BRIGHT HORIZONS FAMILY SOLUTIONS INC
Form 10-Q
August 14, 2002

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2002.

Commission File Number 0-24699

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

DELAWARE	62-1742957
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock as of the latest practicable date: 12,428,333 shares of common stock, $.01 par value, at August 9, 2002.

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

ASSETS	June 30, 2002 (unaudited)	December 31, 2001
Current Assets:		
Cash and cash equivalents	$ 11,252	$ 12,770
Accounts receivable, net of allowance for doubtful accounts of $1,557 and $1,512, respectively	25,041	26,738
Prepaid expenses and other current assets	4,819	3,994
Current deferred tax asset	7,743	7,743
Total current assets	48,855	51,245
Fixed assets, net	85,268	77,761
Goodwill and other intangible assets, net	39,097	24,375
Non-current deferred tax asset	7,057	7,057
Other assets	512	580
Total assets	$ 180,789	$ 161,018
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and obligations under capital leases	$ 162	$ 251
Accounts payable and accrued expenses	42,269	36,154
Deferred revenue, current portion	18,002	15,045
Income tax payable	1,061	1,553
Other current liabilities	1,921	1,789
Total current liabilities	63,415	54,792
Long-term debt and obligations under capital leases, net of current portion	463	639
Accrued rent	1,884	1,816
Other long-term liabilities	4,484	4,570
Deferred revenue, net of current portion	11,060	9,784
Total liabilities	81,306	71,601
Stockholders equity:		
Preferred stock, 5,000,000 shares authorized, none issued or outstanding		
Common Stock $.01 par value		
Authorized: 30,000,000 shares		
Issued: 12,910,000 and 12,769,000 shares at June 30, 2002 and December 31, 2001, respectively		
Outstanding: 12,415,000 and 12,274,000 at June 30, 2002 and December 31, 2001, respectively	129	128
Additional paid in capital	83,985	82,132

Treasury stock, 495,000 shares, at cost	(7,081)	(7,081)
Cumulative translation adjustment	431	(104)
Retained earnings	22,019	14,342
Total stockholders equity	99,483	89,417
Total liabilities and stockholders equity	$ 180,789	$ 161,018

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

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Bright Horizons Family Solutions, Inc.
Consolidated Statements of Operations
(in thousands except per share data)
(Unaudited)

	Three months ended June 30, 2002	Three months ended June 30, 2001	Six months ended June 30, 2002	Six months ended June 30, 2001
Revenues	$ 99,954	$ 85,756	$ 194,430	$ 167,492
Cost of services	84,997	72,976	165,304	142,494
Gross profit	14,957	12,780	29,126	24,998
Selling, general and administrative	8,139	7,149	15,787	13,915
Amortization	74	531	183	1,113
Income from operations	6,744	5,100	13,156	9,970
Net interest income(expense)	12	9	35	(65)
Income before tax	6,756	5,109	13,191	9,905
Income tax provision	2,797	2,145	5,514	4,152
Net income	$ 3,959	$ 2,964	$ 7,677	$ 5,753
Earnings per share - basic	$ 0.32	$ 0.24	$ 0.62	$ 0.47
Weighted average shares - basic	12,384	12,177	12,341	12,130
Earnings per share - diluted	$ 0.30	$ 0.23	$ 0.59	$ 0.45
Weighted average shares - diluted	13,091	12,826	13,035	12,783

