

BRIGHT HORIZONS FAMILY SOLUTIONS INC
Form 10-K
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2001
Commission file number 0-24699

BRIGHT HORIZONS FAMILY SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware

62-1742957

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification Number)

200 Talcott Avenue South
Watertown, MA 02472
(Address of principal executive offices)

(617) 673-8000
(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, \$0.01 PAR VALUE PER SHARE

(Title of class)

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. []

As of March 15, 2002, there were outstanding 12,318,176 shares of the registrant's common stock, \$0.01 par value per share, which is the only outstanding capital stock of the registrant. As of that date, the aggregate market value of the shares of common stock held by non-affiliates (excludes directors and executive officers of the registrant) of the registrant (based on the closing price for the common stock as reported on The Nasdaq National Market on March 15, 2002) was approximately \$346,218,908.

DOCUMENTS INCORPORATED BY REFERENCE

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Part of Form 10-K Documents from which portions are incorporated by reference

Part III Portions of the Registrant's Proxy Statement relating to the Registrant's Annual Meeting of Stockholders to be held on May 23, 2002 are incorporated by reference into Items 10, 11, 12 and 13.

BRIGHT HORIZONS FAMILY SOLUTIONS, INC.
FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

OVERVIEW

Bright Horizons Family Solutions, Inc. (the "Company" or "Bright Horizons Family

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Solutions") is a leading provider of workplace services for employers and families, including child care, early education and strategic work/life consulting. The Company operates 390 child care and early education centers for over 325 clients and has the capacity to serve more than 48,000 children in 36 states and the District of Columbia, Canada, Guam, Ireland and the United Kingdom. The child care and early education center concept evolved from the more traditional workplace child care center and is designed to serve a broader segment of the work-site population. Each child care and early education center provides a number of services designed to meet the business objectives of the client and the family needs of the sponsor's employees. The Company's services are designed to (i) address employers' ever-changing workplace needs, (ii) enhance employee productivity, (iii) improve recruitment and retention of employees and (iv) help project the image as the employer of choice within the employer's industry.

With the changing demographics of today's workforce and the prevalence of dual career families, a growing number of corporations are creating family benefits to attract and retain employees and support them as parents. Bright Horizons Family Solutions provides center based child care, education and enrichment programs, backup care, before and after school care for school age children, summer camps, vacation care, elementary school (kindergarten through fifth grade), and other family support services.

Bright Horizons Family Solutions serves many of the nation's leading corporations, including 82 Fortune 500 companies. In addition, 48 of Working Mother magazine's "Top 100 Companies for Working Mothers" in 2001 are clients of Bright Horizons Family Solutions. The Company's clients include many of America's best known companies, such as Abbott Laboratories, Inc., Bank of America, Bayer Pharmaceuticals, The Boeing Company, Bristol Myers Squibb, Citigroup, Eli Lilly and Company, Glaxo SmithKline PLC, Johnson & Johnson, JP Morgan Chase, Merck & Co., Inc., MBNA Corporation, Motorola, Pfizer, Inc., SAS Institute, S.C. Johnson & Son, Inc., Staples, Inc., Timberland, Time Warner, Inc., Universal Studios, Inc and Wachovia Corp. The Company also provides services for well known institutions such as Johns Hopkins University, the International Monetary Fund, the PGA Tour, and the United Nations. Bright Horizons Family Solutions operates multiple centers for 33 of its clients.

Bright Horizons Family Solutions, a Delaware corporation, was formed in connection with the merger (the "Merger") of Bright Horizons, Inc. ("BRHZ") and CorporateFamily Solutions, Inc. ("CFAM"), each of which were national leaders in the field of work-site child care services for the corporate market. BRHZ and CFAM entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") on April 26, 1998, which was approved by a vote of the respective companies on July 24, 1998 (the "Merger Date"). The merger has been treated as a tax-free reorganization, and accounted for as a pooling of interests. Unless the context otherwise requires, references in this Annual Report on Form 10-K to the Company or Bright Horizons Family Solutions for periods prior to July 24, 1998 refer to one or both of the Company's predecessors, BRHZ and CFAM, as appropriate.

BUSINESS STRATEGY

Bright Horizons Family Solutions has gained recognition as a quality service provider and is well-positioned to serve its clients due to its scale, track record of serving major corporate sponsors, established reputation, and position as a quality leader. The major elements of its business strategy are the following:

Corporate Sponsorship. Corporate sponsorship enables Bright Horizons Family Solutions to address simultaneously the three most important criteria used by parents to evaluate and select a child care and early education provider: quality of care, locational convenience and cost. Corporate sponsorship helps

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reduce the Company's start-up and operating costs and enables the Company to concentrate its investment in those areas that directly translate into high quality care, including faculty compensation, teacher-child ratios, curricula, continuing faculty education, facilities and equipment. Bright Horizons Family Solutions' corporate-sponsored work-site facilities are conveniently located at or near the parents' place of employment, and generally conform their hours of

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operation to the work schedule of the sponsor. Work-site child care and early education centers allow parents to spend more time with their children, both while commuting and during the workday, and to participate in and monitor their child's ongoing care and education. Finally, because corporate support generally defrays a portion of Bright Horizons Family Solutions' start-up and/or operating costs, the Company is able to offer its customers high quality child care and early childhood education services at competitive tuition levels. Some corporations offer subsidized tuition to their employees as part of their overall benefits package.

