

BRIGHT HORIZONS FAMILY SOLUTIONS INC

Form 10-K

February 29, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

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

**For the fiscal year ended December 31, 2007.**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission File Number: 0-24699**

**BRIGHT HORIZONS FAMILY SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**62-1742957**

(IRS Employer Identification No.)

**200 Talcott Avenue South**

**Watertown, MA 02472**

(Address of principal executive offices and zip code)

**(617) 673-8000**

(Registrant's telephone number, including area code)

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

Title of each class

Name of exchange on which registered

Common Stock, \$0.01 par value per share

The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Act. Yes  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  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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting  
company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of June 30, 2007, the aggregate market value of the shares of common stock held by non-affiliates of the registrant (excluding directors and executive officers of the registrant) was approximately \$1,000,430,068 (based on the closing price for the common stock as reported on The NASDAQ Global Select Market on June 30, 2007).

As of February 25, 2008, there were 26,291,492 outstanding shares of the registrant's common stock, \$0.01 par value per share, which is the only outstanding capital stock of the registrant.

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**FORM 10-K ANNUAL REPORT**  
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**Cautionary Statement About Forward-Looking Information**

The Company has made statements in this report that constitute forward-looking statements as that term is defined in the federal securities laws. Forward-looking statements generally are identified by the words believes, expects, anticipates, plans, estimates, projects, or similar expressions. These forward-looking statements concern the Company's operations, economic performance and financial condition, and include, among others, statements regarding: the proposed transaction with Bain Capital Partners, LLC; opportunities for growth; the number of early care and education centers expected to be added in future years; the profitability of newly opened early care and education centers; capital expenditure levels; the ability to incur additional indebtedness; strategic acquisitions, investments, and other transactions; changes in operating systems or policies and their intended results; our expectations and goals for increasing center revenue and improving our operational efficiencies; and, our projected operating cash flows.

Although we believe that the forward-looking statements that we make in this report are based on reasonable assumptions, expected results may not be achieved and actual results may differ materially from the Company's expectations. Forward-looking statements are subject to various known and unknown risks, uncertainties and other factors, including but not limited to the factors discussed in the section entitled Risk Factors in Item 1A of this Annual Report on Form 10-K. We caution you that these risks may not be exhaustive. We operate in a continually changing business environment and new risks emerge from time to time. You should not rely upon forward-looking statements except as statements of our present intentions and of our present expectations that may or may not occur. You should read these cautionary statements as being applicable to all forward-looking statements wherever they appear. We assume no obligation to update or revise the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

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Bright Horizons Family Solutions, Inc. (generally referred to herein as Bright Horizons, the Company, we, our or is a Delaware corporation with its headquarters in Watertown, Massachusetts. Bright Horizons is a leading provider of workplace services for employers and families. Workplace services include center-based child care, education and enrichment programs, elementary school education, back-up care (for children and elders), before and after school care, summer camps, vacation care, college preparation and admissions counseling ( College Coach ), and other family support services. As of December 31, 2007, the Company operated 641 early care and education centers for more than 700 clients and had the capacity to serve approximately 71,000 children in 43 states, the District of Columbia, Puerto Rico, Canada, Ireland, and the United Kingdom. Our workplace services cater primarily to working families and provide a number of services designed to meet the business objectives of employers and the family needs of their employees. Our services are designed to (i) address employers ever-changing workplace needs, (ii) enhance employee productivity, (iii) improve recruitment and retention of employees, (iv) reduce absenteeism, and (v) help employers become the employer of choice within their industry.

Bright Horizons serves many leading corporations, including more than 95 *Fortune 500* companies and 75 of *Working Mother Magazine*'s 100 Best Companies for Working Mothers. Our employer clients include Abbott Laboratories, Alston & Bird, Amgen, Bank of America, Boeing, Bristol-Myers Squibb, British Petroleum, Citigroup, Eli Lilly, GlaxoSmithKline PLC, IBM, Johnson & Johnson, JP Morgan Chase, LandRover, Microsoft, Motorola, Pfizer, Royal Bank of Scotland, Starbucks, Target, Timberland, Toyota, Union Pacific, Universal Studios, and Wachovia. We also provide services for well-known institutions such as Duke University, the European Commission, the Federal Deposit Insurance Corporation (FDIC), JFK Medical Center, Johns Hopkins University, Massachusetts Institute of Technology, Memorial Sloan-Kettering Cancer Center, and the Professional Golfers Association (PGA) and Ladies Professional Golf Association (LPGA) Tours. Bright Horizons operates multiple early care and education centers for 57 of its employer clients.

**PROPOSED TRANSACTION WITH AFFILIATES OF BAIN CAPITAL PARTNERS, LLC**

On January 14, 2008, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with affiliates of Bain Capital Partners, LLC (Bain), pursuant to which a wholly owned subsidiary of Bain will be merged with and into the Company, and as a result the Company will continue as the surviving corporation and a wholly owned subsidiary of Bain (the Merger). Both the Board of Directors of the Company and a Special Committee of the Board of Directors of the Company, comprised solely of independent and disinterested directors (the Special Committee), have approved the Merger Agreement and the Merger and recommended that the stockholders of Bright Horizons vote to adopt the Merger Agreement. The Company is working toward completing the Merger as quickly as possible, and currently anticipates that the Merger will be completed in the second quarter of 2008.

Pursuant to the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of common stock of the Company will be canceled and will be automatically converted into the right to receive \$48.25 in cash, without interest. All outstanding equity-based awards of the Company will continue to vest until the closing of the Merger in accordance with their respective terms. Generally, at the closing of the Merger, all outstanding and unvested equity awards will fully vest, at which time these awards will be cancelled and converted into the right to receive the difference between \$48.25 in cash and the exercise price of such award, if applicable, without interest and less any applicable withholding taxes.

Notwithstanding the foregoing, subject to Bain's sole discretion, certain of our directors and officers may enter into agreements to convert their options or Bright Horizons common stock into, or otherwise invest in, the equity securities of the surviving corporation or one of Bain's other affiliates following the closing; however, no such discussions regarding any such investments have occurred as of the date of the filing of this Annual Report on Form 10-K.

The Merger Agreement contains a go-shop provision wherein, until March 15, 2008, the Company, under the direction of the Special Committee, is permitted to initiate, solicit, facilitate and encourage acquisition proposals from third parties other than Bain and enter into and maintain or continue discussions or negotiations concerning any such acquisition proposals. After the expiration of the go-shop period, the Company is generally not permitted to (1) solicit,

knowingly facilitate, knowingly encourage or initiate any inquiries or the implementation or submission of any acquisition



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proposal, (2) withdraw or modify, in a manner adverse to Bain, the recommendation of the Company's Board of Directors in favor of the Merger or the Merger Agreement, or (3) enter into or recommend any letter of intent, acquisition agreement or similar agreement with respect to any such acquisition proposal. Notwithstanding the foregoing, the provisions of the Merger Agreement provide for a customary fiduciary-out provision which allows the Company's Board of Directors or a committee thereof under certain circumstances to participate in discussions with third parties with respect to unsolicited acquisition proposals and to terminate the Merger Agreement and enter into an acquisition agreement with respect to a superior proposal, provided that the Company complies with certain terms of the Merger Agreement, including, if required, paying a termination fee as described below.

If the Merger Agreement is terminated by the Company, under certain circumstances, the Company will be obligated to pay the expenses of Bain up to \$10.0 million and will be obligated to pay a termination fee of \$39.0 million (or \$19.5 million in the event that the Merger Agreement is terminated in favor of a superior acquisition proposal that arises during the go-shop period), less the amount of any reimbursement of expenses of Bain. Additionally, under certain circumstances, should the purchasing Bain entities terminate the Merger Agreement, Bain would be required to pay the Company a termination fee of \$39.0 million, plus, in certain circumstances, indemnification for up to an additional \$27.0 million of the Company's damages. The recovery of such amounts would be the Company's exclusive remedy for failure of Bain and its affiliates to complete the Merger.

Although the purchasing Bain entities' obligations to complete the Merger are not conditioned upon their receipt of financing, the purchasing Bain entities have obtained equity and debt financing commitments (including from other Bain affiliates) for the transactions contemplated by the Merger Agreement. In the event that any portion of the financing under the commitments becomes unavailable on the terms contemplated in the agreements in respect thereof, the purchasing Bain entities are obligated to use their reasonable best efforts to arrange alternative financing in an amount sufficient to consummate the Merger.

Consummation of the Merger is subject to customary conditions to closing, including the approval of the Company's stockholders and receipt of requisite antitrust and competition law approvals. On February 11, 2008, the Company received notice from the Federal Trade Commission and the Antitrust Division of the Department of Justice granting early termination of the waiting period under the Hart-Scott-Rodino Act. On February 19, 2008, the Company filed with the Securities and Exchange Commission the preliminary proxy statement with respect to approval of the Merger by the Company's stockholders.

Purported class action litigation has been filed since January 14, 2008 by Bright Horizons stockholders against the Company, its current directors, and Bain. See Item 3, *Legal Proceedings*, and Note 14, *Commitments and Contingencies - Litigation*, of the Consolidated Financial Statements and Notes thereto included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K for a further discussion of these actions.

**BUSINESS STRATEGY**

Bright Horizons is recognized as a leading quality service provider in our field by employers and working families. The Company is well positioned to serve its clients due to its quality programming, innovative approach to work/life strategies, extensive service offerings, and track record of serving employer sponsors and families. The principal elements of the Company's business strategy are to be the partner of choice, provider of choice and employer of choice.

***Partner of Choice.*** Bright Horizons seeks to partner with a wide variety of employers to offer unique high quality workplace benefits and solutions. We partner with employers across a wide spectrum of industries, including manufacturing, healthcare and pharmaceutical operations, financial services, universities, and a range of government agencies. Some of the key principles in this business strategy are:

*Provider of Workplace Services.* Due to the demographics of today's workforce and the prevalence of dual career families, a growing number of employers are creating family benefits to attract and retain employees and support them as parents. By making investments in work-site child care, early education and back-up care, employers create a partnership between themselves, their employees (as parents), and Bright Horizons. These services address the critical human resources challenges of recruitment, retention, productivity, and reputation as an employer of choice. By creating the partnership with parents, Bright Horizons and the employer can simultaneously address the three most important criteria used by parents to evaluate and select an early care

and education provider: quality of care, site convenience, and cost. In addition, the partnership with Bright Horizons gives parents access to high quality programs where there may be an undersupply of quality child care and may give employees access to a national back-up care network . Bright Horizons employer-sponsored facilities are conveniently located at or near the parents place of employment, and generally conform their hours of operation to

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the work schedule of the employer sponsor. Work-site early care and 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.

*Employer Sponsorship.* Sponsorship helps 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 teacher compensation, teacher-child ratios, curricula, continuing teacher education, facilities, and equipment. Additionally, the Company is able to offer parents high quality early care and education services at competitive tuition levels. Some employers offer subsidized tuition to their employees as part of their sponsorship and overall benefits package, further contributing to the offering of competitive tuition levels.

*Leading Market Presence.* Bright Horizons' strategy has been to gain a leading market presence by leveraging the Company's reputation and the visibility of its client relationships to enhance its marketing and market reach. In addition, the Company believes that clustering its early care and education centers in selected metropolitan and geographic areas provides operating advantages, such as local management and oversight, local recruiting networks, and efficient systems to deploy and train teachers. We believe that regional clustering serves as a competitive advantage in developing our reputation within geographic regions and securing new employer sponsorships in those areas.

*Provider of Choice.* The critical elements of the Company's focus on quality leadership and on being the provider of choice include:

*Highly Qualified Center Directors and Teachers.* We believe our teachers' education and experience are superior to the industry average, and that our employee turnover rates are less than those experienced in the industry. Our typical early care and education center director has significant child care experience and a college degree in an education-related field, with many early care and education center directors holding advanced degrees. The Company has developed a training program that establishes minimum standards for its teachers. Teacher training is conducted in each early care and education center and includes orientation and ongoing training, including training related to child development and education, health, safety, and emergency procedures. Management training is provided on an ongoing basis to all early care and education center directors and includes human resource management, risk management, financial management, customer service, and program implementation. Additionally, because we consider ongoing training essential to maintaining high quality service, early care and education 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.

*Proprietary Innovative Curricula.* Bright Horizons' developmentally appropriate, proprietary curricula are based on well established international research and theory and are recognized as high quality in the realm of early care and education in the United States and Europe. The Company is committed to excellence in the early education experience by creating a dynamic and carefully planned interactive environment designed for individualized active learning and personalized care. The Company's educational program *The World at Their Fingertips: Education for Bright Horizons (World)* is a comprehensive program that includes Language Works, Math Counts, Science Rocks, Our World, Projections, 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. *World* provides a pedagogical framework that can incorporate accepted best practices in the United Kingdom, Ireland, and all the regions of the United States. Teachers seek to foster a rich learning environment appropriate to their center that provides large and small group experiences and extended projects that are all designed to enrich the children's learning and development. 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 key concepts of the *World* curriculum include: high expectations for every child; prime times: the importance of adult-child interactions; planned child choice learning environments; emergent curriculum; developmentally appropriate instruction; learning made visible through documentation and display; full parent partnerships; and 21<sup>st</sup> century technology. The development of language, mathematical reasoning, and scientific thought are emphasized throughout all the learning centers. The Company uses learning centers, outdoor environments, projects and activities, all of which are designed to allow children to independently explore, discover, and learn through their experiences. The Company's early childhood educational services are provided based on the standards established

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in the United States by the National Academy of Early Childhood Programs, a division of the National Association for the Education of Young Children ( NAEYC ), the accreditation standards of the National Child Nursery Association ( NCNA ) in Ireland, and the Office of Standards in Education ( OFSTED ) in the United Kingdom.

