BRIGHT HORIZONS FAMILY SOLUTIONS INC
Form 10-K
March 30, 2005

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

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the year ended December 31, 2004.**

OR

o **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 62-1742957

(State or other jurisdiction (IRS Employer Identification No.)
of incorporation or organization)
200 Talcott Avenue South
Watertown, MA 02472
(Address of principal executive offices)

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

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

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

Common Stock, $0.01 par value per share

(Title of class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes þ No o

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: o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2): Yes þ No o

As of March 21, 2005, and after taking into account a 2-for-1 stock split that occurred on March 18, 2005, there were 27,014,552 outstanding shares of the registrant s common stock, $0.01 par value per share, which is the only outstanding capital stock of the registrant. As of June 30, 2004, the aggregate market value of the shares of common stock held by non-affiliates (excludes directors and executive officers of the registrant) of the registrant (based on the closing price for the common stock as reported on The Nasdaq National Market on June 30, 2004) was approximately $697,108,736.

DOCUMENTS INCORPORATED BY REFERENCE

Part of Form 10-K	Documents from which portions are incorporated by reference
Part III	Portions of the Registrant s Proxy Statement relating to the Registrant s Annual Meeting of Stockholders to be held on May 24, 2005 are incorporated by reference into Items 10, 11, 12, 13 and 14

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

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PART III

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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. These forward-looking statements concern the Company s operations, economic performance and financial condition and include statements regarding: opportunities for growth; the number of early care and education centers expected to be added in future years; the profitability of newly opened centers; capital expenditure levels; the ability to incur additional indebtedness; strategic acquisitions, investments and other transactions; changes in operating systems and policies and their intended results; our expectations and goals for increasing center revenue and improving our operational efficiencies and our projected operating cash flows. The forward-looking statements are subject to various known and unknown risks, uncertainties and other factors. When words such as believes, expects, anticipates, plans, estimates, projects or similar expressions are used in this r the Company is making forward-looking statements.

Although we believe that the forward-looking statements are based on reasonable assumptions, expected results may not be achieved. Actual results may differ materially from the Company s expectations. Important factors that could cause actual results to differ from expectations include:

our inability to successfully execute our growth strategy;

the effects of general economic conditions and world events;

competitive conditions in the early care and education industry;

loss of key client relationships or delays in new center openings;

subsidy reductions by key existing clients;

tuition price sensitivity;

various factors affecting occupancy levels, including, but not limited to, the reduction in or changes to the general labor force that would reduce the need for child care services;

the availability of a qualified labor pool, the impact of labor organization efforts and the impact of government regulations concerning labor and employment issues;

- federal and state regulations regarding changes in child care assistance programs, welfare reform, minimum wages and licensing standards;
- the loss of government funding for child care assistance programs;
- the establishment of a governmentally mandated universal child care benefit;
- delays in identifying, executing or integrating key acquisitions;
- our inability to successfully defend against or counter negative publicity associated with claims involving alleged incidents at our centers;
- our inability to maintain effective internal controls over financial reporting, or to have remediation efforts be adequate to address identified deficiencies in internal controls over financial reporting; and
- our inability to obtain insurance at the same levels or at costs comparable to those incurred historically.

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

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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.

PART I

ITEM 1. Business

OVERVIEW

Bright Horizons Family Solutions, Inc. (the Company or Bright Horizons) is a leading provider of workplace services for employers and families, including early care and education and strategic work/life consulting. The Company operates 560 early care and education programs for over 400 clients and has the capacity to serve approximately 62,000 children in 39 states, the District of Columbia, Canada, Ireland and the United Kingdom. The early care and education center concept evolved from the more traditional child care center and is designed to serve a broader segment of the work-site population. The Company s early care and education centers provide a number of services designed to meet the business objectives of the client and the family needs of the client s employees. The Company s services are designed to (i) address employers ever-changing workplace needs, (ii) enhance employee productivity, (iii) improve recruitment and retention of employees, (iv) reduce absenteeism and (v) help project the image as the employer of choice within the employer s industry.

Bright Horizons provides center based child care, education and enrichment programs, elementary school education (kindergarten through fifth grade), backup care, before and after school care for school age children, summer camps, vacation care, and other family support services.

Bright Horizons serves many leading corporations, including 80 *Fortune 500* companies at 191 centers. Working Mother s 2004 list of the 100 Best Companies for Working Mothers includes 51 clients of the Company. The Company s clients include Abbott Laboratories, AstraZeneca, Bank of America, Bristol Myers Squibb, British Petroleum, Citigroup, Eli Lilly, Glaxo SmithKline PLC, IBM, Johnson & Johnson, JP Morgan Chase, LandRover, Microsoft, Motorola, Pfizer, Reebok, SAS, S.C. Johnson & Son, Starbucks, Timberland, Time Warner, Universal Studios and Wachovia. The Company also provides services for well-known institutions such as Cambridge University, Duke University, the European Commission, JFK Medical Center, Johns Hopkins University, the International Monetary Fund, Massachusetts Institute of Technology and the Professional Golfers Association (PGA) and Ladies Professional Golf Association (LPGA) Tours. Bright Horizons operates multiple centers for 44 of its clients.