Quality Leadership. The critical elements of Bright Horizons Family Solutions' quality leadership focus include:

- NAEYC Accreditation. Bright Horizons Family Solutions operates its centers to qualify for accreditation by the National Association for the Education of Young Children ("NAEYC"), a national organization dedicated to improving the quality of care and developmental education provided for young children. The Company believes that its commitment to meeting NAEYC accreditation is an advantage in the competition for corporate sponsorship opportunities due to the Company's experience with an increasing number of potential and existing corporate sponsors that are requiring adherence to NAEYC criteria. NAEYC accreditation criteria cover a wide range of quantitative and qualitative factors, including, among others, faculty qualifications and development, staffing ratios, health and safety, and physical environment. NAEYC criteria generally are more stringent than state regulatory requirements. The majority of child care centers are not NAEYC-accredited, and Bright Horizons Family Solutions has more NAEYC-accredited work-site child development centers than any other provider. Of the Company's 390 child care and early education centers 285 were eligible for accreditation, of which 224 have achieved accreditation by NAEYC.
- High Teacher-Child Ratios. High teacher-child ratios are a critical factor in providing quality early education, facilitating more focused care and enabling teachers to forge relationships with children and their parents. Under Bright Horizons Family Solutions' approach, each child has a teacher who is designated as the child's primary caregiver. This teacher is responsible for monitoring a child's developmental progress and tailoring programs to meet the child's individual needs, while engaging parents in establishing and achieving goals. Bright Horizons Family Solutions is committed to maintaining the NAEYC-recommended teacher-child ratios for all age groups, with many child care and early education centers exceeding the NAEYC recommended minimum ratios. By contrast, many center-based child care providers conform only to the minimum teacher-child ratios mandated by applicable governmental regulations, which are generally less intensive

than NAEYC standards and vary widely from state to state.

- Highly Qualified Center Directors and Faculty. Bright Horizons Family Solutions believes its faculty's education and experience are exceptional when compared to other child care providers. Our typical center director has more than ten years of child care experience and a college degree in an education-related field, with many center directors holding advanced degrees. The Company has developed a training program for its employees that establishes minimum standards for its faculty. Teacher training is conducted in each child care and early education center and includes orientation and ongoing training, including training related to child development and education, health, safety and emergency procedures. Training, designed to meet NAEYC training standards, is conducted on a regular basis at each child care and early education center and on a company-wide basis. Management training is provided on an ongoing basis to all center directors and includes human resource management, risk management, financial management, customer service, and program implementation. Additionally, because Bright Horizons Family Solutions considers ongoing training essential to maintaining high quality service, centers have training budgets for their faculty that provide for in-center training, attendance at selected outside conferences and seminars, and partial tuition reimbursement for continuing education.
- Innovative Curricula. Bright Horizons Family Solutions' innovative, developmentally appropriate curricula distinguish it in an industry typically lacking educational programs. The Company is committed to improving upon the typical early education experience by creating a dynamic and interactive environment that stimulates learning and development. As part of its curricula the

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Company has developed "The World at Their Fingertips," a comprehensive program that includes Language Works, Math Counts, Science Rocks, Our World, and ArtSmart; the goals of which are to prepare children for academic excellence and build the foundations for success in life, while providing a rich and rewarding childhood. Teachers prepare and rotate the various programs that provide large and small group experiences, extended projects, and field trips that are all designed to enrich the children's learning. Teachers strive to create experiences appropriate for each child that provide both stimulation and challenge, which in turn help children find new answers and opportunities. Themes and directions emerge from the interests and experiences of the children, families, and teachers, which are incorporated into the children's learning. The World at Their Fingertips provides infants and toddlers with what they need - a safe, responsive "World" rich with language and opportunities to actively learn, explore and enjoy. The World at Their Fingertips preschool and kindergarten programs provide well planned learning centers that allow for individualized learning, small groups, and supportive teaching that help develop the problem-solving, language and social skills necessary for academic excellence. The development of language, mathematical

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reasoning, and scientific thought are emphasized throughout all the learning centers. The Company uses learning centers, outdoor environments, projects, activities, and field trips, all of which are designed to allow children to independently explore, discover, and learn through their experiences. The "World at Their Fingertips" seeks to involve parents in the developmental process by documenting a child's progress and sharing in goal setting. The Company believes its early childhood educational services meet or exceed the standards established by the National Academy of Early Childhood Programs ("NAECP"), a division of NAEYC.