*Intensive Teacher-Child Ratios.* Intensive 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. Each child s caregiver is responsible for monitoring the child s developmental progress and tailoring programs to meet the child s individual needs, while engaging parents in establishing and achieving goals. Many other center-based child care providers conform only to the minimum teacher-child ratios mandated by applicable government regulations, which are often less intensive than Bright Horizons early care and education centers and vary widely from state to state.

*Quality Standards.* Bright Horizons operates its early care and education centers to meet very high quality standards. In the United States, centers are operated based on the accreditation standards set forth by NAEYC, a national organization dedicated to improving the quality of care and developmental education provided for young children. The Company s United Kingdom and Ireland early care and education centers are operated to achieve a similar high degree of quality, and are operated based on the accreditation standards set by OFSTED and NCNA. The Company believes that its commitment to following accreditation standards offers a competitive advantage in employer sponsorship opportunities, as the Company has experienced an increasing number of potential and existing employer sponsors that are requiring adherence to accreditation criteria. Accreditation criteria generally are more stringent than state regulatory requirements, and cover a wide range of quantitative and qualitative factors including, among others, educational qualifications and development of teachers, staffing ratios, health and safety, and the physical environment. Achieving accreditation is a long and challenging process.

*Parent Support Mechanisms.* Bright Horizons approach goes beyond the traditional scope of child care and early education and provides rich content and support mechanisms for parents. Through focus groups, parenting seminars, presentations, speaking engagements, e-family news (an electronically distributed parent newsletter), and periodicals, the Company provides resources for parents to support many aspects of parenthood and family issues. The Company s college preparation and admissions counseling services also offer parents additional assistance including workshops which include topics such as Saving for College, Homework and Study Skills, Selecting the Right College, and Paying for College, as well as one on one support with the preparation of college applications.

*Family-Friendly Facilities.* Bright Horizons believes that warm, nurturing, and family-friendly facilities are an important element in fostering high quality learning environments for children. Our early care and 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 early care and education center design incorporates natural light, openness and direct access from the early care and education center to a landscaped playground with the objective of creating an environment that allows for the children to learn indoors and outdoors. The Company devotes considerable effort to equipping its early care and education 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.

*Employer of Choice.* Bright Horizons focuses on maintaining its reputation as a premier employer in the early childhood education market and has been named as one of *Fortune* s 100 Best Companies to Work for in America for the eighth consecutive year. The Company believes that its above-average compensation, comprehensive and affordable benefits package, and opportunities for internal career advancement enable the Company to attract and retain highly qualified, well-educated, experienced and committed early care and education center directors and

teachers. As part of the Company's philosophy of being an employer of choice, the Company developed the Bright Horizons University ( BHU ), an online portal of training sessions, resources, and tools that helps employees develop and reinforce skills and knowledge. In addition, BHU allows for recognized teacher certification.

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**GROWTH STRATEGY**

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

***Open Centers for New Employer Sponsors.*** Bright Horizons' sales force, as well as senior management, actively pursues potential new employer sponsors. Bright Horizons believes that its geographic reach, resources, quality leadership and track record of serving employer sponsors give it a competitive advantage in securing new employer sponsorship relationships. As a result of the Company's visibility as a high quality provider of early care and education and family support services, prospective sponsors regularly contact Bright Horizons requesting proposals for operating an early care and education center.

***Expand Relationships with Existing Employer Sponsors.*** Bright Horizons aims to expand its business relationships from its existing employer sponsor relationships by developing new early care and education centers for sponsors who have multiple sites, expanding existing early care and education centers to serve additional capacity, and offering additional services at its existing early care and education centers. Our experience has been that employer sponsors are more inclined to employ the Company on a multi-site basis following the successful operation of an initial early care and education center. At December 31, 2007, the Company operated 221 early care and education centers for 57 multi-site sponsors.

The Company seeks opportunities to expand and broaden its service offerings in addition to child care. In 2006, the Company acquired College Coach, a college preparation and admissions counseling company, which offers admissions counseling, as well as educational programs that include workshops such as Paying for College and Homework Skills. In addition, the Company developed the Back-Up Care Advantage Program (BUCA) as an additional service offering to allow existing clients to offer a national network of services to employees who may not be able to take advantage of traditional child care offerings. Memberships to BUCA allow employees access to a variety of back-up services including center-based back-up care, in-home back-up care, mildly ill care, in-home elder/adult care, and priority access to full or part-time child care. Center-based back-up care is offered at full-service and back-up early care and education centers operated by Bright Horizons, or at high quality child care centers from an exclusive national network of child care providers.

***Pursue Strategic Acquisitions.*** Bright Horizons seeks to acquire high quality early care and education centers and schools 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 for continued growth. In addition, we pursue acquisitions of correlated businesses to expand service offerings to employers and working families.

***Assume Management of High Quality Child Care Centers.*** The Company has assumed the management of a number of child care centers previously self-managed by employer sponsors as they outsource ancillary services, or from other child care providers. Assuming the management of existing centers enables Bright Horizons to develop new client relationships with little start-up investment.

***Geographic Expansion.*** Bright Horizons seeks to target areas with similar demographic and demand profiles. By targeting areas with a concentration of potential and existing employer sponsors, the Company can offer a more comprehensive solution to an employer sponsor's needs by serving multiple locations. We may choose to enter new markets by either acquiring or building new early care and education centers.

***Develop and Market Additional Services.*** Bright Horizons develops and markets additional workplace and family support services, including seasonal services (extending hours at existing early care and education centers to serve sponsors with highly seasonal work schedules), school vacation clubs, summer camps, elementary school programs, before and after school care, vacation care, special event child care, and college preparation and admissions counseling services. Additionally, the Company often works with its sponsors to offer unique solutions and provide additional services, such as care during weather-related emergencies, which allows Bright Horizons' clients to offer child care services to their employees in alternate locations during extended period crisis events which disrupt usual business operations.

The Company seeks to leverage existing centers by utilizing existing capacity to offer clients the ability to purchase back-up care, which serves the employees of the client when their primary child care options are unavailable. The Company also offers memberships to BUCA, which allows clients to offer employees access to a variety of back-up services on a national level.



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***Expand and Relocate Existing Early Care and Education Centers.*** In areas where Bright Horizons has been successful in operating an early care and education facility, it seeks to expand existing facilities to accommodate demand and enhance its market presence. The Company also relocates successful programs to new locations to take advantage of new facilities and/or additional space. At December 31, 2007, the Company had over 60 early care and education centers under development and scheduled to open over the next 12 to 24 months.

**BUSINESS MODELS**

The Company has two reporting segments consisting of center-based care and ancillary services. Center-based care includes the traditional center-based child care, back-up care, and elementary education. Ancillary services consist of college preparation and admissions counseling and work/life consulting services. The Company uses various business models for the operation of these segments.

***Center-Based Care.*** Although the specifics of Bright Horizons' contractual arrangements in the center-based care segment vary widely, they generally can be classified into two categories: (i) the management or cost plus ( Cost Plus ) model, where Bright Horizons manages a work-site early care and education center under a cost-plus arrangement with an employer sponsor, and (ii) the profit and loss ( P&L ) model, where the Company assumes the financial risk of the early care and education center's operations. The P&L model may be operated under either a sponsored or lease model as more fully described below. Under each model type the Company retains responsibility for all aspects of operating the early care and education center, including the hiring and paying of employees, contracting with vendors, purchasing supplies and collecting tuition and related accounts receivable.

***The Management (Cost Plus) Model.*** Early care and education centers operating under the Cost Plus model represent approximately 35% of our early care and education centers. Under the Cost Plus model, the Company receives a management fee from an employer sponsor and an operating subsidy within an agreed upon budget to supplement tuition received from parents. The sponsor typically provides for the facility, pre-opening and start-up costs, capital equipment and facility maintenance. The Cost Plus model enables the employer sponsor to have a greater degree of control with respect to budgeting, spending and operations. Cost Plus contracts have terms that generally range from three to five years. The Company is responsible for maintenance of quality standards, recruitment of early care and education center directors and teachers, implementation of curricula and programs, and interaction with parents.

***The Profit and Loss Model.*** Early care and education centers operating under the P&L model represent approximately 65% of our early care and education centers. Bright Horizons retains financial risk for P&L early care and education centers and is therefore subject to variability in financial performance due to fluctuating enrollment levels. As noted above, the P&L model can be classified into two subcategories: (i) sponsored model, where Bright Horizons provides early care and educational services on a priority enrollment basis for employees of an employer sponsor, and (ii) lease model, where the Company provides priority early care and education to the employees of multiple employers located within a real estate developer's property or the community at large.

***Sponsored Model.*** The sponsored model is typically characterized by a single employer (corporation, hospital, government agency or university), but may involve a consortium of employers, entering into a contract with the Company to provide early care and education at a facility located in or near the sponsor's offices. The sponsor generally provides for the facilities or construction of the early care and education center, pre-opening expenses and assistance with start-up costs as well as capital equipment and initial supplies and, on an ongoing basis, may pay for maintenance and repairs. In some cases, the sponsor may also provide various subsidies, which may take the form of a fixed financial subsidy, tuition assistance to the employees, or minimum enrollment guarantees to the Company. Children of the sponsor's employees typically are granted priority enrollment at the early care and education center. Operating contracts have terms that generally range from three to five years.

***Lease Model.*** A lease model early care and education center is typically located in an office building or office park. The early care and education center serves as an amenity to the real estate developer's tenants, giving the developer an advantage in attracting quality tenants to their site. In addition, the Company may establish an early care and education center in circumstances where it has been unable to cultivate sponsorship, or where sponsorship opportunities do not currently exist. In these instances, the Company will typically lease space in

locations where experience and demographics indicate that demand for the Company's services exists. While the facility is open to general enrollment from the nearby community, the Company may also receive additional sponsorship from employers who purchase full service child care or back-up care benefits for their employees. Bright Horizons typically negotiates lease terms of 10 to 15 years, with renewal options.

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**Ancillary Services.** The Company’s ancillary services segment is composed of businesses that are designed to support work/life initiatives but are not directly related to the care and education of children. Contractual arrangements for ancillary services vary widely. College Coach offers corporate clients college preparation and admissions counseling services that include worksite and online workshops for employees on various subjects, as well as one on one counseling with employees during the college application process. College preparation and admissions counseling services are offered to the community at various retail locations located primarily in metropolitan areas. Other consulting services related to work/life initiatives are also offered to corporate clients.

**OPERATIONS**

**General.** Bright Horizons’ center-based care segment is organized into thirteen operational divisions, organized largely along line-of-business and geographic lines. Each child care and early education division is managed by a Divisional Vice President, and is further divided into regions. Each region is headed by a Regional Manager who oversees the operational performance of approximately six to eight early care and education centers and is responsible for supervising the program quality, financial performance, and client relationships. A typical early care and education center is managed by a small administrative team, under the leadership of a center director. A center director has day-to-day operating responsibility for the early care and education center, including training, management of teachers, licensing compliance, implementation of curriculum, conducting child assessments, and marketing. Bright Horizons’ corporate offices provide centralized administrative support consisting of most accounting, finance, information systems, legal, payroll, risk management, and human resources functions.

Center hours of operation are designed to match the schedules of the sponsor or sponsors. Most early care and education centers are open ten to twelve hours a day with typical hours of operation from 7:00 a.m. to 6:00 p.m., Monday through Friday. Bright Horizons offers a variety of enrollment options, ranging from full-time to part-day and part-week options. In addition, children from the community attend our early care and education centers, where such enrollment is permitted under the terms of the contract.

Tuition depends upon the age of the child, the teacher-child ratio, the geographic location and the extent to which an employer sponsor subsidizes tuition. Based on a representative sample of the Company’s early care and education centers, the average tuition rate in the United States was \$1,400 per month for infants, \$1,300 per month for toddlers, and \$1,050 per month for preschoolers. Tuition at most of our early care and education centers is payable in advance and is due either monthly or weekly. In some cases, parents can pay tuition through payroll deductions or through automated clearing house (ACH) withdrawals.

College Coach is a provider of educational advising, offering employers and families a comprehensive solution to maximize each student’s chances of academic success. Services include college planning, college selection and college admissions counseling. College Coach has 16 locations throughout the United States focused primarily in metropolitan areas where the demand for these services is the greatest. These offices serve both individual families and corporate clients, and are typically staffed by one to three members of the education team. The education team professionals are typically former senior admissions and financial aid officers from the nation’s top colleges who the Company feels are best qualified to assist families and their school-age children through stressful and time-consuming academic challenges. In addition to serving families, the company partners with organizations to offer its services as a benefit to employees. Services for corporate clients include web-based and onsite workshops, access to a help desk, and individual counseling with employees on topics related to career interests and study skill development, the college admissions process, and college financing. College Coach serves more than 60 organizations worldwide, sharing many clients who utilize the Company’s early care and education services.