Bright Horizons Family Solutions, a Delaware corporation, was formed in connection with the merger (the Merger) on July 24, 1998, of Bright Horizons, Inc. and CorporateFamily Solutions, Inc., each of which were national leaders in the field of work-site child care services for the corporate market.

BUSINESS STRATEGY

Bright Horizons is recognized as a leading quality service provider in our field by employers and working families alike and is well positioned to serve its clients due to its established reputation for quality programming, innovative approach to work/life strategies, breadth of offerings and track record of serving major corporate sponsors. The major elements of its business strategy are the following:

Corporate Sponsorship. Due to the demographics of today s workforce and the prevalence of dual career families, a growing number of corporations are creating family benefits to attract and retain employees and support them as parents. By making investments in work-site child care, clients create a partnership between employees (as parents), Bright Horizons and the corporation, which addresses the critical human resources challenges of recruitment, retention, productivity and reputation as an employer of choice. Corporate sponsorship enables Bright Horizons to simultaneously address the three most important criteria used by parents to evaluate and select an early care and education provider: quality of care, locational convenience and cost. Corporate 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 faculty compensation, teacher-child ratios, curricula, continuing faculty education, facilities and equipment. Bright Horizons corporate-sponsored work-site facilities are conveniently located at or near the parents place of employment, and generally conform their hours of operation to the work schedule of the 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. Finally, because corporate support generally defrays a portion of Bright Horizons start-up and/or operating costs, the Company is able to offer its customers high quality early care and education services at competitive tuition levels. Some corporations offer subsidized tuition to their employees as part of their overall benefits package.

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

Accreditation. Bright Horizons operates its early care and education centers at high quality levels. Bright Horizons operates its domestic early care and education centers to qualify for accreditation by the National Association for the Education of Young Children (NAEYC), a national organization dedicated to improving the quality of care and developmental education provided for young children. The Company s United Kingdom and Ireland early care and education centers are operated to achieve a similar high degree of quality as its domestic early care and education centers. The Company believes that its commitment to meeting NAEYC accreditation is an advantage in the competition for corporate sponsorship opportunities due to the Company s experience with an increasing number of potential and existing corporate sponsors that are requiring adherence to NAEYC criteria. NAEYC accreditation criteria cover a wide range of quantitative and qualitative factors, including, among others, faculty qualifications and development, staffing ratios, health and safety, and physical environment. NAEYC criteria generally are more stringent than state regulatory requirements. The majority of child care centers are not NAEYC-accredited, and Bright Horizons believes it has more NAEYC-accredited work-site child development centers than any other provider. Nearly 80% of the Company s domestic centers eligible for NAEYC accreditation have achieved this distinction.

Intensive Teacher-Child Ratios. High teacher-child ratios are a critical factor in providing quality early education, facilitating more focused care and enabling teachers to forge relationships with children and their parents. Each child s caregiver is responsible for monitoring a child s developmental progress and tailoring programs to meet the child s individual needs, while engaging parents in establishing and achieving goals. Many center-based child care providers conform only to the minimum teacher-child ratios mandated by applicable government regulations, which are generally less intensive than Bright Horizons centers and vary widely from state to state. By contract, Bright Horizons is committed to consistently maintaining the more intensive teacher-child ratios for all age groups.

Highly Qualified Center Directors and Faculty. Bright Horizons believes its faculty s education and experience are exceptional when compared to other child care providers, which is enhanced by employee turnover rates that are less than the industry average. Our typical center director has more than ten years of child care experience and a college degree in an education-related field, with many center directors holding advanced degrees. The Company has developed a training program for its employees that establishes minimum standards for its faculty. Teacher training is conducted in each 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 center directors and includes human resource management, risk management, financial management, customer service, and program implementation. Additionally, because Bright Horizons considers ongoing training essential to maintaining high quality service, centers have training budgets for their faculty that provide for in-center training, attendance at selected outside conferences and seminars, and partial tuition reimbursement for continuing education.

Innovative Curricula. Bright Horizons innovative, developmentally appropriate curricula is based on well established international research and theory and is 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, Growing Readers and ArtSmart, the goals of which are to prepare children for academic excellence

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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, all the regions of the United States, and other countries that the Company may do business in. Teachers plan a rich learning environment appropriate to the location that provides large and small group experiences, extended projects, and field trips that are all designed to enrich the children s learning and development. Planning is based on the observation and assessment of children. 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 21st 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, activities, and field trips, all of which are designed to allow children to independently explore, discover, and learn through their experiences. The Company believes its early childhood educational services meet or exceed the standards in the United States established by the National Academy of Early Childhood Programs (NAECP), a division of the National Association for the Education of Young Children (NAEYC), the Accreditation standards of the National Child Nursery Association in Ireland (NCNA), and the Office of Standards in Education (OFSTED) in the United Kingdom.

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.