- Attractive, Child-Friendly Facilities. Bright Horizons Family Solutions believes that attractive, spacious and child-friendly facilities are an important element in fostering high quality learning environments for children. The Company's child care and early education centers are generally custom-built and designed to be state of the art facilities that serve the children, families and teachers, and create a community of caring. Typical center design incorporates natural light, openness and direct access from the child care and early education center to a landscaped playground with the objective of creating an environment that allows for the children to learn indoors and out. The Company devotes considerable effort to equipping its centers with child-sized amenities and indoor and outdoor play areas with age-appropriate materials and design, while taking full advantage of technology for both administrative and classroom use. Facilities are designed to be cost-effective and fit specific sites, budgets and clients' needs.

Leading Market Presence. Bright Horizons Family Solutions' strategy has been to gain a leading market presence by leveraging its reputation and the visibility of its client relationships to enhance its marketing and market penetration. In addition, the Company believes that clustering its centers in selected metropolitan and geographic areas provides operating and competitive advantages. Clustering permits the Company to strengthen quality, improve management and oversight, develop local recruiting networks, and efficiently allocate its faculty among nearby centers in cases of illness, vacation or leave. Clustering also provides Bright Horizons Family Solutions with economies of scale in management, purchasing, training and recruiting. The Company believes that regional clustering serves as a competitive advantage in developing its reputation within geographic regions and securing new corporate sponsorships in those areas. Bright Horizons Family Solutions currently has a significant market presence in Atlanta, Boston, Charlotte, Chicago, Dallas/Fort Worth, Fort Lauderdale/Miami, Hartford, Las Vegas, Los Angeles, Nashville, New York, Newark, Philadelphia, Raleigh/Durham, San Diego, San Francisco, Seattle, St. Louis, Tampa/St. Petersburg, Washington, D.C., Wilmington, Delaware and London, England.

Employer of Choice. Bright Horizons Family Solutions focuses on maintaining its reputation as a premier employer in the early childhood education market and has been renamed as one of Fortune's "100 Best Companies to Work for in America". The Company believes that its above-average compensation, comprehensive and affordable benefits package and opportunities for internal career advancement enable the Company to attract highly qualified, well-educated, experienced and committed center directors and faculty. The Company believes that its benefits package, which includes medical, dental and disability insurance, paid vacation and sick leave, a 401(k) savings plan, stock options, tuition reimbursement and child care discounts, is unusually comprehensive and affordable to the employee by industry standards. These benefits, as well as the Company's comprehensive training programs,

are an important recruitment and retention tool for Bright Horizons Family Solutions in the relatively low-paying child care industry.

GROWTH STRATEGY

The key elements of Bright Horizons Family Solutions' growth strategy are as follows:

Open Centers for New Corporate Sponsors. Bright Horizons Family Solutions' regional and home office sales force, as well as senior management, actively pursue potential new corporate sponsors, particularly in industries that provide work-site child care, early education and family support services as a standard benefit. Bright Horizons Family Solutions believes that its scale, resources, quality leadership and track record of serving corporate sponsors give it a competitive advantage in securing new corporate sponsorship relationships. As a result of the Company's visibility as a high quality provider of work-site child care, early education and family support services, prospective sponsors regularly contact Bright Horizons Family Solutions requesting proposals for operating a child care and early education center.

Expand Relationships with Existing Corporate Sponsors. Bright Horizons Family Solutions aims to increase revenue from its existing corporate sponsor relationships by developing new centers for sponsors who have multiple corporate sites and offering additional services at its existing centers. Bright Horizons Family Solutions' experience has been that corporate sponsors are more inclined to employ the Company on a multi-site basis following the successful operation of an initial child care and early education center. The Company operates 138 child care and early education centers at multiple sites for 33 sponsors. In addition, 16 clients are currently served by the Company's Network Access Program, which enables the employees of a sponsor to access a network of the Company's child care and early education centers across the country.

Pursue Strategic Acquisitions. Bright Horizons Family Solutions seeks to acquire existing child care centers and local or regional networks to expand quickly and efficiently into new markets and increase its presence in existing geographic clusters. The fragmented nature of the child care, early education and family support services market continues to provide acquisition opportunities. The Company believes that many of the smaller regional chains and individual providers seek liquidity and/or lack the professional management and financial resources that are often necessary.