**Seasonality.** The Company’s business is subject to seasonal and quarterly fluctuations. Demand for early care and education and elementary school services has historically decreased during the summer months, at which time families are often on vacation or have alternative child care arrangements, or school is not in session. In addition, enrollment declines as older children transition to elementary schools. Demand for the Company’s services generally increases in September and October to normal enrollment levels upon the beginning of the new school year and remains relatively stable throughout the rest of the school year.

**Segments.** Bright Horizons offers workplace services comprised mainly of center-based child care, back-up care, elementary education, college preparation and admissions counseling, and consulting services. The Company operates under two segments consisting of center-based care and ancillary services. Center-based care includes center-based

child care, back-up care, and elementary education. The Company's ancillary services consist primarily of college preparation and admissions counseling and work/life consulting services. For certain historical financial information regarding our

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segments, as well as financial information by geographic area, see Note 17 Segment and Geographic Information of the Consolidated Financial Statements and Notes thereto included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

**Facilities.** The Company's early care and education centers are primarily operated at work-site locations and vary in design and capacity in accordance with sponsor needs and state and federal regulatory requirements. The Company's North American early care and education centers typically range from 6,000 to 12,000 square feet and have an average capacity of 122 children. The Company's European locations average a capacity of 59 children. As of December 31, 2007, the Company's early care and education centers had a total licensed capacity of approximately 71,000 children, with the smallest center having a capacity of 12 children and the largest having a capacity of 572 children.

Bright Horizons believes that attractive, spacious and child-friendly facilities with a warm, nurturing and welcoming atmosphere are an important element in fostering a high quality learning environment for children. The Company's early care and education centers are designed to be open and bright and to maximize visibility throughout the early care and education center. The Company devotes considerable resources to equipping its early care and education 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 typically present in those early care and education centers where regulations require that hot meals be prepared on site.

**Health and Safety.** The safety and well-being of the children and Bright Horizons employees are paramount for the Company. The Company employs a variety of security measures at its early care and education centers, which typically include electronic access systems and sign-out procedures for children, among other site-specific procedures. In addition, Bright Horizons' trained teachers and open center design help ensure the health and safety of children. Our early care and education centers are designed to minimize the risk of injury to children by incorporating such features as child-sized amenities, rounded corners on furniture and fixtures, age-appropriate toys and equipment, and cushioned fall-zones surrounding play structures.

Each center is further guided by a policies and procedures manual and a Center Management Guide, which addresses protocols for safe and appropriate care of children and center administration. These guidelines establish center protocols in areas ranging from the safe handling of medications, managing child illness or health emergencies, and a variety of other critical aspects of care, to ensure that centers meet or exceed all mandated licensing standards. The Center Management Guide is reviewed and updated continuously by a team of internal experts, and center personnel are trained on center practices using this tool.

## **MARKETING**

Bright Horizons markets its services to both employer sponsors and parents. The Company's sales force and senior management maintain relationships with larger clients and actively pursue potential new employer sponsors across a wide variety of industry sectors. The Company's sales force is organized on both a national and regional basis, and is responsible for identifying potential employer sponsors, targeting real estate developers, identifying potential acquisitions and managing the overall sales process. As a result of Bright Horizons' visibility as a high quality child care provider, potential sponsors regularly contact the Company requesting proposals. Bright Horizons competes for most employer-sponsorship opportunities via a request for proposal process. In addition, 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 advocacy, 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 has a parent marketing department that supports parent enrollment efforts through the development of marketing programs, including the preparation of promotional materials. New enrollment is generated by word of mouth, reputation, print advertising, direct mail campaigns, web-based advertising, parent referral programs, and business outreach. Our early care and education center directors may receive assistance from employer 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 early care and education center as an important employee benefit.

## **COMPETITION**

The market for early care and education services is highly fragmented and competitive, and Bright Horizons experiences competition for enrollment and for sponsorship of its early care and education centers from many sources. Bright Horizons believes that the key factors in the competition for enrollment are quality of care, site convenience and cost. The Company

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competes for enrollment with nannies, relatives, family child care (operated out of the care-giver's home) and center-based child care providers, including for-profit, not-for-profit and government-based providers. Employer sponsor support enables us to limit our start-up and operating costs and concentrate the investment in those areas that directly translate into high quality early education—specifically, teacher compensation, teacher-child ratios, curricula, continuing teacher education, facilities and equipment. We believe that many center-based child care providers are able to offer care at a lower price than Bright Horizons by utilizing less intensive teacher-child ratios, and offering their staff lower pay and limited or unaffordable benefits. While our tuition levels are generally above those of our competitors, we believe we are able to compete effectively by offering the convenience of a work-site location and a higher level quality of care and education.

Many residential center-based child care chains either have divisions that compete for employer sponsorship opportunities, or are larger than the Company and may compete successfully against the Company for employer sponsors. We believe there are fewer than ten companies that currently operate child care centers across the United States and two companies that operate in the United States and abroad that fall into this category.

The Company's main competitors include a variety of regional providers, such as New Horizons Child Development Centers, and the employer-sponsored child care divisions of large child care chains that primarily operate residential child care centers such as Knowledge Learning Corporation and Learning Care Group, Inc. (a subsidiary of ABC Learning Centres, Ltd.) in the United States, and Kids Unlimited and Child Base in Europe. Management believes that the Company is distinguished from its competitors by its primary focus on employer clients and track record for achieving and maintaining high quality standards. Bright Horizons believes it is well-positioned to attract sponsors who wish to outsource the management of new or existing work-site early care and education centers due to the Company's extensive service offerings, established reputation, position as a quality leader, and track record of serving major employer sponsors. Additionally, the Company believes that it offers the highest quality multi-national solution for major employer sponsors.

**EMPLOYEES**

As of December 31, 2007, Bright Horizons employed approximately 18,400 employees (including part-time and substitute teachers), of whom approximately 650 were employed at the Company's corporate, divisional and regional offices and the remainder of whom were employed at the Company's service locations. Early care and education center employees include teachers and support personnel. The total number of employees includes approximately 2,000 employees in Europe. The Company believes that its relationship with its employees is generally good.

The Company has an agreement with a labor union that represents approximately 50 employees at one of the Company's early care and education centers operated under an arrangement with the United Auto Workers and General Motors Corporation. The Company believes that it has a good relationship with the union and its representatives and with these employees.

**REGULATION**

Child care centers are subject to numerous 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, educational qualifications and training of teachers, record keeping, the dietary program, the daily curriculum, hiring practices, 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. Regulations have been enacted in most jurisdictions that establish requirements for employee background checks or other clearance procedures for employees of child care facilities. In addition to the mandated background checks, new employees and regular visitors must also undergo the Company's more extensive background check. Early care and education center directors and regional managers are responsible for monitoring each early care and education center's compliance with such regulations. Repeated failures by an early care and education 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 early care and education center's license to operate, and could require significant expenditures by the Company to bring its early care and education centers into compliance. In addition, state and local licensing regulations generally provide that licenses held 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 re-license early care and 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 certain tax incentives in the United States for parents utilizing child care programs. Section 21 of the Internal Revenue Code provides a federal income tax credit ranging from 20% to 35% of certain child care expenses for qualifying



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individuals (as defined therein). The Company believes the fees paid to Bright Horizons 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 \$3,000 for one child and \$6,000 for two or more children, and, therefore, the maximum credit ranges from \$1,050 for one child to \$2,100 for two or more children.

### **TRADEMARKS AND SERVICE MARKS**

The Company believes that its name and logo are important to its operations. The Company owns and uses various registered and unregistered trademarks and service marks covering the name Bright Horizons Family Solutions, our logo and a number of other names, slogans and designs. A federal registration in the United States is effective for 10 years and may be renewed for additional periods, subject only to required filings based on continued use of the mark by the registrant. The Company seeks to protect its trademarks and service marks by registering the marks in a variety of countries and geographic areas, including Asia, Europe, Australia, and North America. These registrations are subject to varying lives and renewal options.

### **INSURANCE**

Bright Horizons currently maintains the following major types of commercial insurance policies: workers compensation, commercial general liability (including coverage for sexual and physical abuse), professional liability, automobile liability, excess umbrella liability, commercial property coverage, student accident coverage, employment practices liability, and directors and officers liability. These 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 has not experienced difficulty in obtaining insurance coverage, but there can be no assurance that adequate insurance coverage, particularly coverage for sexual and physical abuse, will be available in the future, or that the Company's current coverage will protect it against all possible claims.

### **EXECUTIVE OFFICERS OF THE COMPANY**

Set forth below is certain information regarding the executive officers of the Company:

**Linda A. Mason, 53 Chair.** Ms. Mason has served as a director of the Company since its inception in 1998. Ms. Mason co-founded Bright Horizons, Inc. in 1986, and served as President of Bright Horizons, Inc. until the merger with CorporateFamily Solutions, Inc. in July 1998. Prior to this, Ms. Mason was co-director of the Save the Children relief and development effort in Sudan and worked as a program officer with CARE in Thailand. Ms. Mason is currently also a director of Horizons for Homeless Children, a non-profit organization that provides support for homeless children and their families, and the Advisory Board of the Yale University School of Management. Ms. Mason is the wife of Roger H. Brown, who is Vice Chair of the Board of Directors.

**David H. Lissy, 42 Chief Executive Officer.** Mr. Lissy has served as a director of the Company since November 2001 and has also served as Chief Executive Officer of the Company since January 2002. Mr. Lissy served as Chief Development Officer of the Company from 1998 until January 2002. He also served as Executive Vice President from June 2000 to January 2002. Mr. Lissy joined Bright Horizons, Inc. in September 1997 and served as Vice President of Development until the merger with CorporateFamily Solutions, Inc. in July 1998. Prior to joining Bright Horizons, Inc., Mr. Lissy served as Senior Vice President/General Manager at Aetna U.S. Healthcare, of the employee benefits division of Aetna, Inc., in the New England region. Prior to that role, Mr. Lissy was Vice President of Sales and Marketing for U.S. Healthcare and had been with U.S. Healthcare in various sales and management roles since 1987.

**Mary Ann Tocio, 59 President and Chief Operating Officer.** Ms. Tocio has served as a director of the Company since November 2001 and has also served as Chief Operating Officer of the Company since its inception in 1998. Ms. Tocio was appointed President in June 2000. Ms. Tocio joined Bright Horizons, Inc. in 1992 as Vice President and General Manager of Child Care Operations, and served as Chief Operating Officer from November 1993 until the merger with CorporateFamily Solutions, Inc. in July 1998. From 1983 to 1992, prior to joining Bright Horizons, Inc., Ms. Tocio held several positions with Wellesley Medical Management, Inc., including Senior Vice President of Operations, where she managed more than 100 ambulatory care centers nationwide. Ms. Tocio is currently also a member of the board of directors of Harvard Pilgrim Health Care, a health benefits and insurance organization, and Mac-Gray Corporation, a provider of laundry facilities management services.



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**Elizabeth J. Boland, 48 Chief Financial Officer and Treasurer.** Ms. Boland has served as Chief Financial Officer and Treasurer of the Company since June 1999. Ms. Boland joined Bright Horizons, Inc. in 1997 as Chief Financial Officer and, subsequent to the merger between Bright Horizons, Inc. and CorporateFamily Solutions, Inc. in July 1998, served as Senior Vice President of Finance for the Company until June 1999. From 1994 to 1997, prior to joining Bright Horizons, Inc., Ms. Boland was Chief Financial Officer of The Visionaries, Inc., an independent television production company. From 1990 to 1994, Ms. Boland served as Vice President of Finance for The Olsten Corporation, a publicly traded provider of home-health care and temporary staffing services. Prior to that role, from 1981 to 1990, she worked on the audit staff at Price Waterhouse LLP in Boston, completing her tenure as a senior audit manager.

**Stephen I. Dreier, 65 Chief Administrative Officer and Secretary.** Mr. Dreier has served as Chief Administrative Officer and Secretary of the Company since its inception in 1998. He joined Bright Horizons, Inc. in 1988 as Vice President and Chief Financial Officer. He later became its Secretary in November 1988 and Treasurer in September 1994. Mr. Dreier served as Bright Horizons, Inc.'s Chief Financial Officer and Treasurer until September 1997, at which time he was appointed to the position of Chief Administrative Officer. He served as Chief Administrative Officer from 1997 until the merger with CorporateFamily Solutions, Inc. in July 1998. From 1976 to 1988, prior to joining Bright Horizons, Inc., Mr. Dreier was Senior Vice President of Finance and Administration for the John S. Cheever/Paperama Company.

