BRIGHT HORIZONS FAMILY SOLUTIONS INC
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 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)	(IRS Employer Identification No.)

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

(617) 673-8000
(Registrant's telephone number, including area code)

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 the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: 12,753,886 shares of common stock, $.01 par value, at November 13, 2001.

FORM 10-Q

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Bright Horizons Family Solutions, Inc.
Consolidated Balance Sheets
(in thousands except share data)

	September 30, 2001 (unaudited)	December 2000
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 9,099	$ 8,5
Accounts receivable, net	26,117	23,9
Prepaid expenses and other current assets	2,669	3,5
Current deferred tax asset	5,297	5,2

Total current assets	43,182	41,3
Fixed assets, net	73,221	64,4
Goodwill and other intangible assets, net	24,180	24,2
Non-current deferred tax asset	6,151	6,1
Other assets	562	7
Total assets	$ 147,296	$ 136,8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit and short term debt	$ 3,500	$ 6,3
Current portion of long-term debt and obligations under capital leases	115	1
Accounts payable and accrued expenses	25,920	28,0
Deferred revenue	14,946	10,7
Income tax payable	743	5
Other current liabilities	1,302	1,8
Total current liabilities	46,526	47,6
Long-term debt and obligations under capital leases, net of current portion	312	4
Accrued rent	1,840	1,7
Other long-term liabilities	3,760	3,3
Deferred revenue, net of current portion	9,531	8,4
Total liabilities	61,969	61,6
Stockholders' equity:		
Common Stock $.01 par value Authorized: 30,000,000 shares Issued: 12,743,000 and 12,564,000 shares September 30, 2001 and December 31, 2000, respectively Outstanding: 12,248,000 and 12,069,000 at September 30, 2001 and December 31, 2000, respectively	127	1
Additional paid in capital	80,948	79,3
Treasury stock, 495,000 shares, at cost	(7,081)	(7,0
Cumulative translation adjustment	(23)	
Retained earnings	11,356	2,8
Total stockholders' equity	85,327	75,2
Total liabilities and stockholders' equity	$ 147,296	$ 136,8

The accompanying notes are an integral part of the consolidated financial statements.

Bright Horizons Family Solutions, Inc.
Consolidated Statements of Operations

(in thousands except per share data)
(Unaudited)

	Three months ended September 30, 2001	Three months ended September 30, 2000	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Revenues	$ 87,173	$74,504	$ 254,665	$213,192
Cost of services	74,746	63,889	217,240	182,035
Gross profit	12,427	10,615	37,425	31,157
Selling, general and administrative	7,062	6,245	20,977	17,834
Amortization	542	527	1,655	1,369
Income from operations	4,823	3,843	14,793	11,954
Net interest income (expense)	(7)	38	(72)	162
Income before tax	4,816	3,881	14,721	12,116
Income tax provision	2,029	1,621	6,181	5,045
Net income	$ 2,787	$ 2,260	$ 8,540	$ 7,071
Earnings per share - basic	$ 0.23	$ 0.19	$ 0.70	$ 0.60
Weighted average shares - basic	12,229	11,914	12,164	11,857
Earnings per share - diluted	$ 0.22	$ 0.18	$ 0.67	$ 0.57
Weighted average shares - diluted	12,813	12,667	12,793	12,445

The accompanying notes are an integral part of the consolidated financial statements.

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Bright Horizons Family Solutions, Inc.
Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine month Septemb 2001
Net income	$ 8,540

Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	7,094
Loss on disposal of fixed assets	--
Non cash expense	--
Changes in assets and liabilities:	
Accounts receivable	(2,146)
Prepaid income taxes	--
Prepaid expenses and other current assets	848
Accounts payable and accrued expenses	(2,161)
Income taxes payable	202
Deferred revenue	4,919
Accrued rent	171
Other long-term assets	133
Other current and long-term liabilities	(317)
Net cash provided by operating activities	17,283
Cash flows from investing activities:	
Additions to fixed assets, net of acquired amounts	(14,450)
Proceeds from disposal of fixed assets	--
Increase in other assets	--
Cash payments for acquisitions	(924)
Net cash used in investing activities	(15,374)
Cash flows from financing activities:	
Proceeds from issuance of common stock from exercise of options	1,551
Principal payments of long term debt and obligations under capital leases	(145)
Payment of short -term debt	(1,115)
Borrowing through line of credit	5,000
Repayments under line of credit	(6,693)
Net cash (used in) provided by financing activities	(1,402)
Effect of exchange rate changes on cash and cash equivalents	(7)
Net increase (decrease) in cash and cash equivalents	500
Cash and cash equivalents, beginning of period	8,599
Cash and cash equivalents, end of period	$ 9,099
Non-cash financing activities:	
Options issued in connection with acquisition	--
Supplemental cash flow information:	
Cash payments for interest	$ 58
Cash payments for income taxes	$ 6,008