Attractive, Child-Friendly Facilities. Bright Horizons believes that attractive, home-like and child-friendly facilities are an important element in fostering high quality learning environments for children. The Company s 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 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 out. The Company devotes considerable effort to equipping its centers with child-sized amenities and indoor and outdoor play areas with age-appropriate materials and design, while taking full advantage of technology for both administrative and classroom use. Facilities are designed to be cost-effective and fit specific sites, budgets and clients needs.

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

Employer of Choice. Bright Horizons focuses on maintaining its reputation as a premier employer in the early childhood education market and has been named again as one of *Fortune s* 100 Best Companies to Work for in America . The Company believes that its above-average compensation, comprehensive and affordable benefits package and opportunities for internal career advancement enable the Company to attract and retain highly qualified, well-educated, experienced and committed center directors and faculty. The Company believes that its benefits package, which includes medical, dental and disability insurance, paid vacation and sick leave, a retirement plan, tuition reimbursement and child care discounts, is unusually comprehensive and affordable to the employee by industry standards. These benefits, as well as the Company s comprehensive training programs and career advancement opportunities, are an important recruitment and retention tool for Bright Horizons in a relatively low-paying field.

GROWTH STRATEGY

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

Open Centers for New Corporate Sponsors. Bright Horizons sales force, as well as senior management, actively pursues potential new corporate sponsors. Bright Horizons believes that its geographic reach, resources, quality leadership and track record of serving corporate sponsors give it a competitive advantage in securing new corporate sponsorship relationships. As a result of the Company s visibility as a high quality provider of work-site 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 Corporate Sponsors. Bright Horizons aims to increase revenue from its existing corporate sponsor relationships by developing new centers for sponsors who have multiple corporate sites, expanding existing centers to serve additional capacity and offering additional services at its existing centers. Bright Horizons experience has been that corporate sponsors are more inclined to employ the Company on a multi-site basis following the successful operation of an initial early care and education center. The Company operates 217 early care and education centers at multiple sites for 44 sponsors.

Pursue Strategic Acquisitions. Bright Horizons seeks to acquire existing 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.

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

Geographic Expansion. Bright Horizons seeks to target areas with similar demographic and demand profiles of existing service areas. By targeting areas with a concentration of potential and existing corporate sponsors, the Company can offer a more comprehensive solution to a sponsor s needs.

Develop and Market Additional Services. Bright Horizons plans to continue to develop and market additional early childhood education and family support services, full and part-time child care, emergency back-up work-site child care (serving parents when their primary child care options are unavailable), the Network Access Program, Family Child Care Networks, family service centers, seasonal services (extending hours at existing centers to serve sponsors with highly seasonal work schedules), school vacation clubs, summer programs, elementary school programs, before and after school care for school age children, vacation care and special event child care, and to add centers in areas where tuition levels can support the Company s quality standards. Additionally, the Company often works with its sponsors to offer unique solutions and provide additional services, such as hurricane care, which allows Bright Horizon s clients to offer child care services to the sponsor s employees in alternate locations during extended period crisis events which disrupt usual business operations.

Expand and Relocate Existing Child Care 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.

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At December 31, 2004, the Company had over 50 early care and education centers under development and scheduled to open over the next 12 to 24 months.

BUSINESS MODELS

Although the specifics of Bright Horizons contractual arrangements vary widely, they generally can be classified into two forms: (i) the management or cost plus model, where Bright Horizons manages a work-site early care and education center under a cost-plus agreement with a corporate sponsor, and (ii) the profit and loss (P&L) model, where the Company assumes the financial risk of the center s operations. The P&L center generally operates under two forms: employer-sponsored or lease as more fully described below. Under each model type the Company retains responsibility for all aspects of operating the center, including the hiring and paying of employees, contracting with vendors, purchasing supplies and collecting accounts receivable.

The Management (Cost Plus) Model. Early care and education centers operating under management model contracts currently represent approximately 40% of Bright Horizons early care and education centers. Under the management model, the Company receives a management fee from a corporate sponsor and an operating subsidy to supplement tuition received from parents within an agreed upon budget. The sponsor typically provides for the facility, pre-opening and start-up costs, capital equipment and facility maintenance. The management model enables the corporate sponsor to have a greater degree of control with respect to budgeting, spending and operations. Management contracts require the Company to satisfy certain periodic reporting requirements and generally range in length from one to five years, with some terminable by the sponsor without cause or financial penalty. The Company is responsible for maintenance of quality standards, recruitment of center directors and faculty, implementation of curricula and programs and interaction with parents.