**Danroy T. Henry, 41 Chief Human Resources Officer.** Mr. Henry has served as the Chief Human Resources Officer since December 2007. Mr. Henry joined Bright Horizons in May 2004 as the Senior Vice President of Global Human Resources. From 2001 to 2004, Mr. Henry was the Executive Vice President for FleetBoston Financial where he had responsibility for the metropolitan Boston consumer banking market. From 1999 to 2001, Mr. Henry served as the Chief People Officer for retailer Blinds To Go Superstores. From 1994 to 1999, Mr. Henry worked in a variety of senior Human Resources and operational roles for Staples, Inc., completing his tenure as Vice President of Contract Customer Service where he managed the call center operations for the business to business division. From 1988 to 1993, Mr. Henry served in a variety of Human Resources roles for Pepsi Cola Company, including Area Manager of Employee and Labor relations. Mr. Henry is the Chairman of the board of directors for the Northeast Human Resources Association (NEHRA) and is a member of the board of directors of the Society of Human Resource Management Foundation (SHRM).

**AVAILABLE INFORMATION**

The Company's website address is [www.brighthouse.com](http://www.brighthouse.com). The annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on the Company's website as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). The Company's SEC filings are also available over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-732-0330 to obtain information on the operation of the public reference room. Please note that information provided on the Company's website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

**ITEM 1A. Risk Factors**

Each of the following risks, individually or as a group, could have a material adverse affect on the Company's business, results of operations, financial condition or cash flows.

**RISKS RELATING TO THE MERGER**

*The consummation of the proposed merger of the Company with affiliates of Bain Capital Partners, LLC is not certain and its delay or failure could adversely affect our operating results or the price of our common stock.* On January 14, 2008, Bright Horizons announced an agreement to be acquired through the Merger of the Company with an entity controlled by affiliates of Bain Capital Partners, LLC. The Company cannot provide any assurance that the proposed Merger will be consummated. If consummated, it is currently anticipated to be completed in the second quarter of 2008. However, the Company cannot assure you of the timing of the closing.

Consummation of the proposed Merger is subject to the satisfaction of various conditions, including adoption of the Merger by a vote of a majority of the outstanding shares of the Company's common stock and other customary closing conditions described in the Merger Agreement. The Company cannot guarantee that these closing conditions will be satisfied, that the Company will receive the required approvals or that the proposed Merger will be successfully completed. Many of these conditions are out of the Company's control. In the event that the proposed Merger is not completed or is delayed:

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management's and employees' attention to the Company's day-to-day business may be diverted because matters related to the proposed Merger may require substantial commitments of their time and resources;

the Company could lose key employees;

the Company's relationships with customers, suppliers and parents may be substantially disrupted as a result of uncertainties with regard to our business and prospects;

under certain circumstances, if the proposed Merger is not completed, the Company may be required to pay the expenses of Bain of up to \$10.0 million as well as a termination (break-up) fee of up to \$39.0 million (against which the amount of the expense payment would be credited);

under certain circumstances, if the proposed Merger is not completed, affiliates of Bain Capital Partners, LLC may be required to pay the Company a termination fee plus indemnification for damages of up to \$66.0 million, and such amounts would be the Company's only source of recovery, regardless of the total amount of the actual damages the Company may suffer as a result of the delay in or failure of the proposed Merger's consummation; and

the market price of shares of the Company's common stock may decline to the extent that the current market price of those shares reflects a market assumption that the proposed Merger will be completed.

Any of these events could have a material negative impact on the Company's results of operations and financial condition and could adversely affect the price of the Company's common stock.

***We are subject to pending litigation that could delay or prevent the consummation of the proposed merger.*** As of the date of this Annual Report on Form 10-K, the Company, its directors and Bain Capital Partners, LLC have been named as defendants in putative class action litigation filed in Massachusetts state court in connection with the proposed Merger. The plaintiffs in this litigation seek, among other things, injunctive relief to prevent the consummation of the Merger and monetary relief. While the Company believes the claims made in this litigation are without merit and intends to defend any such claims vigorously, there can be no assurance that the Company will prevail in its defense. Moreover, it is possible that additional claims beyond those that have already been filed will be brought by the current plaintiffs or by others in an effort to enjoin the proposed Merger or seek monetary relief from the Company. An unfavorable resolution of any such litigation surrounding the proposed Merger could delay or prevent the consummation of the proposed Merger.

***We have incurred, and will continue to incur, substantial costs in connection with the proposed merger.*** The Company has incurred, and will continue to incur, substantial costs in connection with the proposed Merger. These costs are primarily associated with the fees of attorneys, accountants and financial advisors of the Company, our Board of Directors, and the Special Committee of our Board of Directors. In addition, the Company has diverted significant management resources in an effort to complete the proposed Merger, and we are subject to restrictions contained in the Merger Agreement on the conduct of our business until the closing of the proposed Merger. If the proposed Merger is not completed, the Company will have incurred significant costs, including the diversion of management resources, for which we will have received little or no benefit.

### **RISKS RELATING TO OUR BUSINESS**

***Changes in economic conditions could negatively affect our operating results.*** The Company's operations are subject to general economic conditions. A significant portion of the Company's revenue is derived from employer sponsors who have historically reduced their expenditures for work-site family services during economic downturns. Should the economy experience prolonged weakness, employer clients may reduce or eliminate their sponsorship of work and family services, and prospective clients may not commit resources to such services. In addition, a reduction in the size of an employer's workforce could negatively impact the demand for our services. The Company's revenues depend, in part, on the number of dual income families and working single parents who require child care services. A deterioration of general economic conditions may adversely impact the Company's operations and the need for its

services because out-of-work parents may diminish or discontinue the use of child care services. Additionally, we may not be able to increase tuition at a rate consistent with increases in operating costs.

***The growth of our business may be adversely affected if we do not implement our growth strategies successfully.***

The Company's ability to grow in the future will depend upon a number of factors, including the ability to develop and expand new and existing client relationships, to expand the services and programs offered by the Company, to maintain high

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quality services and programs, and to hire and train qualified personnel. Achieving and sustaining growth increases the demands on the Company's resources, which may require the implementation of enhancements to operational and financial systems, and will be dependant 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.

***Acquisitions may disrupt our operations or expose us to additional risk.*** Acquisitions are an integral part of the Company's growth strategy. Acquisitions involve numerous risks, including potential difficulties in the integration of acquired operations, not meeting financial objectives, increased costs, undisclosed liabilities not covered by insurance or terms of acquisition, diversion of management's attention and resources in connection with an acquisition, and loss of key employees of the acquired operation. No assurance can be given as to the Company's success in identifying, executing and integrating acquisitions in the future.

***Changes in our relationships with employer sponsors may affect our operating results.*** A significant portion of the Company's business is derived from early care and education centers associated with employer sponsors for whom the Company provides work-site family services for single or multiple sites pursuant to contractual arrangements. While the Company has a history of consistent contract renewals, there can be no assurance that future renewals will be secured. The termination or non-renewal of a significant number of contracts or the termination of a multiple-site client relationship could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

***Significant competition in our industry could adversely affect our results of operations.*** The Company competes for enrollment and sponsorship of its early care and education centers in a highly fragmented market. For enrollment, the Company competes with family child care (operated out of the caregiver's home) and center-based child care (such as residential and work-site child care centers, full and part-time nursery schools, private and public elementary schools, and church-affiliated and other not-for-profit providers). In addition, substitutes for organized child care, such as relatives and nannies caring for a child, can represent lower cost alternatives to our services. Management believes the Company's ability to compete successfully depends on a number of factors, including quality of care, site convenience, and cost. The Company is often at a price disadvantage to its competition, who may have access to greater financial resources than the Company, have greater name recognition, or have lower operating costs. In addition, competitors may be able to 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. Therefore, there can be no assurance that the Company will be able to compete successfully against current and future competitors.

The Company competes with other organizations that vary in size, scope, business objectives, and financial resources. Increased competition for employer relationships on a national or local basis could result in increased pricing pressure and/or loss of market share, as well as impact the Company's ability to attract and retain qualified early care and education center personnel and its ability to pursue its growth strategy successfully.

***The Company depends on key management and key employees to manage our business.*** The success of the Company is highly dependent on the efforts, abilities, and continued services of its executive officers and other key employees. 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 early care and education center director personnel.

***Our business depends largely on our ability to hire and retain qualified teachers.*** The Company may experience difficulty in attracting, hiring, and retaining qualified teachers in various markets, which may require us to offer increased salaries and enhanced benefits in more competitive markets. Difficulties in hiring and retaining qualified personnel may affect the Company's ability to meet growth objectives and to take advantage of additional enrollment opportunities at its early care and education centers. In addition, employee organization efforts could affect the Company.

***Our operating results are subject to seasonal fluctuations.*** The Company's revenue and results of operations fluctuate with the seasonal demands for child care. Revenue in our early care and education centers that have mature operating levels typically declines during the third quarter as a result of decreased enrollments over the summer months as parents withdraw their children for vacations, as well as older children transition into elementary schools. The

Company's schools are also not in session during the third quarter which contributes to the decrease in revenue. In addition, usage for the Company's back-up services, including BUCA, tends to be higher when school is not in session and during holiday periods, which can increase the operating costs of the program which impact results of operations. There can be no assurance that the Company will be able to adjust its expenses on a short-term basis to minimize the effect of these fluctuations in revenue. The Company's quarterly results of operations may also fluctuate based upon the number and timing of early care and education center openings and/or closings, acquisitions, the performance of new and existing early care and education centers, the



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contractual arrangements under which early care and education centers are operated, the change in the mix of such contractual arrangements, competitive factors, and general economic conditions. The inability of existing early care and education centers to maintain their current enrollment levels and profitability, the failure of newly opened early care and education centers to contribute to profitability, and the failure to maintain and grow the ancillary services could result in additional fluctuations in future operating results of the Company on a quarterly or annual basis.

***The Company may not be able to obtain and maintain adequate insurance at a reasonable cost.*** The Company currently maintains the following major types of commercial insurance policies: workers' compensation, commercial general liability (including coverage for sexual and physical abuse), professional liability, automobile liability, excess umbrella liability, commercial property coverage, student accident coverage, employment practices liability, and directors' and officers' liability. These policies provide for a variety of coverages and are subject to various limitations, exclusions and deductibles. To date, Bright Horizons has been able to obtain insurance in amounts it believes to be appropriate. There can be no assurance that such insurance, particularly coverage for sexual and physical abuse, will continue to be readily available to the Company in the form or amounts the Company has been able to obtain in the past or that the Company's insurance premiums will not materially increase in the future as a consequence of conditions in the insurance business or in the child care industry.

***Adverse publicity could impact the demand for our services.*** Adverse publicity concerning reported incidents of child abuse at any early care and education center, whether or not directly relating to or involving Bright Horizons, could result in decreased enrollment at the Company's early care and education centers, termination of existing corporate relationships or inability to attract new corporate relationships, or increased insurance costs, all of which could adversely affect the Company's operations.

***Changes in the demand for work and family services may affect the Company's operating results.*** The Company's business strategy depends on employers and working families recognizing the value in providing employees with workplace 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. There can be no assurance that demographic trends, including the number of dual-income families in the work force, will continue to lead to increased market share.

***We may become subject to litigation proceedings that may adversely affect our business.*** Because of the nature of our business, the Company may be subject to claims and litigation alleging negligence, inadequate supervision or other grounds for liability arising from injuries or other harm to the people we serve, primarily children. In addition, claimants may seek damages from Bright Horizons for child abuse, sexual abuse and other acts allegedly committed by Company employees. There can be no assurance that additional lawsuits will not be filed, that the Company's insurance will be adequate to cover liabilities resulting from any claim, or that any such claim or the publicity resulting from it will not have a material adverse effect on the Company's business, results of operations, and financial condition including, without limitation, adverse effects caused by increased cost or decreased availability of insurance, and decreased demand for our services from employer sponsors and parents.

***Changes in laws and regulations could impact the way we conduct business.*** The Company's early care and education centers are subject to numerous national, state and local regulations and licensing requirements. Although these regulations vary greatly 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, educational qualifications and training of staff, record keeping, the dietary program, the daily curriculum, hiring practices, and compliance with health and safety standards. Failure of an early care or education center to comply with applicable regulations and requirements could subject it to governmental sanctions, which can include fines, corrective orders, being placed on probation, or, in more serious cases, suspension or revocation of the early care and education center's license to operate, and could require significant expenditures by the Company to bring its early care and education centers into compliance. Although the Company expects to pay employees at rates above the minimum wage, increases in the statutory minimum wage could result in a corresponding increase in the wages paid to the Company's employees.

***Significant increases in the cost of insurance claims may negatively affect our profitability.*** The Company self-insures a portion of its medical insurance plans and has a high deductible workers' compensation plan. Due to the

nature of these liabilities, some of which may not fully manifest themselves for several years, the Company estimates the obligations for liabilities incurred but not yet reported or paid based on available data and experience. While we believe that the amounts accrued for these obligations are sufficient, any significant increase in the number of claims or costs associated with claims made under these plans could have a material adverse effect on the Company's financial position, results of operations or cash flows.

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***The market price of our common stock may be volatile.*** The prices at which the Company's common stock trades is determined by the marketplace and is influenced by many factors, including fluctuations in our quarterly operating results, investor perception of the Company and of our industry, general economic market conditions and world events. Factors such as announcements of new services, new clients or acquisitions, by the Company, its competitors or third parties, as well as market conditions in our industry, could cause the market price of the Company's common stock to fluctuate substantially. Volatility of the stock market and general movements in the prices of stocks may also affect the market price of our stock. In addition, awards under the Company's stock incentive plan may cause dilution to existing stockholders.