The accompanying notes are an integral part of the consolidated financial statements.

ITEM 1.D. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The Company and Basis of Presentation

ORGANIZATION - Bright Horizons Family Solutions, Inc. (the "Company") was incorporated under the laws of the state of Delaware on April 27, 1998 and commenced substantive operations upon the completion of the merger by and between Bright Horizons, Inc. ("BRHZ") and CorporateFamily Solutions, Inc. ("CFAM") on July 24, 1998 (the "Merger"). The Company provides workplace services for employers and families including childcare, early education and strategic work/life consulting throughout the United States, Guam, the United Kingdom, and Ireland.

The Company operates its family centers under various types of arrangements, which generally can be classified in two forms: (i) the sponsor model, where the Company operates a family center on the premises of a sponsor and gives priority enrollment to the sponsor's employees or affiliates, and (ii) the management model, where the Company manages a work-site family center under a cost-plus arrangement, typically for a single employer.

BASIS OF PRESENTATION -- The accompanying financial statements have been prepared by the Company in accordance with the accounting policies described in the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, and should be read in conjunction with the notes thereto.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

In the opinion of the Company's management, the accompanying unaudited consolidated financial statements contain all adjustments which are necessary to present fairly its financial position as of September 30, 2001 and the results of its operations for the three and nine month periods ended September 30, 2001 and 2000, and its cash flows for the nine month periods ended September 30, 2001 and 2000, and are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the operating results to be expected for the full year.

SEGMENT INFORMATION - In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards(SFAS) No. 131, Disclosures About Segments of an Enterprise and Related Information (SFAS No. 131). As of September 30, 2001, the Company operates solely in one segment, providing workplace services to employers and families including childcare, early education and work/life consulting and generates in excess of 90% of revenue and operating profit domestically.

COMPREHENSIVE INCOME - The Company applies the provisions of SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The only components of comprehensive income reported by the Company are net income and foreign currency translation adjustments.

	For the Nine Months Ended September 30, 2001	2000
Net income	$ 8,540	$7,071
Foreign currency translation adjustments	(48)	--
Comprehensive income	$ 8,492	$7,071

NEW ACCOUNTING PRONOUNCEMENTS - In July 2001, the Financial Accounting Standards Board issued Statement No. 141, "Accounting for Business Combinations", and Statement No. 142, "Goodwill and Other Intangible Assets." These Statements modify accounting for business combinations and will affect the Company's treatment of goodwill and other intangible assets at the start of the fiscal year 2002, and for acquisitions consummated after June 30, 2001. The Statements require that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified with the Statement's criteria. Intangible assets with estimated useful lives will continue to be amortized over those periods. Amortization of goodwill and intangible assets with indeterminable lives will cease. Although the Company has not yet determined the full impact of these Statements on reported results, amortization expense on existing goodwill and intangible assets is expected to be approximately $300,000 to $400,000 in 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement does not apply to obligations that arise solely from a plan to dispose of a long-lived asset. This Statement shall be effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of this Statement to have a material impact on its operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spinoff be considered held and used until it is disposed of. The changes in this Statement require that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively. The Company does not expect the adoption of this Statement to have a material impact on its operations.

3. Earnings Per Share

Earnings per share has been calculated in accordance with SFAS No. 128 "Earnings per Share" ("SFAS 128"), which established standards for computing and presenting earnings per share. The computation of net earnings per share is based on the weighted average number of common shares and common equivalent shares outstanding during the period.