The Profit and Loss Model. Centers operating under the P&L model currently represent approximately 60% of Bright Horizons early care and education centers. Bright Horizons retains financial risk for P&L 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) employer-sponsored, where Bright Horizons provides early care and educational services on a priority enrollment basis for employees of an employer sponsor(s), and (ii) lease model, where the Company may provide 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), or 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 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 tuition assistance to the employees and minimum enrollment guarantees to the Company. Children of the sponsor s employees typically are granted priority enrollment at the center. Operating contracts under the employer-sponsored model have terms that generally range from three to ten years, require ongoing reporting to the sponsor and, in some cases, limit annual tuition increases.
>
> *Lease Model*. A lease model center is typically located in an office building or office park. The center serves as an amenity to the real estate developer s tenants, giving the developer an advantage in attracting quality tenants to its site. In addition, the Company may establish a center in instances where it has been unable to cultivate sponsorship, or sponsorship opportunities do not currently exist. In these instances the Company will typically lease space in locations 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 opportunities from nearby employers wishing to provide child care benefits to

their employees. Bright Horizons typically negotiates lease terms of 10 to 15 years, including the initial term and renewal options, and may receive discounted rent or tenant improvement allowances. Under the lease model, Bright Horizons typically operates its early care and education centers with few ongoing operating restrictions or reporting requirements.

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OPERATIONS

General. Consistent with its strategy of establishing leading market presence, Bright Horizons is organized into twelve operational divisions, largely along geographic lines. Each division is managed by a Divisional Vice President, and is further divided into regions. Each region is headed by a Regional Manager who oversees the operational performance of approximately six to eight centers and is responsible for supervising the program quality, financial performance and client relationships. A typical center is managed by a small administrative team, under the leadership of the center director. A center director has day-to-day operating responsibility for the center, including training, management of faculty, licensing compliance, implementation of curriculum, conducting child assessments, and marketing. Bright Horizons corporate offices provides 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. Most centers are open ten to thirteen hours a day, Monday through Friday, although some employer sponsors operate two or even three shifts at locations our centers serve. Typical hours of operation are from 7:00 a.m. to 6:00 p.m. Bright Horizons offers a variety of enrollment options, ranging from full-time (40-50 hours per week) to part-day and part-week options. The majority of children who attend the Company s early care and education centers are enrolled on a full-time basis and are children of the employees or affiliates of the sponsor. In addition, children from the surrounding community attend our 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 a corporate sponsor subsidizes tuition. In 2004, the average tuition rate for infants in the United States was $1,160 per month, for toddlers $1,070 per month and for preschoolers $870 per month. Tuition at most of Bright Horizons centers is payable in advance and is due either monthly or weekly. In some cases, parents can pay tuition through payroll deduction or through automated clearing house (ACH) withdrawals.

Facilities. The Company s centers are primarily operated in work-site locations and vary in design and capacity in accordance with sponsor needs and state and federal regulatory requirements. The Company s North American based 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 53 children. As of December 31, 2004, the Company s centers had a total licensed capacity of approximately 62,000 children, with the smallest having a capacity of 10 children and the largest having a capacity of 460 children.

Bright Horizons believes that attractive, spacious and child-friendly facilities with a home-like 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 center. The Company devotes considerable resources to equipping its centers with child-sized amenities, indoor and outdoor play areas of age-appropriate materials and design, family hospitality areas and computer centers. Commercial kitchens are typically present in those centers that require hot meals to be prepared on site.

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

MARKETING

Bright Horizons markets its services to both corporate sponsors and parents. The Company s sales force and senior management maintain relationships with larger customers and actively pursue potential new corporate 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 corporate 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 services issues, and their prominence and involvement in such issues plays a key role in attracting new clients and developing additional services and products for existing clients.

Center directors are responsible for marketing to prospective parents. New enrollment is generated by word of mouth, print advertising, direct mail campaigns, parent referral programs, and business outreach. The Company also has a parent marketing department that supports directors through the development of marketing programs, including the preparation of promotional materials. Bright Horizons center directors may receive assistance from corporate sponsors, who often provide access to channels of internal communication such as e-mail, websites, intranets, mailing lists and internal publications. In addition, many sponsors promote the child care center as an important employee benefit.

COMPETITION

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

Bright Horizons believes that the key factors in the competition for enrollment are quality of care, locational convenience and cost. The Company competes for enrollment with nannies, relatives, family child care and center-based child care providers, including for profit, not-for-profit and government-based providers. Corporate sponsor support enables Bright Horizons to limit its start-up and operating costs and concentrate its investment in those areas that directly translate into high quality early education, specifically faculty compensation, teacher-child ratios, curricula, continuing faculty education, facilities and equipment. The Company believes that many center-based child care providers are able to offer care at a lower price than Bright Horizons by utilizing lower teacher-child ratios, and offering their staff lower pay and limited or unaffordable benefits. While the Company s tuition levels are generally above those of its competitors, management believes it is able to compete effectively, particularly for well-educated parents, by offering the convenience of a work-site location and a higher quality of care.

Bright Horizons believes its ability to compete successfully for corporate sponsorship depends on a number of factors, including reputation, scale, quality and scope of service, cost-effective delivery of service, high quality of personnel and the ability to understand the business needs of prospective clients and to customize sponsorship arrangements. Many residential center-based child care chains either have divisions that compete for corporate sponsorship opportunities or are larger and have substantially greater financial or other resources that could permit them to compete successfully against the Company in the work-site segment. Other child care organizations focus exclusively on the work-site segment of the child care market. Bright Horizons believes there are fewer than 10 companies that currently operate work-site child care centers on a national basis.