Assume Management of Existing Child Care Centers. Assuming the management of existing centers enables Bright Horizons Family Solutions to serve an existing customer base with little start-up investment. As corporations reduce their involvement in non-core business activities, the Company has assumed the management of a number of work-site child care centers previously managed by a corporate sponsor. Bright Horizons Family Solutions has also assumed the management of work-site child care centers formerly operated by other providers. Many such providers have experienced operating difficulties because they lack the management expertise or financial depth needed to provide high quality child care services to corporate sponsors.

Geographic Expansion. Bright Horizons Family Solutions seeks to target areas that management believes are underserved by existing service providers. By targeting areas with a concentration of potential and existing corporate sponsors, the Company can offer a more comprehensive solution to a sponsor's

needs.

Develop and Market Additional Services. Bright Horizons Family Solutions plans to continue to develop and market additional early childhood education and family support services, full and part-time child care, emergency back-up work-site child care (serving parents when their primary child care options are unavailable), the Network Access Program, seasonal services (extending hours at existing centers to serve sponsors with highly seasonal work schedules), school vacation clubs, summer programs, elementary school programs, before and after school care for school age children, vacation care and special event child care, and to add residential child development centers in areas where tuition levels can support the Company's quality standards. Additionally, the Company often works with its sponsors to offer unique solutions and provide additional services, such as Travel Care, which allows parents who travel the option of bringing their children by providing care at the Company's participating child care and early education centers.

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At December 31, 2001, the Company had over 50 child care and early education centers under development and scheduled to open over the next 12 to 24 months, including 25 for existing clients.

BUSINESS MODELS

Although the specifics of Bright Horizons Family Solutions' sponsorship arrangements vary widely, they generally can be classified into two forms: (i) the sponsor model, where the Company operates a child care and early education center on or near the premises of a sponsor, gives priority enrollment to the employees or affiliates of the sponsor, receives some form of start-up and/or operating financial support from the sponsor and maintains profit-and-loss responsibility, and (ii) the management model, where Bright Horizons Family Solutions manages a work-site child care and early education center under a cost-plus agreement with a corporate sponsor.

The Sponsor Model. Centers operating under the sponsor model currently represent approximately 58% of Bright Horizons Family Solutions' child care and early education centers. The Company typically designs and operates a work-site child care and early education center in exchange for some form of financial or operating support from the sponsor. This sponsorship can take a variety of forms, including reduced occupancy costs, tuition assistance, operating subsidies, payment of pre-opening expenses and assistance with start-up costs, such as architectural and design fees, real estate broker fees, as well as capital equipment and initial supplies. Historically, the Company has received the greatest support in the form of reduced occupancy costs. Bright Horizons Family Solutions maintains profit-and-loss responsibility for sponsorship-model centers. The sponsorship model can be classified into two subcategories: (i) employer-sponsored, where Bright Horizons Family Solutions provides child care on a priority enrollment basis for employees of a single employer sponsor, and (ii) developer-sponsored, where the Company provides priority child care to the employees of multiple employers located within a real estate developer's property.

- The Employer-Sponsored Model. The employer-sponsored model is typically characterized by a single employer (corporation, hospital, government agency or university), or occasionally a consortium of employers, entering into a contract with the Company to provide child care and early education at a facility located in or near the sponsor's offices. The sponsor generally provides for the facilities or construction of the

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center and on an ongoing basis pays for maintenance and repairs. In some cases, the sponsor also provides tuition assistance to the employees and minimum enrollment guarantees to the Company. Children of the sponsor's employees typically are granted priority enrollment at the center. In some instances, enrollment may be limited to the employees of the sponsor. Operating contracts under the employer-sponsored model have terms that generally range from three to ten years, require ongoing reporting to the sponsor and, in some cases, limit annual tuition increases.

- The Developer-Sponsored Model. A developer-sponsored center is located in a real estate developer's office building or office park. The center serves as an amenity to the developer's tenants, giving the developer an advantage in attracting quality tenants to its site. The Company offers priority enrollment to the children of the site's employees in return for discounted rent or other facilities related concessions. Bright Horizons Family Solutions typically negotiates lease terms of 10 to 20 years, including the initial term and renewal options. Under the developer-sponsored model, Bright Horizons Family Solutions typically operates its child care and early education centers with few ongoing operating restrictions or reporting requirements.

The Management Model. Child care and early education centers operating under management model contracts currently represent approximately 42% of Bright Horizons Family Solutions' child care and early education centers. Under the management model, the Company receives a management fee from a corporate sponsor and an operating subsidy to supplement tuition received from parents within an agreed upon budget. The sponsor is typically responsible for all start-up costs and facility maintenance. The management model enables the corporate sponsor to have a greater degree of control with respect to budgeting, spending and operations. Management contracts require the Company to satisfy certain periodic reporting requirements and generally range in length from one to five years, with some terminable by the sponsor without cause or financial penalty. The Company is responsible for maintenance of quality standards, recruitment of center directors and faculty, implementation of curricula and programs and interaction with parents.

