

BRIGHT HORIZONS FAMILY SOLUTIONS INC.

Form 10-Q

November 07, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2013.**

**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: 001-35780**

**BRIGHT HORIZONS FAMILY SOLUTIONS INC.**

**(Exact name of Registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction**  
  
**of incorporation)**  
  
**200 Talcott Avenue South**  
  
**Watertown, MA**  
**(Address of principal executive offices)**  
**Registrant's telephone number, including area code: (617) 673-8000**

**80-0188269**  
**(I.R.S. Employer**  
  
**Identification Number)**  
  
**02472**  
**(Zip code)**

Indicate by check mark whether the registrant has (1) 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in rule 12b-2 of the Exchange Act) YES  NO

As of October 31, 2013, the Company had 65,138,465 shares of common stock, \$0.001 par value, outstanding.

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**BRIGHT HORIZONS FAMILY SOLUTIONS INC.**

**FORM 10-Q**

**September 30, 2013**

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**BRIGHT HORIZONS FAMILY SOLUTIONS INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

(Unaudited)

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 35,010	\$ 34,109
Accounts receivable net	55,418	62,714
Prepaid expenses and other current assets	45,909	27,827
Current deferred income taxes	11,335	11,367
<b>Total current assets</b>	<b>147,672</b>	<b>136,017</b>
Fixed assets net	385,598	340,376
Goodwill	1,097,447	997,344
Other intangibles net	444,841	432,580
Deferred income taxes	128	132
Other assets	12,081	9,659
<b>Total assets</b>	<b>\$ 2,087,767</b>	<b>\$ 1,916,108</b>
<b>LIABILITIES, NONCONTROLLING INTEREST, COMMON STOCK AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
Current liabilities:		
Current portion of long-term debt	\$ 7,900	\$ 2,036
Borrowings on revolving line of credit	20,600	
Accounts payable and accrued expenses	109,034	97,207
Deferred revenue	98,015	90,563
Other current liabilities	24,882	12,087
<b>Total current liabilities</b>	<b>260,431</b>	<b>201,893</b>
Long-term debt	757,544	904,607
Accrued rent and related obligations	35,255	24,944
Other long-term liabilities	19,753	23,717
Deferred revenue	4,309	3,727
Deferred income taxes	152,432	148,880
<b>Total liabilities</b>	<b>1,229,724</b>	<b>1,307,768</b>

Commitments and contingencies (Note 10)

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Redeemable non-controlling interest	8,093	8,126
Common stock, Class L, \$0.001 par value; 1,500,000 shares authorized, none in 2013 and 1,327,115 shares in 2012 issued and outstanding		854,101
Stockholders' equity (deficit);		
Preferred stock, \$0.001 par value; 25,000,000 shares authorized in 2013; none issued and outstanding in 2013		
Common stock, \$0.001 par value; 475,000,000 shares in 2013 and 14,500,000 shares in 2012 authorized; 65,126,829 shares in 2013 and 6,062,653 shares in 2012 issued and outstanding	65	6
Additional paid-in capital	1,261,361	150,088
Accumulated other comprehensive loss	(5,191)	(8,816)
Accumulated deficit	(406,285)	(395,165)
Total stockholders' equity (deficit)	849,950	(253,887)
Total liabilities, non-controlling interest, common stock and stockholders' equity (deficit)	\$ 2,087,767	\$ 1,916,108

See notes to condensed consolidated financial statements.