***Governmental universal child care benefit programs could reduce the demand for our services.*** National, state or local child care benefit programs comprised primarily of subsidies in the form of tax credits or other direct government financial aid provides the Company opportunities for expansion in additional markets. However, a universal benefit with governmentally mandated or provided child care could reduce the demand for early care services at the Company's existing early care and education centers.

***Breaches in data security could adversely affect the Company's financial condition and operating results.*** For various operational needs, we receive certain personal information. While the Company has policies and practices that protect its data, a compromise of our systems that results in personal information being obtained by unauthorized persons could adversely affect our reputation, as well as our operations, results of operations, financial condition or cash flows, and could result in litigation against us or the imposition of penalties. In addition, a security breach could require us to expend significant additional resources related to the security of information systems and could result in a disruption of our operations.

***Provisions in the Company's certificate of incorporation and bylaws, as well as provisions of Delaware law, could delay or prevent a takeover.*** The Company's certificate of incorporation and bylaws contain certain provisions that could make more difficult the acquisition of the Company by means of a tender offer, a proxy contest or otherwise. These provisions establish staggered terms for members of the Company's Board of Directors and include advance notice procedures for stockholders to nominate candidates for election as directors of the Company and for stockholders to submit proposals for consideration at stockholders' meetings. In addition, the Company is subject to Section 203 of the Delaware General Corporation Law ( "DGCL" ), which limits transactions between a publicly held company and interested stockholders (generally, those stockholders who, together with their affiliates and associates, own 15% or more of a company's outstanding capital stock). This provision of the DGCL may have the effect of deterring certain potential acquisitions of Bright Horizons. The Company's certificate of incorporation provides for 5,000,000 authorized but unissued shares of preferred stock, the rights, preferences, qualifications, limitations and restrictions of which may be fixed by the Company's Board of Directors without any further action by stockholders.

***A regional or global health pandemic could severely disrupt our business.*** A health pandemic is a disease that spreads rapidly and widely by infection and affects many individuals in an area or population at the same time. If a regional or global health pandemic were to occur, depending upon its duration and severity, the Company's business could be severely affected. Enrollment in our centers could experience sharp declines as parents might avoid taking their children out in public in the event of a health pandemic, and local, regional or national governments might limit or ban public interactions to halt or delay the spread of disease causing business disruptions and the temporary closure of our centers. Additionally, a health pandemic could also impair our ability to hire and retain an adequate level of staff. The impact of a health pandemic on Bright Horizons might be disproportionately greater than on other companies that depend less on the interaction of people for the sale of their products and services.

**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 2. Properties**

Bright Horizons leases approximately 56,000 square feet of office space for its corporate headquarters in Watertown, Massachusetts, under an operating lease that expires in 2010 with two five-year renewal options. The Company also leases office space for regional administrative offices located in Nashville, Tennessee; Morristown, New Jersey; Chicago, Illinois; El Segundo, California; Coppell, Texas; Gaithersburg, Maryland; Deerfield, Florida; Rushden, United Kingdom; and, Blanchardstown, Ireland.

As of December 31, 2007, Bright Horizons operated 641 early care and education centers in 43 states and the District of Columbia, Puerto Rico, Canada, Ireland, and the United Kingdom, of which 39 were owned, with the remaining centers

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being operated under leases or operating agreements. The leases typically have initial terms ranging from ten to fifteen years with various expiration dates, often with renewal options. Certain owned properties are subject to mortgages that secure our performance under the terms of operating agreements with client sponsors.

The following table summarizes the locations of our early care and education centers as of December 31, 2007:

Location	Number of centers
Alabama	3
Alaska	1
Arizona	4
California	54
Colorado	17
Connecticut	25
Delaware	9
District of Columbia	14
Florida	25
Georgia	16
Idaho	1
Illinois	36
Indiana	6
Iowa	5
Kansas	1
Kentucky	4
Louisiana	2
Maine	2
Maryland	8
Massachusetts	59
Michigan	11
Minnesota	7
Mississippi	1
Missouri	7
Montana	1
Nebraska	4
Nevada	5
New Hampshire	3
New Jersey	34
New Mexico	1
New York	36
North Carolina	22
Ohio	9
Oregon	1
Pennsylvania	18
Puerto Rico	1
Rhode Island	2
South Carolina	1
South Dakota	1
Tennessee	6
Texas	22
Utah	1

Virginia	11
Washington	20
Wisconsin	9
Canada	2
Ireland	12
United Kingdom	101

We believe that our properties are generally in good condition and that they are adequate for our operations.

### **ITEM 3. Legal Proceedings**

Bright Horizons is, from time to time, subject to claims and suits arising in the ordinary course of its business. Such claims have, in the past, generally been covered by insurance. We believe the resolution of legal matters will not have a material effect on the Company's financial condition, results of operations, or cash flows, although no assurance can be given with respect to the ultimate outcome of any such actions. Furthermore, there can be no assurance that the Company's insurance will be adequate to cover all liabilities that may arise out of claims brought against the Company. In connection with the proposed Merger between the Company and affiliates of Bain, the Company has been named as a defendant, along with the Company's Board of Directors and Bain, in putative class action lawsuits filed in Massachusetts state court (*Aaron Solomon, on behalf of himself and all others similarly situated v. Bright Horizons Family Solutions, Inc., et al., Middlesex County Superior Court, No. 08-0214* and *William Smith, individually and on behalf of all other similarly situated shareholders, v. Bright Horizons Family Solutions, Inc., et al., Middlesex County Superior Court, No. 08-0467*). On February 26, 2008, the Massachusetts state court consolidated these lawsuits into a single action. These lawsuits allege, among other things, that the Merger is the product of a flawed process and that the consideration to be paid to the Company's stockholders is unfair and inadequate. The lawsuits further allege that the Company's directors breached their fiduciary duties by, among other things, ignoring certain alleged conflicts of interest of one of the Special Committee's financial advisors, taking steps to avoid a competitive bidding process, and improperly favoring a merger over other potential transactions. The lawsuits further allege that Bain aided and abetted the directors' alleged breach of their fiduciary duties. The lawsuits seek, among other things, class certification, injunctive relief to prevent the consummation of the Merger, and monetary relief. Bright Horizons believes these claims are without merit and intends to defend any claims raised in the lawsuits vigorously.

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

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of the year ended December 31, 2007.

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**Table of Contents****PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's common stock is traded on the NASDAQ Global Select Market under the symbol "BFAM". The table below sets forth the high and low quarterly sales prices per share for the Company's common stock as reported in published financial sources for each quarter during the last two years:

	Price Range of Common Stock			
	2007		2006	
	High	Low	High	Low
First Quarter	\$42.44	\$36.25	\$40.65	\$33.06
Second Quarter	\$43.78	\$36.83	\$40.28	\$34.68
Third Quarter	\$45.63	\$38.43	\$42.50	\$31.80
Fourth Quarter	\$47.75	\$33.66	\$44.98	\$35.80

**PERFORMANCE CHART**

The following graph compares the Company's cumulative total stockholder return on our common stock from December 31, 2002 through December 31, 2007 with the cumulative total return of the Russell 2000 Index and a peer group that we selected in good faith, consisting of Nobel Learning Communities, Inc., Renaissance Learning, Inc. and The Princeton Review (the "Peer Group").

The graph assumes that \$100.00 was invested on December 31, 2002 in our common stock and the index and peer group noted above, and that all dividends, if any, were reinvested. No dividends were declared or paid on our common stock during this period.

<b>Total Return Analysis</b>	<b>12/31/2002</b>	<b>12/31/2003</b>	<b>12/31/2004</b>	<b>12/31/2005</b>	<b>12/31/2006</b>	<b>12/31/2007</b>
Bright Horizons Family Solutions	\$100.00	\$149.36	\$230.30	\$263.51	\$274.96	\$245.66
Peer Group	\$100.00	\$144.18	\$119.97	\$121.49	\$120.61	\$137.50
Russell 2000 Index	\$100.00	\$145.37	\$170.08	\$175.73	\$205.61	\$199.96



**Table of Contents****STOCKHOLDERS AND DIVIDENDS**

We had 109 stockholders of record of the Company's common stock at February 25, 2008. This number does not include those stockholders who hold shares in street name accounts.

The Company has never declared or paid any cash dividends on its common stock. The Company currently intends to retain all earnings to support operations and to finance expansion of its business. Therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future decision concerning the payment of dividends on the Company's common stock will be at the discretion of the Board of Directors and will depend upon, among other factors, the Company's earnings, financial condition, and capital needs at the time payment is considered.

**ISSUER PURCHASES OF EQUITY SECURITIES**

The Company repurchases shares of its common stock as authorized by the Board of Directors. In June 2006, the Board of Directors approved a stock repurchase plan authorizing the Company to repurchase up to 3.0 million shares of the Company's common stock in addition to amounts repurchased under previous plans. In the year ended December 31, 2007, the Company repurchased approximately 142,000 shares at a cost of \$5.2 million under the 2006 plan. The Company did not make any repurchases in the three months ended December 31, 2007. At December 31, 2007, total repurchases under the terms of the 2006 plan were 523,000 shares leaving approximately 2.5 million shares authorized for repurchase under the plan.

Share repurchases under the 2006 plan may be made from time to time in accordance with applicable securities regulations in open market or privately negotiated transactions. The actual number of shares purchased and cash used, as well as the timing of purchases and the prices paid, will depend on future market conditions.

**ITEM 6. Selected Financial Data**

The following financial information has been derived from the Company's audited Consolidated Financial Statements. The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and Notes thereto included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

	Years ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share amounts)				
Consolidated statement of income data:					
Revenue	\$ 774,601	\$ 697,865	\$ 625,259	\$ 551,763	\$ 472,756
Amortization	4,699	3,376	1,916	1,012	548
Income from operations (1) (2)	72,907	71,663	60,656	46,753	34,583
Income before taxes (1) (2)	72,137	71,267	61,942	47,096	34,645
Net income (1) (2)	39,134	41,723	36,701	27,328	20,014
Diluted earnings per share	\$ 1.45	\$ 1.52	\$ 1.29	\$ 0.98	\$ 0.75
Weighted average diluted shares outstanding	26,925	27,391	28,392	27,846	26,746
Financial position at year end:					
Working capital (deficit) surplus	\$ (54,796)	\$ (71,853)	\$ (25,016)	\$ 11,819	\$ (2,269)
Total assets	454,513	409,370	353,699	296,605	247,065
Total long-term debt, including current maturities	145	4,453	1,312	2,099	2,661
Total stockholders' equity	270,641	223,838	217,179	186,244	145,506
Dividends per common share					

Operating data at year end:

Early care and education centers  
managed

641

642

616

560

509

Licensed capacity

71,000

69,000

66,350

61,950

59,250

22

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- (1) Financial statement amounts for 2007 and 2006 include incremental compensation expense of \$3.2 million (\$2.1 million after taxes) and \$2.7 million (\$2.0 million after taxes), respectively, related to the Company's adoption of SFAS No. 123R, Share-Based Payment on January 1, 2006. In accordance with the modified prospective method, financial statement amounts for the prior periods presented have not been adjusted.
- (2) In 2007, the Company recognized \$7.0 million (\$6.9 million net of taxes) in transaction costs associated with a proposed agreement to merge with affiliates of

Bain. These fees consist primarily of fees earned by financial advisors and attorneys as well as other costs directly attributable to this transaction.

**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**EXECUTIVE SUMMARY AND GENERAL DISCUSSION**

Bright Horizons is a leading provider of workplace services for employers and families. Workplace services include center-based child care, education and enrichment programs, elementary school education, back-up care (for children and elders), before and after school care, summer camps, vacation care, college preparation and admissions counseling, and other family support services.

As of December 31, 2007, the Company operated 641 early care and education centers, with more than 60 early care and education centers under development. The Company has the capacity to serve approximately 71,000 children in 43 states, the District of Columbia, Puerto Rico, Canada, Ireland and the United Kingdom, and has partnerships with many leading employers, including more than 95 *Fortune 500* companies and 75 of *Working Mother Magazine's* 100 Best Companies for Working Mothers. The Company's 528 North American centers average a capacity of 122 children per location or approximately 64,000 in total capacity, while the 113 early care and education centers in the United Kingdom and Ireland average a capacity of approximately 59 children per location or approximately 7,000 in total capacity. At December 31, 2007, approximately 65% of the Company's centers were operated under profit and loss (P&L) arrangements and approximately 35% were operated under management (Cost Plus) models. The Company seeks to cluster centers in geographic areas to enhance operating efficiencies and to create a leading market presence. The Company seeks to enhance its reputation as the provider of choice for a broad spectrum of work-life services. In 2006, the Company expanded its ancillary service offerings to clients with the acquisition of College Coach, a college preparation and admissions counseling company, which offers college admissions counseling, as well as educational programs that include workshops such as *Paying for College* and *Homework Skills*. In addition, the Company developed the Back-Up Care Advantage Program (BUCA) as an additional service offering to allow existing clients to offer a national network of services to employees who may not be able to take advantage of traditional child care offerings. Memberships to BUCA allow employees access to a variety of back-up services including center-based back-up care, in-home back-up care, mildly ill care, in-home elder/adult care, and priority access to full or part-time child care. Center-based back-up care is also offered at full-service and back-up early care and education centers operated by Bright Horizons, or at high quality child care centers from an exclusive national network of child care providers.

