statements of BSML Inc. (formerly Britesmile, Inc.) and Subsidiaries as of December 29, 2007 and for fiscal year then ended appearing in this Annual report on Form 10-K of BSML Inc. and Subsidiaries for fiscal year ended December 27, 2008.

/s/ Stonefield Josephson Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Los Angeles , California
April 13, 2009

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffery Nourse, certify that:

1. I have reviewed this amended annual report on Form 10-K of BSML, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined by Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the Audit Committee of the registrant s Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: April 13, 2009

By: /s/ Jeffery Nourse

Jeffery Nourse
Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James P. Cullin, certify that:

1. I have reviewed this amended annual report on Form 10-K of BSML, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2009

By: /s/ James P. Cullin

James P. Cullin
VP of Finance
(Principal Accounting and Financial Officer)

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffery Nourse, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of BSML, Inc. on Form 10-K for the fiscal year ended December 29, 2007 fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of BSML, Inc.

Date: April 13, 2009

By: /s/ Jeffery Nourse

Jeffery Nourse
Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, James P. Cullin, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of BSML Inc. on Form 10-K for the fiscal year ended December 29, 2007 fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of BSML, Inc.

Date: April 13, 2009

/s/ James P. Cullin
By:

James P. Cullin
VP of Finance
(Principal Accounting and Financial Officer)