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In addition to the sponsor and management models, the Company may establish a center in instances where it has been unable to cultivate sponsorship, or sponsorship opportunities do not currently exist. In these instances the Company will typically lease space in locations that experience and demographics indicate that demand for the Company's services exists.

OPERATIONS

General. Consistent with its strategy of establishing leading market presence, Bright Horizons Family Solutions is organized into eleven operational divisions, largely along geographic lines. Each division is managed by a Divisional Vice President, and is further divided into regions. Each region is headed by a Regional Manager responsible for supervising the quality, operating performance and client relationships for three to eleven centers. A typical center is managed by a staff consisting of an administrative team, including the center director, a teaching staff and support personnel, with the total number of staff varying due to the complexity and hours of operation of the program. A center director has operating responsibility and is also responsible for supervising

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local marketing, hiring new teachers and performing administrative tasks such as payroll and tuition collection. Bright Horizons Family Solutions performs most accounting, finance, information system, risk management, human resources, administration and business development at the corporate office level.

Center hours of operation are designed to match the schedules of the sponsor. Most centers are open ten to twelve hours a day, Monday through Friday, although some employer sponsors operate two or even three shifts at locations our centers serve. Typical hours of operation are from 7:00 a.m. to 6:00 p.m. Bright Horizons Family Solutions offers a variety of enrollment options, ranging from full-time (40-50 hours per week) to part-time options. The majority of children who attend the Company's child care and early education centers are enrolled on a full-time basis and are children of the employees or affiliates of the sponsor. The remaining enrolled children come from the surrounding community, where such enrollment is permitted under the terms of the contract.

Tuition depends upon the age of the child, the geographic location and the extent to which a corporate sponsor subsidizes tuition. In 2001, average full-time monthly tuition was approximately \$1,030 for infants, \$940 for toddlers and \$755 for preschoolers. Tuition at most of Bright Horizons Family Solutions' centers is payable in advance and is due either monthly or weekly. In some cases, parents can pay tuition through payroll deduction or through automated clearing house ("ACH") withdrawals.

Facilities. The Company's family centers are primarily operated in work-site locations and vary in design and capacity in accordance with sponsor needs and state and federal regulatory requirements. A prototypical Company child care and early education center is approximately 10,000 to 15,000 square feet, and has a capacity for approximately 120-150 children. As of December 31, 2001, the Company's centers had a total licensed capacity of approximately 48,300 children, with the smallest having a capacity of 6 children and the largest having a capacity of over 460 children.

Bright Horizons Family Solutions believes that attractive, spacious and child-friendly facilities are an important element in fostering a high quality learning environment for children. The Company's child care and early education centers are designed to be open and bright and to maximize visibility throughout the center. The Company devotes considerable resources to equipping its centers with child-sized amenities, indoor and outdoor play areas of age-appropriate materials and design, family hospitality areas and computer centers. Commercial kitchens are present in those centers that require hot meals to be prepared on site.

Health and Safety. The safety and well-being of the children in its care is a high priority for Bright Horizons Family Solutions. The Company employs a variety of security measures at its centers, which may include electronic access systems, sign-out procedures for children, security guards, or other site-specific procedures. In addition, Bright Horizons Family Solutions' high ratio of teachers to children, together with the presence of center directors and other management personnel, leads to enhanced supervision. Centers are designed to minimize the risk of injury to small children by incorporating such features as child-size amenities, rounded corners on furniture and fixtures, age-appropriate toys and equipment and cushioned fall-zones surrounding play structures.

Bright Horizons Family Solutions conducts ongoing training of personnel in the areas of health, safety and emergency protocol, requires CPR and first aid certification of center management personnel, and offers such

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certification to all center faculty. The Company conforms to federal OSHA requirements with respect to annual blood-borne pathogen training of all center personnel.

MARKETING

Bright Horizons Family Solutions markets its services to two constituencies: corporate sponsors and parents. Management believes that the Company's international operations, and the expertise and reputation of its management team in managing 390 child care and early education centers for many of the world's leading companies have created name recognition within the work and family services industry. The Company's board of directors, senior officers and advisory board members are involved at the national level with education, work/life and children's services issues, and their prominence and involvement in such issues plays a key role in attracting new clients and developing additional services and products for existing clients.

The Company's regional and corporate sales force and senior management maintain relationships with larger customers and actively pursue potential new corporate sponsors, particularly in industries that provide work-site child care as a standard benefit in order to recruit and retain talented employees. The Company's sales force is organized on both a national and regional basis, and is responsible for identifying potential corporate sponsors, targeting real estate developers, identifying potential acquisitions and managing the overall sales process. As a result of Bright Horizons Family Solutions' visibility as a high quality child care provider, potential sponsors regularly contact the Company requesting proposals. Bright Horizons Family Solutions competes for most employer sponsorship opportunities via a request for proposal process.