Bright Horizons operates centers for a diverse group of clients. At December 31, 2007, the Company's early care and education centers were affiliated with the following industries:

Industry Classification	Percentage of Centers
Consumer	5%
Financial Services	15%
Government and Education	20%
Healthcare and Pharmaceuticals	15%
Industrial/Manufacturing	5%
Office Park Consortiums	30%
Professional Services and Other	5%
Technology	5%



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The principal elements of the Company's business strategy are to be the partner of choice, provider of choice and employer of choice. This business strategy is centered on several key elements: identifying and executing on growth opportunities with new and existing clients; achieving sustainable operating margin improvement; maintaining our competitive advantage as the employer of choice in our field; and, continuing the high quality of our programs and customer satisfaction. The alignment of key demographic, social and workplace trends combined with an overall shortage of quality childcare options for working families continues to fuel strong interest in the Company's services. General economic conditions and the business climate in which individual clients operate remain the largest variables in terms of future performance. These variables impact client capital and operating spending budgets, industry specific sales leads and the overall sales cycle, as well as labor markets and wage rates as competition for human capital fluctuates.

The Company achieved revenue growth of approximately 11% for the year ended December 31, 2007 as compared to 2006. The revenue growth was principally due to the 3% increase in overall capacity in the centers the Company operates, additional enrollment in ramping centers as well as in mature centers, price increases of 4-5% and expanded services for existing clients. The Company added 39 centers in 2007 through a combination of organic growth, acquisitions, and transitions of management of existing programs from other providers to the Company. Revenue growth was achieved despite the closing of 40 centers, which included 26 child care centers and family enrichment centers operated under a cost-plus arrangement with the United Auto Workers and the Ford Motor Company (UAW-Ford), which occurred in the second quarter of 2007.

Another key element of the Company's growth strategy is expanding relationships with existing clients. In 2007, the Company added eight new locations for multi-site clients. The Company now serves a total of 57 multi-site clients at 221 locations. Lastly, the Company introduced enhanced service offerings such as BUCA and the aforementioned college preparation and admissions counseling services as a way to extend client relationships.

**New Centers.** In 2007, the Company added 39 early care and education centers with a total capacity of approximately 4,700 children. Of these center additions, four were added through acquisitions, eight through transition from previous management and 27 were new centers developed by Bright Horizons. The Company at December 31, 2007 had over 60 centers under development, scheduled to open over the next 12 to 24 months. The Company expects to add approximately 50 new centers in 2008, net of closings.

**Business Economics.** The Company's revenue is principally derived from the operation of early care and education centers. Early care and education center revenues consist of tuition, which is comprised of amounts paid by parents, supplemented in some cases by payments from employer sponsors and, to a lesser extent, by payments from government agencies. Revenue also includes management fees and operating subsidies, paid by employer sponsors either in lieu of or to supplement parent tuition. Parent tuitions comprise the largest component of a center's revenue and are billed on a monthly or weekly basis, generally payable in advance. The parent tuitions are typically comparable to or slightly higher than prevailing area market rates for tuition. Amounts due from employer sponsors are generally payable monthly and may be dependent on a number of factors such as enrollment, the extent to which the sponsor subsidizes parent tuitions, the quality enhancements a sponsor wishes to make in the operations of the center, and budgeted amounts. Management fees are generally fixed and payable monthly. Revenue is recognized as services are provided. Amounts paid in advance are recorded as deferred revenue and are recognized as they are earned.

Although the specifics of the Company's contractual arrangements in the center-based care segment vary widely, they generally can be classified into two categories: (i) the Cost Plus model, where the Company manages a work-site early care and education center under a cost-plus arrangement with an employer sponsor, and (ii) the P&L model, where the Company assumes the financial risk of the early care and education center's operations. A P&L model center may operated under either a sponsored or lease model as more fully described below. Under each model type Bright Horizons retains responsibility for all aspects of operating the early care and education center, including the hiring and paying of employees, contracting with vendors, purchasing supplies and collecting tuition and related accounts receivable.

**The Management (Cost Plus) Model.** Early care and education centers operating under the Cost Plus model currently represent approximately 35% of our early care and education centers, which represents an approximate 5% decrease

from prior figures due to the termination of the management agreement with the UAW-Ford, which comprised 26 cost plus centers. Under the Cost Plus model, the Company receives a management fee from an employer sponsor and an operating subsidy within an agreed upon budget to supplement tuition received from parents. The sponsor typically provides for the facility, pre-opening and start-up costs, capital equipment and facility maintenance. The Cost Plus model enables the employer sponsor to have a greater degree of control with respect to budgeting, spending, and operations. Cost Plus contracts have terms that generally range from three to five years. The Company is responsible for maintenance of quality

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standards, recruitment of early care and education center directors and teachers, implementation of curricula and programs, and interaction with parents.

*The Profit and Loss Model.* Early care and education centers operating under the P&L model currently represent approximately 65% of our early care and education centers. Bright Horizons retains financial risk for P&L early care and education centers and is therefore subject to variability in financial performance due to fluctuating enrollment levels. The P&L model can be classified into two subcategories: (i) sponsored model, where Bright Horizons provides early care and educational services on a priority enrollment basis for employees of an employer sponsor, and (ii) lease model, where the Company provides priority early care and education to the employees of multiple employers located within a real estate developer's property or the community at large.

*Sponsored Model.* The sponsored model is typically characterized by a single employer (corporation, hospital, government agency or university), but may involve a consortium of employers, entering into a contract with the Company to provide early care and education at a facility located in or near the sponsor's offices. The sponsor generally provides for the facilities or construction of the early care and education center, pre-opening expenses and assistance with start-up costs as well as capital equipment and initial supplies and, on an ongoing basis, may pay for maintenance and repairs. In some cases, the sponsor may also provide various subsidies, which may take the form of a fixed financial subsidy, tuition assistance to the employees, or minimum enrollment guarantees to Bright Horizons. Children of the sponsor's employees typically are granted priority enrollment at the early care and education center. Operating contracts have terms that generally range from three to five years.

*Lease Model.* A lease model early care and education center is typically located in an office building or office park. The early care and education center serves as an amenity to the real estate developer's tenants, giving the developer an advantage in attracting quality tenants to their site. In addition, the Company may establish an early care and education center in circumstances where it has been unable to cultivate sponsorship, or where sponsorship opportunities do not currently exist. In these instances, the Company will typically lease space in locations where experience and demographics indicate that demand for the Company's services exists. While the facility is open to general enrollment from the nearby community, the Company may also receive additional sponsorship from employers who purchase full service child care or back-up care benefits for their employees. Bright Horizons typically negotiates lease terms of 10 to 15 years, with renewal options.

Cost of services consists of direct expenses associated with the operation of early care and education centers, consisting primarily of staff salaries, taxes and benefits; food costs; program supplies and materials; parent marketing; and, occupancy costs. Personnel costs are the largest component of a center's operating costs, and comprise approximately 80% of a center's operating expenses. The Company is often responsible for additional costs in a P&L model center that are typically paid or provided directly by a client in centers operating under the Cost Plus model, such as occupancy costs. As a result, personnel costs in centers operating under the P&L models will often represent a smaller percentage of overall costs when compared to the centers operating under Cost Plus models.

In addition to revenue generated from the existing base of child care and early education centers, the Company receives revenue from a variety of ancillary services which complement the Company's child care services. These fees are generated primarily from the Company's consulting and college preparation and admissions counseling services. The payment arrangements vary based on the services performed and may be payable in advance or billed in arrears. The Company recognizes revenue from these arrangements as services are performed. Cost of services for the Company's ancillary service offerings consist primarily of personnel and related costs.

Selling, general and administrative (SG&A) expenses are composed primarily of salaries, taxes and benefits for non-center personnel, including corporate, regional and business development personnel; accounting, legal and public reporting compliance fees; information technology; occupancy costs for corporate and regional personnel; and other general corporate expenses.

*Seasonality.* The Company's revenue and results of operations fluctuate with the seasonal demands for child care. Revenue in our early care and education centers that have mature operating levels typically declines during the third quarter as a result of decreased enrollments over the summer months as parents withdraw their children for vacations



or have alternative child care arrangements, as well as older children transitioning into elementary schools. The Company's schools are also subject to the same cyclical nature as the schools are not in session during the summer months, which contributes to the decrease in revenue. Demand for the Company's child care and education services generally increases in September and October to normal enrollment levels upon the beginning of the new school year and remains relatively stable throughout the

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rest of the school year. In addition, usage for the Company's back-up services, including BUCA, tends to be higher when school is not in session and during holiday periods, which can increase the operating costs of the program which impacts the results of operations. Results of operations may also fluctuate from quarter to quarter as a result of, among other things, the performance of existing centers that may include 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 contract model mix (P&L vs. Cost Plus) of new and existing centers, the timing and level of sponsorship payments, competitive factors, and general economic conditions.

**PROPOSED TRANSACTION WITH AFFILIATES OF BAIN CAPITAL PARTNERS, LLC**

On January 14, 2008, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with affiliates of Bain Capital Partners, LLC ("Bain"), pursuant to which a wholly owned subsidiary of Bain will be merged with and into the Company, and as a result the Company will continue as the surviving corporation and a wholly owned subsidiary of Bain (the "Merger"). Both the Board of Directors of the Company and a Special Committee of the Board of Directors of the Company, comprised solely of independent and disinterested directors (the "Special Committee"), have approved the Merger Agreement and the Merger and recommended that the stockholders of Bright Horizons vote to adopt the Merger Agreement. The Company is working toward completing the Merger as quickly as possible, and currently anticipates that the Merger will be completed in the second quarter of 2008.

Pursuant to the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of common stock of the Company will be canceled and will be automatically converted into the right to receive \$48.25 in cash, without interest. All outstanding equity-based awards of the Company will continue to vest until the closing of the Merger in accordance with their respective terms. Generally, at the closing of the Merger, all outstanding and unvested equity awards will fully vest, at which time these awards will be cancelled and converted into the right to receive the difference between \$48.25 in cash and the exercise price of such award, if applicable, without interest and less any applicable withholding taxes.

Notwithstanding the foregoing, subject to Bain's sole discretion, certain of our directors and officers may enter into agreements to convert their options or Bright Horizons common stock into, or otherwise invest in, the equity securities of the surviving corporation or one of Bain's other affiliates following the closing; however, no such discussions regarding any such investments have occurred as of the date of the filing of this Annual Report on Form 10-K.

The Merger Agreement contains a "go-shop" provision wherein, until March 15, 2008, the Company, under the direction of the Special Committee, is permitted to initiate, solicit, facilitate and encourage acquisition proposals from third parties other than Bain and enter into and maintain or continue discussions or negotiations concerning any such acquisition proposals. After the expiration of the go-shop period, the Company is generally not permitted to (1) solicit, knowingly facilitate, knowingly encourage or initiate any inquiries or the implementation or submission of any acquisition proposal, (2) withdraw or modify, in a manner adverse to Bain, the recommendation of the Company's Board of Directors in favor of the Merger or the Merger Agreement, or (3) enter into or recommend any letter of intent, acquisition agreement or similar agreement with respect to any such acquisition proposal. Notwithstanding the foregoing, the provisions of the Merger Agreement provide for a customary "fiduciary-out" provision which allows the Company's Board of Directors or a committee thereof under certain circumstances to participate in discussions with third parties with respect to unsolicited acquisition proposals and to terminate the Merger Agreement and enter into an acquisition agreement with respect to a superior proposal, provided that the Company complies with certain terms of the Merger Agreement, including, if required, paying a termination fee as described below.

If the Merger Agreement is terminated by the Company, under certain circumstances, the Company will be obligated to pay the expenses of Bain up to \$10.0 million and will be obligated to pay a termination fee of up to \$39.0 million (or \$19.5 million in the event that the Merger Agreement is terminated in favor of a superior acquisition proposal that arises during the go-shop period), less the amount of any reimbursement of expenses of Bain. Additionally, under certain circumstances, should the purchasing Bain entities terminate the Merger Agreement, Bain would be required to pay the Company a termination fee of \$39.0 million, plus, in certain circumstances, indemnification for up to an additional \$27.0 million of the Company's damages. The recovery of such amounts would be the Company's exclusive remedy for failure of Bain and its affiliates to complete the Merger.

Although the purchasing Bain entities' obligations to complete the Merger are not conditioned upon their receipt of financing, the purchasing Bain entities have obtained equity and debt financing commitments (including from other Bain affiliates) for the transactions contemplated by the Merger Agreement. In the event that any portion of the financing under

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the commitments becomes unavailable on the terms contemplated in the agreements in respect thereof, the purchasing Bain entities are obligated to use their reasonable best efforts to arrange alternative financing in an amount sufficient to consummate the Merger.