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**BRIGHT HORIZONS FAMILY SOLUTIONS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 308,663	\$ 267,927	\$ 899,599	\$ 797,512
Cost of services	240,158	207,835	689,879	614,847
Gross profit	68,505	60,092	209,720	182,665
Selling, general and administrative expenses	33,017	27,621	109,048	94,847
Amortization	7,699	7,116	22,049	20,298
Income from operations	27,789	25,355	78,623	67,520
Loss on extinguishment of debt			(63,682)	
Interest income	16	44	76	106
Interest expense	(9,211)	(21,376)	(31,463)	(61,808)
Income (loss) before income taxes	18,594	4,023	(16,446)	5,818
Income tax (expense) benefit	(3,652)	(1,417)	5,114	(1,536)
Net income (loss)	14,942	2,606	(11,332)	4,282
Net (loss) income attributable to noncontrolling interest	(102)	160	(212)	294
Net income (loss) attributable to Bright Horizons Family Solutions Inc.	\$ 15,044	\$ 2,446	\$ (11,120)	\$ 3,988
Accretion of Class L preference		20,299		58,401
Accretion of Class L preference for vested options		668		4,660
Net income (loss) available to common shareholders	\$ 15,044	\$ (18,521)	\$ (11,120)	\$ (59,073)
Allocation of net income (loss) to common stockholders basic and diluted:				
Class L	\$	\$ 20,299	\$	\$ 58,401
Common stock	\$ 15,044	\$ (18,521)	\$ (11,120)	\$ (59,073)
Earnings (loss) per common share:				
Class L basic and diluted	\$	\$ 15.30	\$	\$ 44.05
Common stock basic	\$ 0.23	\$ (3.05)	\$ (0.18)	\$ (9.75)

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Common stock diluted	\$	0.23	\$	(3.05)	\$	(0.18)	\$	(9.75)
Weighted average number of common shares outstanding:								
Class L basic and diluted				1,327,115				1,325,903
Common stock basic		64,916,558		6,062,664		61,815,607		6,057,128
Common stock diluted		66,831,413		6,062,664		61,815,607		6,057,128

See notes to condensed consolidated financial statements.

Table of Contents**BRIGHT HORIZONS FAMILY SOLUTIONS INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In thousands)****(Unaudited)**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income (loss)	\$ 14,942	\$ 2,606	\$ (11,332)	\$ 4,282
Foreign currency translation adjustments	15,768	7,307	3,804	5,168
Comprehensive income (loss)	30,710	9,913	(7,528)	9,450
Comprehensive income (loss) attributable to non-controlling interest	199	529	(33)	298
Comprehensive income (loss) attributable to Bright Horizons Family Solutions Inc.	\$ 30,511	\$ 9,384	\$ (7,495)	\$ 9,152
Accretion of Class L preference		20,299		58,401
Accretion of Class L preference for vested options		668		4,660
Comprehensive income (loss) attributable to common shareholders	\$ 30,511	\$ (11,583)	\$ (7,495)	\$ (53,909)

See notes to condensed consolidated financial statements.



Table of Contents**BRIGHT HORIZONS FAMILY SOLUTIONS INC.****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)****(In thousands, except share data)****(Unaudited)**

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid In	Other	Deficit	Stockholders
			Capital	Comprehensive		Equity
				Loss		(Deficit)
<b>Balance at December 31, 2012</b>	<b>6,062,653</b>	<b>\$ 6</b>	<b>\$ 150,088</b>	<b>\$ (8,816)</b>	<b>\$ (395,165)</b>	<b>\$ (253,887)</b>
Conversion of Class L common stock	46,708,466	47	854,054			854,101
Initial public offering	11,615,000	12	234,932			234,944
Exercise of stock options	740,710		8,671			8,671
Stock-based compensation			9,528			9,528
Tax benefit from stock option exercises			4,088			4,088
Translation adjustments, net of (\$179) attributable to non-controlling interest				3,625		3,625
Net loss attributable to Bright Horizons Family Solutions Inc.					(11,120)	(11,120)
<b>Balance at September 30, 2013</b>	<b>65,126,829</b>	<b>\$ 65</b>	<b>\$ 1,261,361</b>	<b>\$ (5,191)</b>	<b>\$ (406,285)</b>	<b>\$ 849,950</b>

See notes to condensed consolidated financial statements.