At the center level, directors are responsible for marketing to parents. Bright Horizons Family Solutions seeks to develop a local reputation by promoting its high quality faculty, facilities, programs, and interactive, hands-on curricula. The Company's pre-opening and ongoing local marketing efforts include open houses, local direct mail and media advertising, parent referrals and community outreach. Many centers have parent advisory organizations, which assist in marketing and also act as a sounding board for developments in the education program. Center directors typically receive assistance from corporate sponsors, who often provide access to channels of internal communication such as e-mail, websites, intranets, mailing lists and internal publications. In addition, many sponsors promote the child care and early education center as an important employee benefit and answer questions to facilitate interaction between the Company and parents. The Company also has a marketing department that acts as a central resource for center-level marketing programs, including the preparation of promotional materials.

COMPETITION

The market for child care and early education services is highly fragmented and competitive. Bright Horizons Family Solutions experiences competition for enrollment and for sponsorship of its family centers.

Bright Horizons Family Solutions believes that the key factors in the competition for enrollment are quality of care, locational convenience and cost. The Company competes for enrollment with nannies, relatives, family child care and center-based child care providers, including for-profit, not-for-profit and government-based providers. Corporate sponsor support enables Bright Horizons Family Solutions to limit its start-up and operating costs and concentrate its investment in those areas that directly translate into high quality early education, specifically faculty compensation, teacher-child ratios, curricula, continuing faculty education, facilities and equipment. The Company believes that many center-based child care providers are able to offer care at a lower

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price than Bright Horizons Family Solutions by utilizing lower teacher-child ratios, and offering their staff lower pay and limited or unaffordable benefits. While the Company's tuition levels are generally above those of its competitors, management believes it is able to compete effectively, particularly for well-educated parents, by offering the convenience of a work-site location and a higher quality of care.

Bright Horizons Family Solutions believes its ability to compete successfully for corporate sponsorship depends on a number of factors, including reputation, scale, quality and scope of service, cost-effective delivery of service, high quality of personnel and the ability to understand the business needs of prospective clients and to customize sponsorship arrangements. Many residential center-based child care chains either have divisions that compete for corporate sponsorship opportunities or are larger and have substantially greater financial or other resources that

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could permit them to compete successfully against the Company in the work-site segment. Other child care organizations focus exclusively on the work-site segment of the child care market. Bright Horizons Family Solutions believes there are fewer than 10 companies that currently operate work-site child care centers on a national basis.

The Company's biggest competitors include the employer-sponsored child care divisions of large child care chains that primarily operate residential child care centers such as Children's Discovery Centers/Knowledge Beginnings, KinderCare Learning Centers, Aramark/Children's World, and Child Time. Management believes that the Company is distinguished from its competitors by its primary focus on corporate clients and commitment to NAEYC accreditation standards. Bright Horizons Family Solutions believes it is well-positioned to attract sponsors who wish to outsource the management of new or existing work-site early education centers due to the Company's scale, established reputation, position as a quality leader and track record of serving major corporate sponsors. In addition, an increasing number of potential corporate sponsors are requiring adherence to NAEYC criteria.

EMPLOYEES

As of December 31, 2001, Bright Horizons Family Solutions employed approximately 13,300 employees (including part-time and substitute teachers), of whom approximately 305 were employed at the Company's corporate, divisional and regional offices and the remainder were employed at the Company's child care and early education centers. Center employees include faculty and administrative personnel. The Company does not have an agreement with any labor union and believes that its relations with employees are good.

REGULATION

Childcare centers are subject to numerous federal, state and local regulations and licensing requirements. Although these regulations vary from jurisdiction to jurisdiction, government agencies generally review, among other things, the adequacy of buildings and equipment, licensed capacity, the ratio of teachers to children, faculty training, record keeping, the dietary program, the daily curriculum and compliance with health and safety standards. In most jurisdictions, these agencies conduct scheduled and unscheduled inspections of centers, and licenses must be renewed periodically. In some jurisdictions, regulations have been enacted which establish requirements for employee background checks or other clearance procedures for employees of child care facilities. Center directors and regional managers are responsible for

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monitoring each center's compliance with such regulations. Repeated failures by a center to comply with applicable regulations can subject it to sanctions, which can include fines, corrective orders, being placed on probation or, in more serious cases, suspension or revocation of the center's license to operate, and could require significant expenditures by the Company to bring its child care and early education centers into compliance. In addition, state and local licensing regulations often provide that the license held by the Company may not be transferred. As a result, any transferee of a family services business (primarily child care) must apply to the applicable administrative bodies for new licenses. There can be no assurance that the Company would not have to incur material expenditures to relicense child care and early education centers it may acquire in the future. Management believes the Company is in substantial compliance with all material regulations applicable to its business.