The Company s biggest competitors include a variety of regional providers and the employer-sponsored child care divisions of large child care chains that primarily operate residential child care centers such as Knowledge Learning Corporation, KinderCare Learning Centers and La Petite Academy, Inc. in the United States and Kids Unlimited, Child Base and Busy Bees in Europe. Management believes that the Company is distinguished from its competitors by its primary focus on corporate clients and track record for achieving or 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 education centers due to the Company s scale, established reputation, position as a quality leader and track record of serving major corporate sponsors.

EMPLOYEES

As of December 31, 2004, Bright Horizons employed approximately 16,150 employees (including part-time and substitute teachers), of whom approximately 425 were employed at the Company s corporate, divisional and regional offices and the remainder of whom were employed at the Company s early care and education centers. Center employees include faculty and support personnel. The Company employs approximately 1,600 employees in Europe. The Company has agreements with labor unions that represent approximately 650 employees of the Company s early care and education centers operated under agreements with the United Auto Workers and Ford Motor Company and with the United Auto Workers and General Motors Corporation. The Company believes that its relations with employees are good.

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REGULATION

Childcare centers are subject to numerous federal, state and local regulations and licensing requirements. Although these regulations vary from jurisdiction to jurisdiction, government agencies generally review, among other things, the adequacy of buildings and equipment, licensed capacity, the ratio of teachers to children, faculty training, record keeping, the dietary program, the daily curriculum and compliance with health and safety standards. In most jurisdictions, these agencies conduct scheduled and unscheduled inspections of centers, and licenses must be renewed periodically. In some jurisdictions, regulations have been enacted which establish requirements for employee background checks or other clearance procedures for employees of child care facilities. Center directors and regional managers are responsible for monitoring each center s compliance with such regulations. Repeated failures by a center to comply with applicable regulations can subject it to sanctions, which can include fines, corrective orders, being placed on probation or, in more serious cases, suspension or revocation of the center s license to operate, and could require significant expenditures by the Company to bring its early care and education centers into compliance. In addition, state and local licensing regulations generally provide that the license held by the Company may not be transferred. As a result, any transferee of a family services business (primarily child care) must apply to the applicable administrative bodies for new licenses. There can be no assurance that the Company would not have to incur material expenditures to relicense 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 currently certain tax incentives for parents utilizing child care programs. Section 21 of the Internal Revenue Code provides a federal income tax credit ranging from 20% to 35% of certain child care expenses for qualifying 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 $600 to $1,050 for one child and from $1,200 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 10-year periods perpetually, subject only to required filings based on continued use of the mark by the registrant.

INSURANCE

Bright Horizons currently maintains the following major types of insurance policies: workers compensation, commercial general liability including coverage for child abuse and sexual molestation, automobile liability, commercial property coverage, student accident coverage, professional liability, employment practices, directors and officers liability and excess umbrella liability. The policies provide for a variety of coverages and are subject to various limitations, exclusions and deductibles. Management believes that the Company s current insurance coverages are adequate to meet its needs.

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

AVAILABLE INFORMATION

The Company files reports with the Securities and Exchange Commission (the SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q and other reports from time to time. The public may read and copy any materials the Company files with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer and the SEC maintains an Internet site at http://www.sec.gov that contains the reports, proxy and information statements, and other information filed electronically. The Company s website address is www.brighthorizons.com. Please note that our website address is provided as an inactive textual reference only. The Company makes available free of charge through the

Company s website 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 as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The 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.

RISK FACTORS

Changing Economic Conditions and World Events. The Company s revenue and net income are subject to general economic conditions. A significant portion of the Company s revenue is derived from employers who historically have reduced their expenditures for work-site family services during economic downturns. In addition, a significant percentage of the Company s early care and education centers are sponsored by real estate developers offering on-site child care as an amenity to attract tenants to their sites. Changes in the supply and demand of real estate could adversely affect real estate developers willingness to subsidize child care operations at new or existing developments or their ability to obtain financing for developments offering lease model child care services. Should the economy experience prolonged weakness, corporate clients may reduce or eliminate their expenditures on work and family services, and prospective clients may not commit resources to such services. In addition, should the size of an employer s workforce be reduced the Company may have a smaller base of families it is able to offer its services to. The Company s revenues depend, in part, on the number of dual income families and working single parents who require child care services. A deterioration of general economic conditions may adversely impact the Company because of the tendency of out-of-work parents to diminish or discontinue utilization of child care services. In addition, the Company may not be able to increase tuition at a rate consistent with increases in operating costs. Additionally, the Company s operations in Canada, Ireland and the United Kingdom are subject to foreign currency risk, although these operations currently represent less than 10% of the Company s overall revenues. These factors could have a material adverse effect on the Company s business, results of operations and financial condition.