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**BRIGHT HORIZONS FAMILY SOLUTIONS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (11,332)	\$ 4,282
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	53,313	45,210
Amortization of original issue discount and deferred financing costs	2,009	5,051
Loss on extinguishment of debt	63,682	
Interest paid in kind	2,143	17,528
Change in the fair value of the interest rate cap		67
Gain on foreign currency transactions	(11)	
Non-cash revenue and other	(239)	(224)
Impairment losses on long-lived assets		675
Loss on disposal of fixed assets	721	375
Stock-based compensation	9,528	16,700
Deferred income taxes	367	(14,913)
Changes in assets and liabilities:		
Accounts receivable	10,977	13,159
Prepaid expenses and other current assets	(21,123)	3,383
Accounts payable and accrued expenses	(553)	6,332
Deferred revenue	2,479	(8,369)
Accrued rent and related obligations	8,258	3,331
Other assets	(1,966)	(1,238)
Other current and long-term liabilities	3,212	1,300
Net cash provided by operating activities	121,465	92,649
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(55,244)	(47,791)
Proceeds from disposal of fixed assets	85	
Payments for acquisitions net of cash acquired	(125,389)	(108,040)
Net cash used in investing activities	(180,548)	(155,831)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings of long-term debt	769,360	82,321
Extinguishment of long-term debt	(972,468)	

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Proceeds from initial public offering	234,944	
Cumulative borrowings under revolving line of credit (2013)	80,600	
Cumulative repayments under revolving line of credit (2013)	(60,000)	
Principal payments of long-term debt	(5,925)	(5,260)
Purchase of treasury stock		(5,140)
Proceeds from issuance of common stock upon exercise of options	8,671	2,115
Tax benefit from stock-based compensation	4,845	3,381
Net cash provided by financing activities	60,027	77,417
Effect of exchange rates on cash and cash equivalents	(43)	374
Net increase in cash and cash equivalents	901	14,609
Cash and cash equivalents beginning of period	34,109	30,448
Cash and cash equivalents end of period	\$ 35,010	\$ 45,057

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash payments of interest	\$ 26,757	\$ 30,351
Cash payments of taxes	\$ 9,911	\$ 7,972

See notes to condensed consolidated financial statements.

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**BRIGHT HORIZONS FAMILY SOLUTIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

**Organization** Bright Horizons Family Solutions Inc. ( Bright Horizons or the Company ) provides workplace services for employers and families throughout the United States and the United Kingdom, and also in Puerto Rico, Canada, Ireland, the Netherlands, and India. Workplace services include center-based child care, education and enrichment programs, elementary school education, back-up dependent care (for children and elders), before and after school care, college preparation and admissions counseling, tuition reimbursement program management, and other family support services.

The Company operates its child care and early education centers under various types of arrangements, which generally can be classified into two categories: (i) the management or cost plus ( Cost Plus ) model, where Bright Horizons manages a work-site child care and early 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 child care and early education center s operations. The P&L model may be operated under either (a) the sponsored model, where Bright Horizons provides child care and early educational services on a priority enrollment basis for employees of an employer sponsor, or (b) the lease/consortium model, where the Company provides priority child care and early education to the employees of multiple employers located within a real estate developer s property or the community at large. Under each model type the Company retains responsibility for all aspects of operating the child care and early education center, including the hiring and paying of employees, contracting with vendors, purchasing supplies, and collecting tuition and related accounts receivable.

**Principles of Consolidation** The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The functional currency of the Company s foreign subsidiaries is their local currency. The assets and liabilities of the Company s foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. The cumulative translation effect for subsidiaries using a functional currency other than the U.S. dollar is included in accumulated other comprehensive income or loss as a separate component of stockholders equity.

**Initial Public Offering** On January 30, 2013, the Company completed an initial public offering ( the Offering ) and, after the exercise of the overallotment option on February 21, 2013, issued a total of 11.6 million shares of common stock in exchange for \$233.3 million, net of offering costs including \$1.6 million expensed in 2012. The Company used the proceeds of the Offering, as well as certain amounts from the 2013 refinancing discussed in Note 4, to repay the principal and accumulated interest under its senior notes outstanding on January 30, 2013.