There are currently certain tax incentives for parents utilizing child care programs. Section 21 of the Internal Revenue Code provides a federal income tax credit ranging from 20% to 30% of certain child care expenses for "qualifying individuals" (as defined therein). The Company believes the fees paid to Bright Horizons Family Solutions for child care services by eligible taxpayers qualify for the tax credit, subject to the limitations of Section 21. The amount of the qualifying child care expenses is limited to \$2,400 for one child and \$4,800 for two or more children, and, therefore, the maximum credit ranges from \$480 to \$720 for one child and from \$960 to \$1,440 for two or more children. In 2002, the tax credit will range from 20% to 35% of qualifying child care expenses which will be limited to \$3,000 for one child and \$6,000 for two or more children in 2002, and therefore the maximum credits will range from \$600 to \$1,050 for one child and \$1,200 to \$2,100 for two or more children.

INSURANCE

Bright Horizons Family Solutions currently maintains the following types of insurance policies: workers' compensation, commercial general liability, automobile liability, commercial property coverage, student accident coverage, professional liability, employment practices, directors' and officers' liability and excess "umbrella"

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liability. The policies provide for a variety of coverages and are subject to various limitations, exclusions and deductibles. Management believes that the Company's current insurance coverages are adequate to meet its needs.

Bright Horizons Family Solutions has not experienced difficulty in obtaining insurance coverage, but there can be no assurances that adequate insurance coverage will be available in the future, or that the Company's current coverage will protect it against all possible claims.

RISK FACTORS

Management of Growth. The Company has experienced substantial growth during the past several years through internal growth and by acquisition. The Company's ability to grow in the future will depend upon a number of factors, including the ability to further develop and expand existing client relationships, obtaining new client relationships, the expansion of services and programs offered by the Company, the maintenance of high quality services and programs, and the hiring and training of qualified personnel. The Company may experience difficulty in attracting and retaining qualified personnel in various markets necessary to meet growth opportunities. Hiring and retaining qualified personnel

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may require increased salaries and enhanced benefits in more competitive markets, which could result in a material adverse effect on the Company's business, results of operations and financial condition. In addition, difficulties in hiring and retaining qualified personnel may also impact the Company's ability to accept additional enrollment at its centers, which could result in a material adverse effect on the Company's business, quality of service, results of operations and financial condition. Sustaining growth may require the implementation of enhancements to operational and financial systems and may also depend on the Company's ability to expand its sales and marketing force. There can be no assurance that the Company will be able to manage its expanding operations effectively or that it will be able to maintain or accelerate its growth, and any failure to do so could have a material adverse effect on the Company's business, results of operations and financial condition.

Market Acceptance of Work and Family Services. The Company's business strategy depends on employers recognizing the value of work and family services. There can be no assurance that there will be continued growth in the number of employers that view work-site family services as cost-effective or beneficial to their work forces. Any negative change in current corporate acceptance of financially supported child care could have a material adverse effect on the Company's business, results of operations, financial condition and growth prospects. There can be no assurance that demographic trends, including an increasing percentage of mothers in the work force, will continue to lead to increased market share for the center-based segment in general and the work-site segment in particular.

Competition. The Company competes for corporate clients as well as individual enrollment in a highly fragmented and competitive market. For enrollment, the Company competes with family child care (operated out of the caregiver's home) and center-based child care (residential and work-site child care centers, full and part-time nursery schools, and church-affiliated and other not-for-profit providers). In addition, substitutes for organized child care, such as relatives, nannies, and the option of one parent caring for a child, compete with the Company. In addition, family child care providers often operate at standards lower than the national accreditation standards at which the Company operates. Management believes the Company's ability to compete successfully depends on a number of factors, including quality of care, locational convenience and cost. The Company often is at a price disadvantage with respect to family child care providers, who operate with little or no rental expense and generally do not comply or are not required to comply with the same health, safety, insurance and operational regulations as the Company. Many of its competitors in the center-based segment also offer child care at a substantially lower price than the Company, and some have substantially greater financial resources than the Company or have greater name recognition. The Company also competes with many not-for-profit providers of child care and preschools, some of which are able to offer lower pricing than the Company. There can be no assurance that the Company will be able to compete successfully against current and future competitors, or that competitive pressures faced by the Company will not have a material adverse effect on its business, results of operations and financial condition.

In the competition for corporate clients, the Company primarily competes with other organizations that focus on the work-site segment of the child care market and with certain center-based child care chains that have divisions that compete for corporate opportunities. The Company also competes with a diverse group of large and small competitors for a range of child care and other work and family services including work/life, employee benefits and management consultants. Some of these competitors have significantly greater financial resources and may be willing to enter into contract models, invest initial capital in facilities or enter into other financial arrangements that

are not consistent with the Company's business strategy. Many of these competitors offer consulting, work-site child care and other services at lower prices than the Company. Increased competition for corporate relationships on a national or local basis could result in increased pricing pressure and/or loss of market share, thereby having a material adverse effect on the Company's business, results of operations and financial condition, as well as its ability to attract and retain qualified child care and early education center personnel and its ability to pursue its growth strategy successfully.