Execution of Growth Strategy. The Company has experienced substantial growth during the past several years through internal growth and by acquisition. The Company s ability to grow in the future will depend upon a number of factors, including the ability to further develop and expand existing client relationships, obtaining new client relationships, the expansion of services and programs offered by the Company, the maintenance of high quality services and programs, and the hiring and training of qualified personnel. Sustaining growth may require the implementation of enhancements to operational and financial systems and will also depend on the Company s ability to expand its sales and marketing force. There can be no assurance that the Company will be able to manage its expanding operations effectively or that it will be able to maintain or accelerate its growth, and any failure to do so could have a material adverse effect on the Company s business, results of operations and financial condition.

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

Competition. The Company competes for corporate clients as well as individual enrollment in a highly fragmented and competitive market. For enrollment, the Company competes with family child care (operated out of the caregiver s home) and center-based child care (residential and work-site child care centers, full and part-time nursery schools, and church-affiliated and other not-for-profit providers). In addition, substitutes for organized child care, such as relatives, nannies, and the option of one parent caring for a child can represent lower cost alternatives to the Company s services.

Management believes the Company s ability to compete successfully depends on a number of factors, including quality of care, locational convenience and cost. The Company often is at a price disadvantage with respect to family child care providers, who operate with little or no rental expense and generally do not comply or are not required to comply with the same health, safety, insurance and operational regulations as the Company. Many of its competitors in the center-based segment also offer child care at a substantially lower price than the Company, and some have substantially greater financial resources than the Company or have greater name recognition. The Company also competes with many not-for-profit providers of child care and preschools, some of which are able to offer lower pricing than the Company. There can be no assurance that the Company will be able to compete successfully against current and future competitors, or that competitive pressures faced by the Company will not have a material adverse effect on its business, results of operations and financial condition.

In the competition for corporate clients, the Company competes with other organizations that vary in size, scope, business objectives and financial resources. Many of these competitors offer consulting, work-site child care and other services at lower prices than the Company. Increased competition for corporate relationships on a national or local basis could result in increased pricing pressure and/or loss of market share, thereby having a material adverse effect on the Company s business, results of operations and financial condition, as well as its ability to attract and retain qualified early care and education center personnel and its ability to pursue its growth strategy successfully.

Risks Associated with Acquisitions. Acquisitions are an ongoing part of the Company s growth strategy. Acquisitions involve numerous risks, including potential difficulties in the assimilation of acquired operations, not meeting financial objectives, additional investment, diversion of management s attention, the potential dilutive effects of the issuance of the Company s common stock (Common Stock) in connection with an acquisition and potential loss of key employees of the acquired operation. No assurance can be given as to the success of the Company in identifying, executing and assimilating acquisitions in the future.

Dependence on Key Management. The success of the Company is highly dependent on the efforts, abilities, and continued services of its executive officers and other key employees. The loss of any of the executive officers or key employees could have a material adverse effect on the Company s business, results of operations and financial condition. The Company believes that its future success will depend upon its ability to continue to attract, motivate and retain highly-skilled managerial, sales and marketing, divisional, regional and center director personnel. Although the Company historically has been successful in retaining the services of its senior management, there can be no assurance that the Company will be able to do so in the future.

Hiring and Retaining Qualified Faculty. The Company may experience difficulty in attracting and retaining qualified personnel in various markets necessary to meet growth opportunities. Hiring and retaining qualified personnel may require increased salaries and enhanced benefits in more competitive markets, which could result in a material adverse effect on the Company s business, results of operations and financial condition. In addition, difficulties in hiring and retaining qualified personnel may also impact the Company s ability to accept additional enrollment at its centers, which could result in a material adverse effect on the Company s business, quality of service, results of operations and financial condition.

Ability to Establish and Maintain Effective Internal Controls Over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. A control system can only provide reasonable, not absolute, assurance that misstatements in financial reporting will be detected or prevented. The effectiveness of a system of internal controls may deteriorate if controls become inadequate due to changes in conditions, or if compliance with the policies or procedures declines. As described more fully in its initial report on the Company s internal control over financial reporting included on pages 49 to 50 of this 2004 Annual Report on Form 10-K, management has identified two material weaknesses which render the Company s system of internal control over financial reporting not effective at December 31, 2004, as defined in the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Management believes that each of these material weakness deficiencies is being addressed through remedial measures that will rectify the deficiencies in 2005. As part of its assessment, management also identified certain other control deficiencies, for which management has implemented or expects to implement incremental control procedures to improve their effectiveness. In addition to the overall limitations of internal control over financial reporting cited above, there can be no assurances that the remedial measures management is undertaking will be successful or will be sufficient to fully correct the material weaknesses and the other control deficiencies, or that additional control deficiencies and material weaknesses will not emerge or will not be adequately remediated.

Ability to Obtain and Maintain Insurance. The Company currently maintains the following major types of insurance policies: workers compensation, commercial general liability including coverage for child abuse and molestation, automobile liability, commercial property coverage, student accident coverage, directors and officers liability coverage, employment practices liability, professional liability and excess umbrella liability. These policies provide for a variety of coverages and are subject to various limitations, exclusions and deductibles. To date, the Company has been able to obtain insurance in amounts it believes to be appropriate. There can be no assurance that such insurance will continue to be readily available to the Company or that the Company s insurance premiums will not increase in the future as a consequence of conditions in the insurance business or child care market generally or the Company s experience in particular.