On June 19, 2013, certain of the Company s shareholders completed the sale of 9.8 million shares of the Company s stock in a secondary offering ( the Secondary ). The Company did not receive proceeds from the sale of shares in the Secondary. The Company incurred \$0.6 million in offering costs related to the Secondary, which are included in selling, general and administrative expenses.

**Basis of Presentation** The accompanying unaudited condensed consolidated balance sheet as of September 30, 2013 and the condensed consolidated statements of operations, comprehensive income (loss), changes in stockholders equity (deficit) and cash flows for the interim periods ended September 30, 2013 and 2012 have been prepared by the Company, in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required for complete financial statements by generally accepted accounting principles and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**Management's Opinion** In the opinion of the Company's management, the Company's unaudited consolidated balance sheet as of September 30, 2013 and the results of its consolidated operations and consolidated cash flows for the interim periods ended September 30, 2013 and 2012, reflect all adjustments (consisting only of normal and recurring adjustments) necessary to present fairly the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

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**Business Combinations** Business combinations are accounted for at fair value. Acquisition costs are expensed as incurred and recorded in selling, general and administrative expenses; restructuring costs associated with a business combination are expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date affect income tax expense. The accounting for business combinations requires estimates and judgment as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets acquired and liabilities assumed. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets.

The Company adjusted the balance sheet amounts at December 31, 2012, where appropriate, to account for the measurement period adjustments related to the Huntyard Limited purchase price allocation discussed in Note 3 below.

**2. GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2013 are as follows (in thousands):

	<b>Full service center-based care</b>	<b>Back-up dependent care</b>	<b>Other educational advisory services</b>	<b>Total</b>
Beginning balance at December 31, 2012	\$ 817,304	\$ 159,215	\$ 20,825	\$ 997,344
Additions from acquisitions	93,747		3,854	97,601
Tax benefit from the exercise of continuation options	(620)	(121)	(16)	(757)
Effect of foreign currency translation	2,699	560		3,259
Balance at September 30, 2013	\$ 913,130	\$ 159,654	\$ 24,663	\$ 1,097,447

Goodwill as of December 31, 2012 has been retroactively adjusted in 2013 to reflect an adjustment made within the measurement period for the Huntyard Limited acquisition, which increased goodwill and deferred income taxes by \$3.9 million.

The Company also has intangible assets, which consist of the following at September 30, 2013 and December 31, 2012 (in thousands):

<b>Weighted average amortization period</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>
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**September 30, 2013:**

## Definite-lived intangibles:

Contractual rights and customer relationships	14.4 years	\$ 402,256	\$ (145,834)	\$ 256,422
Trade names	7.4 years	5,939	(1,299)	4,640
Non-compete agreements	5 years	54	(38)	16
		408,249	(147,171)	261,078

## Indefinite-lived intangibles:

Trade names	N/A	183,763		183,763
		\$ 592,012	\$ (147,171)	\$ 444,841

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	Weighted average amortization period	Cost	Accumulated amortization	Net carrying amount	
<b>December 31, 2012:</b>					
Definite-lived intangibles:					
Contractual rights and customer relationships					
	14.9 years	\$ 370,527	\$ (124,048)	\$ 246,479	
	Trade names	9.1 years	3,147	(883)	2,264
	Non-compete agreements	5 years	54	(33)	21
		373,728	(124,964)	248,764	
Indefinite-lived intangibles:					
	Trade names	N/A	183,816	183,816	
		\$ 557,544	\$ (124,964)	\$ 432,580	

The Company estimates that it will record amortization expense related to intangible assets existing as of September 30, 2013 as follows over the next five years (in millions):

	Estimated amortization expense
Remainder of 2013	\$ 8.0
2014	\$ 29.0
2015	\$ 26.5
2016	\$ 25.6
2017	\$ 24.9