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

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

	Six months ended June 30, 2002	2001
Net income	$ 7,677	$ 5,753
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,529	4,711
Changes in assets and liabilities:		
Accounts receivable	1,736	596
Prepaid income taxes		(1,173)
Prepaid expenses and other current assets	(778)	944
Accounts payable and accrued expenses	6,338	1,745
Income taxes payable	(529)	(507)
Deferred revenue	4,041	4,001
Accrued rent	68	169
Other long-term assets	(28)	(65)
Other current and long-term liabilities	(7)	(717)
Net cash provided by operating activities	23,047	15,457
Cash flows from investing activities:		
Additions to fixed assets	(8,874)	(9,629)
Cash payments for acquisitions, net of cash acquired	(17,398)	(1,193)
Net cash used in investing activities	(26,272)	(10,822)
Cash flows from financing activities:		
Proceeds from issuance of common stock from exercise of options	1,854	1,202
Principal payments of long term debt and obligations under capital leases	(265)	(83)
Payment of short -term debt		(1,115)
Borrowing through line of credit		1,500
Repayments under line of credit		(6,624)
Net cash provided by (used in) financing activities	1,589	(5,120)
Effect of exchange rate changes on cash and cash equivalents	118	(26)
Net decrease in cash and cash equivalents	(1,518)	(511)
Cash and cash equivalents, beginning of period	12,770	8,599
Cash and cash equivalents, end of period	$ 11,252	$ 8,088

Supplemental cash flow information:

Cash payments for interest	$ 52	$ 40
Cash payments for income taxes	$ 6,187	$ 5,860

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

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ITEM 1.D. Notes to Consolidated Financial Statements (Unaudited)

1. The Company and Basis of Presentation

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

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

Basis of Presentation The accompanying financial statements have been prepared by the Company in accordance with the accounting policies described in the Company s audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2001, and should be read in conjunction with the notes thereto.

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

In the opinion of the Company s management, the accompanying unaudited consolidated financial statements contain all adjustments which are necessary to present fairly its financial position as of June 30, 2002, and the results of its operations for the three and six month periods ended June 30, 2002 and 2001, and its cash flows for the six month periods ended June 30, 2002 and 2001, and are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the operating results to be expected for the full year.

Segment Information As of June 30, 2002, the Company operates solely in one segment, providing workplace services to employers and families including childcare, early education and work/life consulting and generates in excess of 90% of revenue and operating profit domestically.

Comprehensive Income Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The only components of comprehensive income reported by the Company are net income and foreign currency translation adjustments.

	For the Six Months Ended June 30, 2002	2001
Net income	$ 7,677	$ 5,753
Foreign currency translation adjustments	535	(175)
Comprehensive income	$ 8,212	$ 5,578

Recently Issued Accounting Pronouncements -

In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This statement eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. However, an entity would not be prohibited from classifying such gains and losses as extraordinary items so long as they are both unusual in nature and infrequent in occurrence. This provision of SFAS No.145 will be effective for the Company as of the beginning of fiscal year 2003. This statement also amends SFAS No.13, Accounting for Leases and certain other authoritative pronouncements to make technical corrections or clarifications. SFAS No.145 will be effective related to the amendment of SFAS No.13 for all transactions occurring after May 15, 2002. All other provisions of SFAS No.145 will be effective for financial statements issued after May 15, 2002. The Company is currently evaluating the impact of implementing SFAS No.145.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , which nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No.146 requires a liability for a cost associated with an exit or disposal activity be recognized and measured initially at its fair value in the period in which the liability is incurred. If fair value cannot be reasonably estimated, the liability shall be recognized initially in the period in which fair value can be reasonably estimated. The provisions of SFAS No.146 will be effective for the Company prospectively for exit or disposal activities initiated after December 31, 2002. The Company is in the process of assessing the impact of SFAS No.146 on its consolidated financial statements.

2. Acquisitions

During the second quarter of 2002, the Company acquired, for cash, the outstanding stock of two multi-site child care companies based in the United Kingdom, and purchased the assets of a single-site childcare center, which had been affiliated with one of United Kingdom child care companies, adding a total of 52 centers. The Company also acquired substantially all of the assets of one additional child care center based in the United States. The Company paid approximately $18 million for the above acquisitions and the operating results of the acquired companies have been included

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in the Company s consolidated results of operations from the respective dates of acquisition. The acquisitions are not material to the Company s consolidated financial position or results of operation, and therefore no pro-forma information has been presented.

3. Line of Cred