Adverse Publicity. Any adverse publicity concerning reported incidents of child abuse at any child care centers, whether or not directly relating to or involving the Company, could result in decreased enrollment at the Company s centers, termination of existing corporate relationships, inability to attract new corporate relationships or increased insurance costs, any of which could have a material adverse effect on the Company s business, results of operations, and financial condition.

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

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

Seasonality and Variability of Quarterly Operating Results. The Company s revenue and results of operations fluctuate with the seasonal demands for child care. Revenue in the Company s centers which have mature operating levels typically declines during the third quarter as a result of decreased enrollments in its early care and education centers as parents withdraw their children for vacations, as well as withdraw their older children in preparation for entry into elementary schools. 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 center openings and/or acquisitions, the performance of new and existing centers, the contractual arrangements under which centers are operated, the change in the mix of such contractual arrangements, center closings, competitive factors and general economic conditions. The inability of existing centers to maintain their current enrollment levels and profitability, the failure of newly opened centers to contribute to profitability and the failure to maintain and grow the consulting and development services could result in additional fluctuations in the future operating results of the Company on a quarterly or annual basis.

Impact of Governmental Regulation. 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 staff to children, staff training, record keeping, the dietary program, the daily curriculum, hiring practices and compliance with health and safety standards. Failure of a center to comply with applicable regulations and requirements could subject it to governmental sanctions, which might include fines, corrective orders, probation, or, in more serious cases, suspension or revocation of the center s license to operate or an award of damages to private litigants and could require significant expenditures by the Company to bring its centers into compliance. In addition, state and local licensing regulations regularly provide that the license held by a family services company may not be transferred. As a result, any transferee of a family services business (primarily child care) must apply to any applicable administrative bodies for new licenses. There can be no assurance that the Company would not have to incur material expenditures to relicense early care and education centers it may acquire in the future. There can be no assurance that government agencies will not impose additional restrictions on the Company s operations, which could adversely affect the Company s business, results of operations, and financial condition. Under the Internal Revenue Code, certain tax incentives are available to parents utilizing child care programs. Any change in such incentives could cause a number of parents to remove their children from the

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Company s early care and education centers, which would adversely affect the Company s business, results of operations and financial condition. In addition, certain tax incentives have been enacted for businesses providing child care to their employees. Any changes to such incentives could effect a sponsor s willingness to continue or commence providing child care services to its employees, which could adversely affect the Company s business, results of operations and financial condition. Although the Company expects to pay employees at rates above the minimum wage, increases in the federal minimum wage could result in a corresponding increase in the wages paid to the Company s employees, which could adversely affect the Company s business, results of operations and financial condition.

Impact of Governmental Universal Child Care Benefit. A universal state or national child care program, which does not currently exist, could materially adversely affect the Company s business, results of operations and financial condition. National, state or local child care benefit programs relying primarily on subsidies in the form of tax credits or other direct financial aid could provide 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 centers.

Possible Volatility of Stock Price. The prices at which the Company s common stock trades is determined by the marketplace and is influenced by many factors, including the liquidity of the market for the Common Stock, investor perception of the Company and of the work/life industry generally, general economic market conditions and world events. Factors such as announcements of new services, new clients, acquisitions by the Company, its competitors or third parties, as well as market conditions in the Company s industry, may have a significant impact on the market price of the Common Stock. Movements in prices of stocks in general may also affect the market price. In addition, awards under the Company s stock incentive plan may cause dilution to existing stockholders.

Potential Effect of Anti-Takeover Provisions. 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 the Company. 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.

EXECUTIVE OFFICERS OF THE COMPANY

Set forth below are the names, ages, titles and principal occupations and employment for the past five years of the executive officers of the Company:

Linda A. Mason, 50 Chairman. Ms. Mason has served as a director of the Company since its inception in 1998. Ms. Mason and her husband Roger H. Brown were founders of Bright Horizons, Inc., and Ms. Mason served as a director and President of Bright Horizons, Inc. from its inception in 1986 until the Merger. Prior to founding Bright Horizons, Inc., 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. Prior to 1986, Ms. Mason worked as a management consultant with Booz, Allen and Hamilton. Ms. Mason also is a director of Horizons for Homeless Children, a non-profit organization that provides support for homeless children and their families, Whole Foods Market, Inc., an owner and operator of natural and organic food supermarkets, and the Globe Newspaper Company, a subsidiary of The New

York Times Company, which owns and publishes The Boston Globe. Ms. Mason is also a Fellow of the Yale Corporation and serves on the Advisory Board of the Yale University School of Management. Ms. Mason is the wife of Roger H. Brown who is Vice Chairman of the Board of Directors.

David H. Lissy, 39 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. He joined Bright Horizons, Inc. as Vice President of Development in September

1997. Prior to joining Bright Horizons, Inc., Mr. Lissy served as Senior Vice President/General Manager at Aetna U.S. Healthcare, 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, 56   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. She was appointed Chief Operating Officer of Bright Horizons, Inc. in November 1993, and remained as such until the Merger. From 1983 to 1992, 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.