The following tables present information necessary to calculate earnings per share:

	Three months Ended September 30, 2001		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income available to common stockholders	$ 2,787,000	12,229,000	$ 0.23
Effect of dilutive securities:			
Stock options	--	584,000	
Diluted earnings per share	$ 2,787,000	12,813,000	$ 0.22

	Three months Ended September 30, 2000		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income available to common stockholders	$ 2,260,000	11,914,000	$ 0.19
Effect of dilutive securities:			
Stock options	--	753,000	
Diluted earnings per share	$ 2,260,000	12,667,000	$ 0.18

	Nine months Ended September 30, 2001		
	Earnings	Shares	Per Share

	(Numerator)	(Denominator)	Amount
Basic earnings per share:			
Income available to common stockholders	$ 8,540,000	12,164,000	$ 0.70
Effect of dilutive securities:			
Stock options	--	629,000	
Diluted earnings per share	$ 8,540,000	12,793,000	$ 0.67

	Nine months Ended September 30, 2000		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income available to common stockholders	$ 7,071,000	11,857,000	$ 0.60
Effect of dilutive securities:			
Stock options	--	588,000	
Diluted earnings per share	$ 7,071,000	12,445,000	$ 0.57

The weighted average number of shares excluded from the above calculations for the three and nine months ended September 30, 2001 were 24,000 and 15,000, respectively, and 1,000 and 363,823 for the three and nine months ended September 30, 2000, respectively, as their effect would be anti-dilutive. For the three and nine month periods ended September 30, 2001 and 2000, the Company had no warrants or preferred stock outstanding.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Form 10-Q contains certain forward-looking statements regarding, among other things, the anticipated financial and operating results of the Company. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release any modifications or revisions to these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions investors that future financial and operating results may differ materially from those projected in forward-looking statements made by, or on behalf of, the Company. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. See "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference for a description of a number of risks and uncertainties which could affect actual results.

General

The Company provides workplace services for employers and families, including child care, early education and strategic work/life consulting, operating 384 child development centers at September 30, 2001. During the three month period ending September 30, 2001 the Company opened 21 new family centers, and closed 3 family centers which were not meeting operating objectives and/or were transitioned to other providers. The Company has the capacity to serve approximately 47,000 children in 36 states, the District of Columbia, Guam, the United Kingdom, and Ireland and has partnerships with many of the nation's leading employers, including 82 Fortune 500 companies. Working Mother's 2001 list of the "100 Best Companies for Working Mothers" includes 48 clients of the Company. Historical revenue growth has primarily resulted from the addition of new family centers as well as increased enrollment at existing family centers. The Company reports its operating results on a calendar year basis.

The Company's business is subject to seasonal and quarterly fluctuations. Demand for child care and early education services has historically decreased during the summer months. During this season, families are often on vacation or have alternative child care arrangements. Demand for the Company's services generally increases in September upon the beginning of the new school year and remains relatively stable throughout the remainder of the school year. Results of operations may also fluctuate from quarter to quarter as a result of, among other things, the performance of existing centers including enrollment and staffing fluctuations, the number and timing of new center openings and/or acquisitions, the length of time required for new centers to achieve profitability, center closings, refurbishment or relocation, the model mix (sponsor vs. management) of new and existing centers, competitive factors and general economic conditions.

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RESULTS OF OPERATIONS

The following table sets forth certain statement of operations data as a percentage of revenue for the three and nine month periods ended September 30, 2001 and 2000:

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of services	85.7	85.8	85.3	85.4
Gross profit	14.3	14.2	14.7	14.6
Selling, general & administrative	8.1	8.4	8.2	8.4
Amortization	0.7	0.6	0.7	0.6
Income from operations	5.5	5.2	5.8	5.6

Interest income	0.0	0.1	0.0	0.1
Income before income taxes	5.5	5.3	5.8	5.7
Income tax provisions	2.3	2.3	2.4	2.4
Net income	3.2%	3.0%	3.4%	3.3%

Three and Nine Months Ended September 30, 2001 Compared to the Three and Nine Months Ended September 30, 2000

Revenue. Revenue increased $12.7 million, or 17.0%, to $87.2 million for the three months ended September 30, 2001 from $74.5 million for the three months ended September 30, 2000. Revenue increased $41.5 million, or 19.5%, to $254.7 million for the nine months ended September 30, 2001 from $213.2 million for the nine months ended September 30, 2000. The growth in revenues is primarily attributable to the net addition of 50 family centers since September 30, 2000, modest growth in the existing base of family centers and tuition increases at existing centers of approximately 4% to 6%.