Consummation of the Merger is subject to customary conditions to closing, including the approval of the Company's stockholders and receipt of requisite antitrust and competition law approvals. On February 11, 2008, the Company received notice from the Federal Trade Commission and the Antitrust Division of the Department of Justice granting early termination of the waiting period under the Hart-Scott-Rodino Act.

Purported class action litigation has been filed since January 14, 2008 by Bright Horizons stockholders against the Company, its current directors, and Bain. See Item 3, Legal Proceedings, and Note 14, Commitments and Contingencies - Litigation, of the Consolidated Financial Statements and Notes thereto included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K for a further discussion of these actions. In connection with this transaction the Company incurred costs of approximately \$7.0 million in 2007 consisting primarily of fees earned by financial advisors and attorneys, and other costs directly associated with the transaction.

**RESULTS OF OPERATIONS**

The following table has been compiled from the Company's audited Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K and sets forth statement of income data as a percentage of revenue for the years ended December 31, 2007, 2006, and 2005:

	2007	2006	2005
Revenue	100.0%	100.0%	100.0%
Cost of services	79.8	80.2	81.6
Gross profit	20.2	19.8	18.4
Selling, general and administrative expenses	9.3	9.1	8.4
Amortization	0.6	0.4	0.3
Transaction costs	0.9		
Income from operations	9.4	10.3	9.7
Interest income	0.1	0.0	0.2
Interest expense	(0.2)	(0.1)	
Income before income taxes	9.3	10.2	9.9
Income tax expense	4.2	4.2	4.0
Net income	5.1%	6.0%	5.9%

**Comparison of results for the year ended December 31, 2007 to the year ended December 31, 2006**

**Revenue.** Revenue increased \$76.7 million, or 11.0%, to \$774.6 million in 2007 from \$697.9 million in 2006.

Revenue growth is primarily attributable to modest growth in enrollment at existing centers, the ramp-up of a large number of centers developed organically in the past two years, and tuition increases of approximately 4-5%. At December 31, 2007, the Company operated 641 early care and education centers, as compared with 642 at December 31, 2006, a net decrease of one center, but representing a net increase of 2.9% in overall capacity. The increase in revenue is also attributable to acquisitions completed in 2007 and the full year impact of the Company's acquisitions completed in 2006 which accounted for approximately \$16.3 million of the overall increase in revenue. Lastly, the Company was able to increase revenue from its continued expansion of back up services, including BUCA, which increased by approximately \$6.8 million or 12.7%, over 2006 levels.

The termination of the contract to operate 26 child care centers and family enrichment centers for the UAW-Ford had the effect of reducing revenue by approximately \$12.0 million when compared to 2006, which was focused in the second half of 2007 after the termination of the contract in the second quarter of 2007. The termination of this contract

will result in a further decrease of approximately \$19.0 million in 2008 when compared to 2007.

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Revenue related to ancillary services increased \$4.3 million primarily due to the full year impact of the acquisition of College Coach, which occurred in the third quarter of 2006, and the expansion of these services to our existing base of clients.

**Gross Profit.** Gross profit increased \$18.5 million, or 13.4%, to \$156.8 million in 2007 from \$138.3 million in 2006. Gross profit as a percentage of revenue increased from 19.8% in 2006 to 20.2% in 2007. Major factors in the increase in gross profit margin include modest improvements in enrollment which drive operating efficiencies at the center level as the fixed costs are absorbed over a broader tuition base; contributions from Cost Plus centers opened during 2007; transitions of management and acquisitions, which enter the network of centers at mature operating levels; and, annual tuition rate increases ahead of wage increases coupled with careful cost management at existing programs. Operating margins continue to be positively impacted by favorable trends in personnel costs.

Gross profit was also modestly impacted by the full year results of College Coach, which was acquired in the third quarter of 2006 and has gross margins that are higher, on average, than those of the Company's overall child care operations.

Offsetting these areas of improvement were several lease model centers which were either opened in 2007 or were still in the process of ramping up to mature operating levels. These centers typically incur losses in the initial year of operations and have gross margins below those of more mature centers until more fully enrolled.

The closings of the UAW-Ford child care and family enrichment centers referenced above had the effect of reducing gross profit by approximately \$2.2 million in 2007 and are expected to reduce 2008 operating income by \$2.8 million when compared to 2007.

**Selling, General and Administrative Expenses.** SG&A increased \$9.0 million, or 14.1%, to \$72.2 million in 2007 from \$63.2 million in 2006. SG&A as a percentage of revenue increased from 9.1% in 2006 to 9.3% in 2007. The increase in SG&A from 2006 is related to investments in sales and support personnel necessary to support the operations of the Company and the full year impact of College Coach which requires proportionately higher overhead costs. Additionally, investments the Company has made in technology have contributed to the overall increase in SG&A. Lastly, stock-based compensation increased by approximately \$1.0 million to \$4.2 million in 2007 from \$3.2 million for 2006.

In addition to the Company's operational SG&A expenses, the Company incurred \$7.0 million of costs directly associated with the proposed Merger with affiliates of Bain. These costs included fees to advisors and attorneys as well as other costs incurred by the Company that were directly attributable to this transaction. The Company expects to incur significant additional costs related to this transaction in the first two quarterly periods of 2008 pending completion.

**Amortization.** Amortization expense on intangible assets totaled \$4.7 million in 2007 compared to \$3.4 million in 2006. The increase relates to the addition of certain trade names, non-compete agreements, customer relationships and contract rights, arising from acquisitions the Company completed in 2007 and the full year effect of acquisitions completed in 2006, which are subject to amortization. Under the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ), the Company assessed its goodwill balances and intangible assets with indefinite lives and found no impairment at December 31, 2007 or 2006. The Company expects amortization to approximate \$4.6 million in 2008, which includes the full year impact of acquisitions completed in 2007 and expected in 2008.

**Income from Operations.** Income from operations totaled \$72.9 million in 2007 compared with income from operations of \$71.7 million in 2006, an increase of \$1.2 million, or 1.7%. Operating income as a percentage of revenue decreased to 9.4% in 2007 from 10.3% in 2006, due primarily to the transaction costs referenced above.

**Interest Income.** Interest income in 2007 totaled \$393,000 compared to interest income of \$452,000 in 2006. The decrease in interest income is largely due to lower average cash balances throughout 2007 as compared to 2006.

**Interest Expense.** Interest expense in 2007 totaled \$1.2 million as compared to interest expense of \$848,000 in 2006. The increase in interest expense is largely due to borrowings on the Company's line of credit throughout 2007 whereas the Company commenced borrowing in the third quarter of 2006.

**Income Tax Expense.** The Company had an effective tax rate of 45.8% in 2007 and of 41.5% in 2006. The increase in the tax rate is primarily due to the non-deductible costs incurred associated with the proposed Merger with Bain.

Excluding the effects of these costs, the Company's tax rate would have approximated 41.8%.

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**Table of Contents****Comparison of results for the year ended December 31, 2006 to the year ended December 31, 2005**

**Revenue.** Revenue increased \$72.6 million, or 11.6%, to \$697.9 million in 2006 from \$625.3 million in 2005.

Revenue growth is primarily attributable to the net addition of new early care and education centers, modest growth in enrollment at existing centers, and tuition increases of approximately 4-5%. At December 31, 2006, the Company operated 642 early care and education centers, as compared with 616 at December 31, 2005, a net increase of 26 centers and a net increase of 4.0% in overall capacity. The increase in revenue is also attributable to the Company's recent acquisitions. The acquisition of child care centers in 2006, and the full year contributions of the ChildrenFirst network of back-up centers acquired in September 2005, collectively contributed approximately \$30.0 million in revenue. Acquisitions and transitions of management typically do not have the ramp-up period associated with organic growth, and begin operating at more mature levels.

Revenue related to ancillary services increased \$2.3 million primarily due to the acquisition of College Coach in the third quarter of 2006.

**Gross Profit.** Gross profit increased \$23.0 million, or 19.9%, to \$138.3 million in 2006 from \$115.3 million in 2005.

Gross profit as a percentage of revenue increased from 18.4% in 2005 to 19.8% in 2006. One of the key factors in the increase in gross profit margin is the contribution of the ChildrenFirst back-up centers whose margins are, on average, higher than the Company's full service centers. In addition, gross profit increased due to modest improvements in enrollment which drive operating efficiencies at the center level as the fixed costs are absorbed over a broader tuition base; contributions from Cost Plus centers opened during the past twelve months, transitions of management and acquisitions, which enter the network of centers at mature operating levels; and, annual tuition rate increases ahead of wage increases coupled with careful cost management at existing programs. Operating margins were also positively impacted by favorable trends and expense reductions in employee benefits and workers compensation insurance.

Gross profit was also modestly impacted by College Coach, whose profit margins are higher than those of the Company's overall child care operations.

The increases in gross profit were offset in part by incremental compensation expense related to the adoption of SFAS No. 123R, *Share-Based Payment* (SFAS 123R), which resulted in approximately \$400,000 of additional stock-based compensation in cost of services. In addition, the Company opened 12 lease model centers in 2006, which experienced losses during the pre-opening and ramp-up stages of their operations, and were in the pre-opening stage at additional locations.

**Selling, General and Administrative Expenses.** SG&A increased \$10.5 million, or 20.0%, to \$63.2 million in 2006 from \$52.7 million in 2005. SG&A as a percentage of revenue increased from 8.4% in 2005 to 9.1% in 2006. The increase in SG&A from 2005 is related to the adoption of SFAS 123R, resulting in incremental SG&A expense of approximately \$2.3 million. In addition, ChildrenFirst centers and College Coach, which were acquired in September 2005 and August 2006, respectively, require proportionately higher overhead support costs.

**Amortization.** Amortization expense on intangible assets totaled \$3.4 million in 2006 compared to \$1.9 million in 2005. The increase relates to the addition of certain trade names, non-compete agreements, customer relationships and contract rights, arising from acquisitions the Company completed in 2006 and the full year effect of acquisitions completed in 2005, which are subject to amortization. Under the provisions of SFAS 142, the Company assessed its goodwill balances and intangible assets with indefinite lives and found no impairment at December 31, 2006 or 2005.

**Income from Operations.** Income from operations totaled \$71.7 million in 2006 compared with income from operations of \$60.7 million in 2005, an increase of \$11.0 million, or 18.1%. Operating income as a percentage of revenue increased to 10.3% in 2006 from 9.7% in 2005, due to the gross margin improvement.

**Interest Income.** Interest income in 2006 totaled \$452,000 compared to interest income of \$1.5 million in 2005. The decrease in interest income is largely due to lower cash balances resulting from payments for acquisitions and stock repurchases in 2006.

**Interest Expense.** Interest expense in 2006 totaled \$848,000 as compared to interest expense of \$191,000 in 2005. The increase in interest expense is largely due to borrowings from the line of credit in 2006.

**Income Tax Expense.** The Company had an effective tax rate of 41.5% in 2006 and of 40.7% in 2005. The increase in the tax rate is primarily due to the non-deductibility of certain options being expensed under SFAS 123R.





**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

The Company's primary cash requirements are for the ongoing operations of its existing early care and education centers and the addition of new centers through development or acquisition. The Company's primary sources of liquidity have been cash flow from operations and borrowings available under the Company's \$60.0 million line of credit. The Company utilized its line of credit facility throughout 2007, and had amounts outstanding ranging from zero to \$35.0 million. Borrowings against the line of credit were \$11.5 million at December 31, 2007 and \$35.0 million at December 31, 2006. The Company had a working capital deficit of \$54.8 million at December 31, 2007 and \$71.9 million at December 31, 2006, arising primarily from long term investments in fixed assets and acquisitions, as well as purchases of the Company's common stock, which primarily occurred in 2006. Bright Horizons anticipates that it will continue to generate positive cash flows from operating activities in 2008 and that the cash generated will be used principally to fund ongoing operations of its new and existing early care and education centers, as well as to repay amounts outstanding under its line of credit.

Cash provided by operating activities was \$77.6 million for the year ended December 31, 2007 compared to \$54.7 million, and \$50.1 million for the years ended December 31, 2006 and 2005, respectively. The increase in cash provided from operations relates to increases in other non-cash expenses (primarily depreciation, amortization and stock-based compensation). In addition, increases in deferred revenue generated an increase of approximately \$14.0 million over prior years and were the result of changes in the billing cycle of certain contractual agreements. These amounts were partially offset by increases in accounts receivable, which were primarily due to the timing and amount of payments and are of a normal and recurring nature.

Cash used in investing activities was \$51.0 million for the year ended December 31, 2007 compared to \$58.1 million and \$64.9 million for the years ended December 31, 2006 and 2005, respectively. Fixed asset additions totaled \$41.8 million in 2007 compared to \$32.7 million in 2006 and \$15.6 million in 2005. Approximately \$26.8 million of fixed asset additions in 2007 related to new early care and education centers and the remainder being primarily related to the refurbishment of existing early care and education centers. Capital expenditures for new early care and education centers were approximately \$21.0 million in 2006 and \$8.6 million in 2005. Increases in capital expenditure levels in 2007 and 2006 on new centers are primarily due to a large number of lease model centers the Company has under development or has opened. Cash paid by the Company for acquisitions totaled \$9.2 million in 2007 compared to \$24.8 million in 2006 and \$54.9 million in 2005.