Dependence on Corporate Client Relationships. A significant portion of the Company's business is derived from family centers associated with corporate clients for which the Company provides work-site family services for single or multiple sites pursuant to contractual arrangements. While the specific terms of such contracts vary, some contracts are subject to early termination by the corporate client without cause. While the Company has a history of consistent contract renewals, there can be no assurance that future renewals will be secured. The early termination or non-renewal of a significant number of contracts or the termination of a multiple-site corporate client relationship could have a material adverse effect on the Company's business, results of operations and financial condition.

Changing Economic Conditions. The Company's revenue and net income are subject to general economic conditions. A significant portion of the Company's revenue is derived from employers and real estate developers who historically have reduced their expenditures for work-site family services during economic downturns. In addition, a significant percentage of the Company's child care and early education centers are sponsored by real estate developers offering on-site child care as an amenity to attract tenants to their sites. Changes in the supply and demand of real estate could adversely affect real estate developers' willingness to subsidize child care operations at new or existing developments or their ability to obtain financing for developments offering developer-sponsored child care services. Should the economy weaken further or experience a protracted delay in its recovery, corporate clients may reduce or eliminate their expenditures on work and family services, and prospective clients may not commit resources to such services. In addition, should the size of an employer's workforce be reduced the Company may have a smaller base of families it is able to offer its services to. The Company's revenues depend, in part, on the number of dual income families and working single parents who require child care services. The further deterioration of general economic conditions may adversely impact the Company because of the tendency of out-of-work parents to discontinue utilization of child care services. In addition, the Company may not be able to increase tuition at a rate consistent with increases in operating costs. These factors could have a material adverse effect on the Company's business, results of operations and financial condition.

Risks Associated with Acquisitions. The Company plans as part of its growth strategy to evaluate the acquisition of other providers of work/life, child care and consulting services. Acquisitions involve numerous risks, including potential difficulties in the assimilation of acquired operations, not meeting financial objectives, additional investment, diversion of management's attention, the dilutive effects of the issuance of the Company's common stock ("Common Stock") in connection with an acquisition and potential loss of key employees of the acquired operation. No assurance can be given as to the success of the Company in identifying, executing and assimilating acquisitions in the future.

Dependence on Key Management. The success of the Company is highly dependent on the efforts, abilities, and continued services of its executive officers and other key employees. The loss of any of the executive officers or key employees

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could have a material adverse effect on the Company's business, results of operations and financial condition. The Company believes that its future success will depend upon its ability to continue to attract, motivate and retain highly-skilled managerial, sales and marketing, divisional, regional and center director personnel. Although the Company historically has been successful in retaining the services of its senior management, there can be no assurance that the Company will be able to do so in the future.

Ability to Obtain and Maintain Insurance; Adverse Publicity. The Company currently maintains the following types of insurance policies: workers' compensation, commercial general liability, automobile liability, commercial property coverage, student accident coverage, directors' and officers' liability coverage, employment practices liability, professional liability and excess "umbrella" liability including coverage for child abuse and molestation. These policies provide for a variety of coverages and are subject to various limitations, exclusions and deductibles. To date, the Company has been able to obtain insurance in amounts it believes to be appropriate. There can be no assurance that the Company's insurance premiums will not increase in the future as a consequence of conditions in the insurance business or child care market generally or the Company's experience in particular. As a result of adverse publicity concerning reported incidents of alleged abuse at child care centers and the length of time before

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the expiration of applicable statutes of limitations for the bringing of child abuse and personal injury claims (typically a number of years after the child reaches the age of majority), some operators of child care and early education centers have had difficulty obtaining general liability insurance, child abuse liability insurance or similar liability insurance or have been able to obtain such insurance only at substantially higher rates. Any adverse publicity concerning reported incidents of child abuse at any child care centers, whether or not directly relating to or involving the Company, could result in decreased enrollment at the Company's centers, termination of existing corporate relationships, inability to attract new corporate relationships or increased insurance costs, any of which could have a material adverse effect on the Company's business, results of operations, and financial condition.

Litigation. Because of the nature of its business, the Company is and expects that in the future it may be subject to claims and litigation alleging negligence, inadequate supervision and other grounds for liability arising from injuries or other harm to the people it serves, primarily children. In addition, claimants may seek damages from the Company for child abuse, sexual abuse and other acts allegedly committed by Company employees. The Company has occasionally been sued for claims relating to children in its care. There can be no assurance that additiona