Gross Profit. Cost of services consists of center operating expenses, including payroll and benefits for center personnel, facilities costs which includes depreciation, supplies and other expenses incurred at the family center level. Gross profit increased $1.8 million, or 17.1%, to $12.4 million for the three month period ended September 30, 2001 from $10.6 million for the three months ended September 30, 2000. As a percentage of revenue, gross profit increased to 14.3% for the three months ended September 30, 2001 compared to 14.2% for the three months ended September 30, 2000. Gross profit increased $6.2 million, or 20.1%, to $37.4 million for the nine months ended September 30, 2001 from $31.2 million for the nine months ended September 30, 2000. As a percentage of net revenues, gross profit increased to 14.7% for the nine months ended September 30, 2001, compared to 14.6% for the same period in 2000.

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The modest increase in gross profit margins for the nine-month period ended September 30, 2001 compared to the same period in 2000 resulted from a greater proportion of centers achieving mature operating levels. In addition, the Company was operating a greater proportion of new management model centers, which do not incur losses during the ramp up phase, during the nine month period ended September 30, 2001, as compared to the same period in 2000.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of regional and district management personnel, corporate management and administrative functions, and development expenses for new and existing centers. Selling, general and administrative expenses increased $817,000, or 13.1%, to $7.1 million for the three months ended September 30, 2001 from $6.3 million for the three months ended September 30, 2000. As a percentage of revenue, selling, general and administrative expenses decreased to 8.1% for the three months ended September 30, 2001 from 8.4% for the same period in 2000. Selling, general and administrative expenses increased $3.2 million, or 17.6%, to $21.0 million for the nine months ended September 30, 2001 from $17.8 million for the nine months ended September 30, 2000. As a percentage of net revenues, selling, general and administrative expenses decreased to 8.2% for the nine months ended September 30, 2001 from 8.4% for the nine months ended September 30, 2000.

The dollar increase in selling, general, and administrative expenses is primarily attributable to investments in regional and divisional management, sales personnel, and general corporate and administrative personnel necessary to support long-term growth as well as selling, general and administrative expenses associated with expansion in the United Kingdom and Ireland. Selling, general and administrative expenses, as a percentage of revenue, decreased during the three months ended September 30, 2001 as compared to the three months ended September 30, 2000 as a result of a larger revenue base.

Income from Operations. Income from operations totaled $4.8 million for the three months ended September 30, 2001, an increase of $1.0 million, or 25.5%, from $3.8 million in the same period for 2000. For the nine months ended September 30, 2001, income from operations increased $2.8 million, or 23.7%, to $14.8 million from $12.0 million in the same period for 2000.

Net Interest Income (Expense). Net interest expense was approximately $7,000 for the three months ended September 30, 2001 as compared with $38,000 of net interest income for the three months ended September 30, 2000. For the nine months ended September 30, 2001 the Company had net interest expense of $72,000 as compared to net interest income of $162,000 for the nine months ended September 30, 2000. The decrease in net interest income in 2001 from 2000 is primarily attributable to borrowings under the Company's line of credit and lower levels of invested cash, which also earned interest at a lower rate.

Income Tax Provision. The Company's effective income tax rate was approximately 42.0% for the three and nine month periods ended September 30, 2001 and 41.6% for the three and nine month periods ended September 30, 2000. Management expects the tax rate to remain steady throughout 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash requirements are the ongoing operations of its existing centers and the addition of new centers through development or acquisition. The Company's primary sources of liquidity have been existing cash balances and cash flow from operations, supplemented by borrowing capacity under the Company's revolving line of credit. The Company had a working capital deficit of $3.3 million and $6.3 million as of September 30, 2001 and December 31, 2000, respectively.

Cash provided from operations increased to $17.3 million for the nine months ended September 30, 2001, from $6.8 million for the nine months ended September 30, 2000. The increase in cash provided by operations is primarily the result of an increase in net income before depreciation and amortization of $3.3 million compared to the nine months ended September 30, 2000. The increase in cash provided by operating activities is also attributable to net decreases in accounts receivable and prepaid expenses and an increase in deferred revenue.