Cash used in financing activities totaled \$25.2 million for the year ended December 31, 2007, compared to \$11.5 million in 2006 and \$5.5 million in 2005. The increase in cash used in financing activities from 2006 is primarily related to the repayments of outstanding amounts under the Company's line of credit facility that had been borrowed in 2006 and payments of long term debt. In 2007, the Company repurchased approximately 142,000 shares of the Company's common stock (all during the first quarter of 2007) at a cost of \$5.2 million. The Company had repurchases of its common stock of approximately 1.5 million shares in 2006, for a total of approximately \$54.1 million, and 318,000 shares at a cost of approximately \$11.2 million in 2005. In 2006, the use of cash for share repurchases was offset by net borrowings under the aforementioned line of credit of \$35.0 million in 2006. Additionally, upon the adoption of SFAS 123R, the Company recorded an excess tax benefit related to the vesting or exercise of equity instruments of \$1.7 million and \$2.6 million in 2007 and 2006, respectively, which had been previously reported as cash flow from operating activities.

The Company repurchases shares of its common stock as authorized by the Board of Directors. In June 2006, the Board of Directors approved a stock repurchase plan authorizing the Company to repurchase up to 3.0 million shares of the Company's common stock in addition to amounts repurchased under previous plans. At December 31, 2007, total repurchases under the terms of the existing plan were 523,000 shares leaving approximately 2.5 million shares authorized for repurchase under the plan. Share repurchases under the stock repurchase program may be made from time to time in accordance with applicable securities regulations in open market or privately negotiated transactions. The actual number of shares purchased and cash used, as well as the timing of purchases and the prices paid, will depend on future market conditions. Pursuant to the terms of the Merger Agreement, until the closing of the Merger or termination of the Merger Agreement, the Company may not make any repurchases of its outstanding common stock without the consent of Bain.

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents consist primarily of institutional money market accounts. The carrying value of these instruments approximates market value due to their short term nature.

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**Contractual Cash Flows.** The Company has contractual obligations for payments under operating leases and debt agreements payable as follows:

<i>Contractual Obligations</i>	Total	Payments due by period (in millions)					Thereafter
		2008	2009	2010	2011	2012	
Long-Term Debt, including interest	\$ 0.2	\$ 0.1	\$ 0.1	\$	\$	\$	\$
Operating Leases	281.2	36.4	35.0	31.9	26.7	24.3	126.9
<b>Total</b>	<b>\$ 281.4</b>	<b>\$ 36.5</b>	<b>\$ 35.1</b>	<b>\$ 31.9</b>	<b>\$ 26.7</b>	<b>\$ 24.3</b>	<b>\$ 126.9</b>

The Company also has contractual obligations for customer advances totaling \$8.2 million as of December 31, 2007, which are repayable at the completion of the contractual arrangements. Because of renewal options, the repayment dates for such advances cannot be predicted.

In June 2004, the Company entered into service agreements to manage a group of family programs and amended an agreement to manage an existing child care and education center in exchange for the transfer of land and buildings. The Company recorded fixed assets and deferred revenue of \$9.4 million in connection with the transactions. The deferred revenue will be earned over the terms of the arrangements of 6.5 and 12 years, respectively. In the event of default under the terms of the contingent notes payable associated with the service agreements, the Company would be required to tender a payment equal to the unrecognized portion of the deferred revenue or surrender the applicable property. The unrecognized portion of the deferred revenue related to these agreements was \$4.9 million at December 31, 2007.

The Company has a five-year unsecured revolving credit facility in the amount of \$60.0 million, which matures on July 22, 2010, with any amounts outstanding at that date payable in full. The revolving credit facility includes an accordion feature that allows the Company to increase the amount of the revolving credit facility by an additional \$40.0 million, subject to lender commitments for the additional amounts. In addition, the revolving credit facility also includes a multicurrency feature with a sub-limit of \$15.0 million that allows the Company to borrow and repay amounts in either Pounds Sterling (£) or Euros (€). Borrowings against the line of credit of \$11.5 million were outstanding at December 31, 2007. In addition, a letter of credit has been issued under this facility to guarantee certain deductible reimbursements for up to \$486,000, which reduced the amounts available for borrowing. No amounts have been drawn against this letter of credit. If the proposed Merger is consummated, the existing credit facility will be terminated and replaced in its entirety.

The Company's subsidiaries in the United Kingdom maintain an overdraft facility with a U.K. bank that provides for maximum borrowings of £1.0 million (approximately \$2.0 million as of December 31, 2007) to support local short-term working capital requirements. The overdraft facility is repayable upon the earlier of demand from the U.K. bank or, subject to an annual renewal provision, on July 31, 2008. The overdraft facility is secured by a cross guarantee by and among the Company's subsidiaries in the United Kingdom and a right of offset against all accounts maintained by the Company at the lending bank. At December 31, 2007 approximately £900,000 (\$1.8 million) was outstanding under the overdraft facility.

The Company has liabilities for uncertain tax positions, computed in accordance with Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An interpretation of FASB Statement No. 109, Accounting for Income Taxes* (FIN 48), totaling \$2.7 million and related interest and penalties of \$1.7 million for a total of \$4.4 million. Due to the nature of these obligations the Company is not able to estimate if or when these obligations may be settled.

**Commitments and Contingencies.** The purchase agreements for two acquisitions, one completed in 2006 and one in 2007, provide for additional consideration if specific performance targets are met. In 2007, the Company paid \$3.5 million in additional consideration to the previous shareholders of College Coach in accordance with the terms of the purchase agreement. Additional cash consideration may be payable over the next four years if additional performance targets are met. The purchase agreement for the school acquired in 2007 provides for additional consideration of up to \$200,000 based on the performance of the school over the next year.

As of December 31, 2007 the Company had a commitment to purchase a property for \$800,000. The purchase of the property was completed in January 2008.

In connection with the proposed Merger with Bain the Company is contingently liable for additional professional fees payable to financial advisors to the Special Committee of the Board of Directors upon successful approval and completion of the Merger.

Management believes that funds provided by operations, the Company's existing cash and cash equivalent balances and borrowings available under its line of credit will be adequate to meet planned operating and capital expenditures for the

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next twelve months. However, if the Company were to make any significant acquisitions or investments in the purchase of facilities for new or existing early care and education centers, 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.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Bright Horizons prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. The preparation of these statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the applicable reporting periods. Actual results could differ from these estimates, and such differences could affect the results of operations reported in future periods. The accounting policies we believe are critical in the preparation of the Company's consolidated financial statements relate to revenue recognition, goodwill and other intangibles, liability for insurance obligations, stock-based compensation, and income taxes.

**Revenue Recognition.** The Company recognizes revenue in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*, as modified by Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables*, and SAB No. 104, *Revenue Recognition*, which require that four basic criteria be met before recognizing revenue: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed and determinable, and collectibility is reasonably assured. In those circumstances where the Company enters into arrangements with a client that involve multiple revenue elements, the consideration is allocated to the elements based on fair value of the individual services and revenue recognition is considered separately for each individual element. Center-based care revenues consist primarily of tuition, which is comprised of amounts paid by parents, supplemented in some cases by payments from sponsors and, to a lesser extent, by payments from government agencies. Revenue may also include management fees, operating subsidies paid either in lieu of or to supplement parent tuition, and fees for other services. The Company recognizes revenue on a gross basis in accordance with EITF No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, as services are performed. In some instances, the Company receives revenue in advance of services being rendered, in which case, revenue is deferred until the services have been provided. Under all types of operating arrangements, the Company retains responsibility for all aspects of operating the early care and education centers, including the hiring and paying of employees, contracting with vendors, purchasing supplies, and collecting tuition and related accounts receivable.

**Goodwill and Other Intangibles.** The Company accounts for acquisitions in accordance with the provisions of SFAS No. 141, *Accounting for Business Combinations*. Accounting for acquisitions requires management to make estimates related to the fair value of the acquired assets and assumed liabilities, including the identification and valuation of intangible assets, with any residual balance being allocated to goodwill. Management also makes assessments concerning the estimated useful lives of the intangible assets.

In accordance with SFAS 142 goodwill and intangible assets with indefinite lives are not subject to amortization, but are monitored annually for impairment, or more frequently if there are indicators of impairment. Should it be determined that any of these assets have been impaired, the Company would be required to record an impairment charge in the period the impairment is identified. The Company was not required to record an impairment charge in 2007; however, there can be no assurance that such a charge will not be recorded in future periods. Intangible assets that are separable from goodwill and have determinable useful lives are valued separately and are amortized over the estimated period benefited.

**Liability for Insurance Obligations.** The Company self-insures a portion of its medical insurance plans and has a high deductible workers' compensation plan. Due to the nature of these liabilities, some of which may not fully manifest themselves for several years, the Company estimates the obligations for liabilities incurred but not yet reported or paid based on available data and historical experience. While management believes that the amounts accrued for these obligations are sufficient, any significant increase in the number of claims or costs associated with claims made under these plans could have a material adverse effect on the Company's financial results or cash flows.

**Stock-Based Compensation.** Effective January 1, 2006, the Company adopted the provisions of SFAS 123R and SAB No. 107, *Share-Based Payment* ( SAB 107 ) to account for stock-based compensation. SFAS 123R was applied using the modified prospective method, which results in the provisions of SFAS 123R only being applicable to the consolidated financial statements on a prospective basis. Stock-based compensation cost is measured at grant date based on the value of

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the award and is recognized as expense over the requisite service period, which generally represents the vesting period, and includes an estimate of awards that will be forfeited. The Company calculates the fair value of stock options using the Black-Scholes option-pricing model and the fair value of restricted stock based on intrinsic value at grant date. Measurement under the Black-Scholes model requires management to make estimates related to expected stock price volatility, option life, turnover, and risk-free interest rate, which could impact the value and expense recognized.

**Income Taxes.** The Company accounts for income taxes using the asset and liability method in accordance with SFAS No. 109, *Accounting for Income Taxes* ( SFAS 109 ). Accounting for income taxes requires management to estimate its income taxes in each jurisdiction in which it operates. The future tax effect of temporary differences that arise from differences in the recognition of items included in income for accounting and tax purposes, such as deferred revenue, depreciation and certain expenses, are recorded as deferred tax assets or liabilities. The Company estimates the likelihood of recovery of these assets, which are dependent on future levels of profitability and enacted tax rates. Should any amounts be determined not to be recoverable, or assumptions change, the Company would be required to record an expense, which could have a material effect on the Company's financial position or results of operations. In 2007, the Company adopted the provisions of FIN 48. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and accounting for income taxes in interim periods, and requires increased disclosures.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* ( SFAS 141R ). SFAS 141R requires: the assets acquired and liabilities assumed to be measured at fair value as of the acquisition date; liabilities related to contingent consideration to be remeasured at fair value at each subsequent reporting period; and acquisition-related costs to be expensed as these are incurred. SFAS 141R also requires additional disclosures of information surrounding a business combination. The provisions of SFAS 141R are effective for fiscal years beginning on or after December 15, 2008 and apply to business combinations that are completed on or after the date of adoption. The Company has not yet adopted this pronouncement, but expects that it will have an impact on the consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions the Company completes after the effective date.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* ( SFAS 159 ). SFAS 159 allows entities to choose to measure certain financial assets and financial liabilities at fair value, with the related unrealized gains and losses reported in earnings at each reporting date. The provisions of SFAS 159 are effective for fiscal years beginning after November 15, 2007. The Company has not yet adopted this pronouncement and is evaluating the impact that this statement will have on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles in the United States. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007 and is to be applied prospectively. In February 2008, the FASB issued Staff Positions No. 157-1 and No. 157-2, which partially defer the effective date of SFAS 157 for one year for certain nonfinancial assets and liabilities and remove certain leasing transactions from its scope. The Company is evaluating the expected impact that the adoption of SFAS 157 will have, but does not expect SFAS 157 to have a material impact on its consolidated financial position and results of operations.

**INFLATION**

The Company does not believe that inflation has had a material effect on its results of operation. There can be no assurance, however, that the Company's business will not be materially affected by inflation in the future.





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**ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

The Company holds no market risk sensitive instruments, for trading purposes or otherwise.

We have limited exposure to market risk due to the nature of our financial instruments. Our financial instruments at December 31, 2007 consisted of cash and equivalents and accounts receivable. The Company believes that the carrying value of its financial instruments at December 31, 2007 approximates their fair value. The Company's primary market risk exposures relate to foreign currency exchange rate risk and interest rate risk.

**Foreign Currency Risk.** The Company's exposure to fluctuations in foreign currency exchange rates is primarily the result of foreign subsidiaries domiciled in the United Kingdom, Ireland and Canada. The Company has not used financial derivative instruments to hedge foreign currency exchange rate risks associated with its foreign subsidiaries. The assets and liabilities of the Company's Canada, Ireland and United Kingdom subsidiaries, whose functional currencies are the Canadian dollar, Euro and British pound, respectively, 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 subsidiaries using a functional currency other than the U.S. dollar are included as a cumulative translation adjustment in stockholders' equity and as a component of comprehensive income. Management estimates that had the exchange rate in each country unfavorably changed by 10% relative to the U.S. dollar, the Company's consolidated earnings before taxes in 2007 wo