Elizabeth J. Boland, 45   Chief Financial Officer and Treasurer. Ms. Boland joined Bright Horizons, Inc. in 1997 and served as Chief Financial Officer until the Merger at which point she served as Senior Vice President of Finance for the Company. Ms. Boland has served as Chief Financial Officer of the Company since June 1999. From 1994 to 1997, 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-Finance for Olsten Corporation, a publicly traded provider of home-health care and temporary staffing services. 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, 62   Chief Administrative Officer and Secretary. Mr. Dreier has served as Chief Administrative Officer and Secretary of the Company since the Merger. He joined Bright Horizons, Inc. as Vice President and Chief Financial Officer in 1988 and 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. From 1976 to 1988, Mr. Dreier was Senior Vice President of Finance and Administration for the John S. Cheever/Paperama Company. Prior to that time, Mr. Dreier served as Manager of Financial Control for the Westinghouse Worldwide Construction Product Group.

ITEM 2. Properties

As of December 31, 2004, Bright Horizons operated 560 centers in 39 states and the District of Columbia, Canada, Ireland, and the United Kingdom, of which thirty-three were owned and the remaining were operated under leases or operating agreements**.** The leases typically have terms ranging from ten to fifteen years with various expiration dates, often with renewal options. Some of the leases provide for contingent payments if the center s operating revenues, profits or enrollment exceed a specified level. The Company s thirty-three owned early care and education centers are located in Chandler and Tempe, Arizona; San Jose, California; Glastonbury and Orange, Connecticut; Lantana and Tampa, Florida; Alpharetta, Georgia; Deer Park, Illinois; Foxborough and Quincy, Massachusetts; Fishkill, Poughkeepsie and White Plains, New York; Cary, Raleigh, and Durham, North Carolina; Bedford, New Hampshire; Austin, Texas; Bellevue, Washington; Dublin, Ireland and Bootle, Edinburgh and Livingston, United Kingdom. Certain properties are subject to mortgages to secure performance under terms of operating agreements with client sponsors.

Bright Horizons leases approximately 43,000 square feet for its corporate offices in Watertown, Massachusetts under an operating lease that expires in 2010. The Company subleases approximately 7,000 square feet of this facility to a third party. The Company also has operating leases with terms that expire from January 31, 2005 to July 31, 2010 on approximately 27,000 square feet for administrative offices in California, Florida, Illinois, Maryland, New Jersey, Tennessee, Texas, Washington and in the United Kingdom.

The following table summarizes the locations of Bright Horizons early care and education centers as of December 31, 2004:

Alabama	2	Nevada	4
Arizona	4	New Hampshire	3
California	50	New Jersey	30
Colorado	1	New Mexico	1
Connecticut	23	New York	22
Delaware	9	North Carolina	24

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District of Columbia	8	Ohio	12
Florida	23	Oklahoma	1
Georgia	14	Oregon	1
Illinois	35	Pennsylvania	15
Indiana	8	Rhode Island	2
Iowa	5	South Carolina	2
Kentucky	4	South Dakota	1
Louisiana	2	Tennessee	7
Maine	4	Texas	19
Maryland	8	Utah	1
Massachusetts	50	Virginia	8
Michigan	20	Washington	19
Minnesota	2	Wisconsin	10
Missouri	8	Canada	1
Nebraska	3	Ireland	7
		United Kingdom	87

ITEM 3. Legal Proceedings

The Company 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. Management believes the resolution of other legal matters will not have a material effect on the Company s financial condition or results of operations, 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.

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 calendar year 2004.

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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 National Market under the symbol BFAM. The table below sets forth the high and low quarterly sales prices 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 (1)

	2004		2003	
	High	Low	High	Low
Fourth Quarter	$ 34.25	$ 27.06	$ 22.28	$ 18.32
Third Quarter	27.95	23.42	21.49	16.04
Second Quarter	27.42	21.75	17.00	13.88
First Quarter	26.20	20.79	15.13	11.68

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, the Company does not anticipate paying any cash dividends on its Common Stock in the foreseeable future. Any future decision concerning the payment of dividends on the Company s Common Stock will be at the Board of Directors discretion and will depend upon earnings, financial condition, capital needs and other factors deemed pertinent by the Board of Directors. In addition, the Company may be restricted in the payment of dividends pursuant to a credit facility.

The number of stockholders of record at March 18, 2005 was 138, and does not include those stockholders who hold shares in street name accounts.

(1) On February 9, 2005, the Board of Directors approved a 2-for-1 stock split to be paid on March 18, 2005 to stockholders of record as of March 4, 2005. All prior share and per share amounts have been restated to reflect the stock split.

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ITEM 6. Selected Financial Data

The following financial information has been derived from the Company s consolidated financial statements:

(in thousands except per share amounts)	2004	2003	2002	2001	2000(1)
Statement of income data:					