Cash used in investing activities decreased to $15.4 million for the nine months ended September 30, 2001 from $21.2 million for the nine months ended September 30, 2000. The decrease was primarily the result of payments for acquisitions totaling $7.7 million in 2000 compared to $1.0 million in 2001, offset by an increase of $1.2 million in additional fixed asset additions in 2001. Of the $14.5 million of fixed asset additions for the nine months ended September 30, 2001, approximately $10.6 million relates to new family centers, with the remaining balance being primarily utilized for the refurbishment and expansion of existing family centers. Management expects the current level of center related fixed asset spending to remain the same for the remainder of 2001.

Cash used in financing activities totaled $1.4 million for the nine months ended September 30, 2001 as compared to $6.8 million in cash provided by financing activities for the nine months ended September 30, 2000. The increase in cash used for financing activities is primarily attributable to the net repayment of $1.7 million on the Company's line of credit for the nine months ended September 30, 2001 as compared to net borrowings of $5.5 million in the same period in 2000. In addition, $1.2 million of short term debt was repaid in 2001. The Company received $1.5 million in net proceeds from the issuance of Common Stock associated with the exercise of stock options in the nine months ended September 30, 2001, as compared to $1.4 million in the same period in 2000.

Management believes that funds provided by operations and the Company's existing cash and cash equivalent balances and borrowings available under the line of credit will be adequate to meet planned operating and capital expenditure needs for at least the next 18 months. However, if the Company were to make any significant acquisitions or make significant investments in the purchase of facilities for new or existing centers for corporate sponsors, it may be necessary for the Company to obtain additional debt or equity financing. There can be no assurance that the Company would be able to obtain such financing on reasonable terms, if at all.

NEW ACCOUNTING PRONOUNCEMENT DISCLOSURES

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement does not apply to obligations that arise solely from a plan to dispose of a long-lived asset. This Statement shall be effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of this statement to have a material impact on its operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spinoff be considered held and used until it is disposed of. The changes in this Statement require that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively. The Company does not expect the adoption of this statement to have a material impact on its operations.

In July 2001, the Financial Accounting Standards Board issued Statement No. 141, "Accounting for Business Combinations", and Statement No. 142, "Goodwill and Other Intangible Assets." These statements modify accounting for business combinations after September 30, 2001 and will affect the Company's treatment of goodwill and other intangible assets at the start of the fiscal year 2002, and for acquisitions consummated after September 30, 2001. The statements require that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified with the Statement's criteria. Intangible assets with estimated useful lives will continue to be amortized over those periods. Amortization of goodwill and intangible assets with indeterminable lives will cease. Although the Company has not yet determined the full impact of these statements on reported results, amortization expense on existing goodwill and intangible assets is expected to be approximately $300,000 to $400,000 in 2002.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

There have been no material changes in the Company's investment strategies, types of financial instruments held or the risks associated with such instruments which would materially alter the market risk disclosures made in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Foreign Currency Exchange Rate Risk

The Company's exposure to fluctuations in foreign currency exchange rates is primarily the result of foreign subsidiaries domiciled in the United Kingdom and Ireland. The Company does not currently use financial derivative instruments to hedge foreign currency exchange rate risks associated with its foreign subsidiaries.

The assets and liabilities of the Company's United Kingdom and Ireland subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. The cumulative translation effects for the subsidiaries are included in cumulative translation adjustment in stockholders' equity.

There have been no changes in the Company's foreign operations that would materially alter the disclosures on foreign currency exchange risk made in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings:

Not Applicable

ITEM 2. Changes in Securities and Use of Proceeds:

Not applicable

ITEM 3. Defaults Upon Senior Securities:

None

ITEM 4. Submission of Matters to a Vote of Security Holders:

Not applicable

ITEM 5. Other information:

Not applicable

ITEM 6. Exhibits and Reports on Form 8-K:

(a) Exhibits:

Exhibit 10.1 - Amended and Restated 1998 Stock Incentive Plan

(b) Reports on Form 8-K

Not Applicable

SIGNATURE

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

Date: November 13, 2001

BRIGHT HORIZONS FAMILY SOLUTIONS, INC.

By: /s/ Elizabeth J. Boland

Elizabeth J. Boland
Chief Financial Officer
(Duly Authorized Officer and Principal
Financial and Accounting Officer)

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EXHIBIT INDEX

10.1	Amended and Restated 1998 Stock Incentive Plan

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