**3. ACQUISITIONS****2013 Acquisitions*****Children's Choice Learning Centers, Inc.***

On July 22, 2013, the Company acquired the outstanding shares of Children's Choice Learning Centers, Inc., an operator of 49 employer-sponsored child care centers throughout the United States, for cash consideration of \$54.2 million, inclusive of certain adjustments. The purchase price was financed with available cash on hand and funds available under the Company's revolving credit facility. The Company has incurred acquisition costs of approximately \$1.7 million through September 30, 2013, which are included in selling, general and administrative expenses.

The purchase price for this acquisition has been allocated based on preliminary estimates of the fair values of the acquired assets and assumed liabilities at the date of acquisition as follows (in thousands):



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Accounts receivable	\$ 981
Prepays and other assets	334
Fixed assets	5,637
Intangible assets, primarily customer relationships	12,800
Goodwill	38,818
Total assets acquired	58,570
Accounts payable and accrued expenses	(3,441)
Deferred revenue and parent deposits	(885)
Total liabilities assumed	(4,326)
Purchase price	\$ 54,244

The allocation of the purchase price consideration was based on preliminary estimates of fair value; such estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date) as the Company gathers additional information regarding the assets acquired and the liabilities assumed.

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The Company recorded goodwill of \$38.8 million, which will be deductible for tax purposes as permitted under federal tax rules. Goodwill related to this acquisition is reported within the full service center-based care segment.

Intangible assets of \$12.8 million consist of customer relationships and trade names that will be amortized over approximately ten years.

***Kidsunlimited Group Limited***

On April 10, 2013, the Company entered into a share purchase agreement with Lloyds Development Capital (Holdings) Limited and Kidsunlimited Group Limited pursuant to which it acquired 100% of Kidsunlimited, an operator of 64 nurseries throughout the United Kingdom for cash consideration of \$69.0 million, subject to certain adjustments. The purchase price was financed with available cash on hand. The Company has incurred acquisition costs of approximately \$1.8 million through September 30, 2013, which are included in selling, general and administrative expenses.

The purchase price for this acquisition has been allocated based on preliminary estimates of the fair values of the acquired assets and assumed liabilities at the date of acquisition as follows (in thousands):

Cash	\$ 4,888
Accounts receivable	1,809
Prepays and other assets	2,509
Fixed assets	13,901
Intangible assets, primarily customer relationships	17,901
Goodwill	53,604
<b>Total assets acquired</b>	<b>94,612</b>
Accounts payable and accrued expenses	(8,173)
Unfavorable leasehold interests	(1,759)
Deferred revenue	(4,475)
Other current liabilities	(8,378)
Deferred taxes	(2,840)
<b>Total liabilities assumed</b>	<b>(25,625)</b>
 Purchase price	 \$ 68,987

The allocation of the purchase price consideration was based on preliminary estimates of fair value; such estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date) as the Company gathers additional information regarding the assets acquired and the liabilities assumed.

The Company recorded goodwill of \$53.6 million, which will not be deductible for tax purposes. Goodwill related to this acquisition is reported within the full service center-based care segment.

Intangible assets of \$17.9 million consist of customer relationships and trade names that will be amortized over approximately eight years. A deferred tax liability of \$4.1 million was recorded related to the intangible assets for

which the amortization is not deductible for tax purposes.

***Other Acquisitions***

During the three months ended September 30, 2013, the Company also acquired two businesses for aggregate cash consideration of \$7.0 million, net of cash acquired of \$2.6 million. The Company recorded goodwill of \$5.2 million, intangible assets of \$2.9 million consisting of customer relationships, and working capital of \$1.5 million in relation to these acquisitions.

**2012 Acquisition**

***Huntyard Limited***

In May 2012, the Company acquired the outstanding shares of Huntyard Limited ( Huntyard ), a company that operated 27 child care and early education centers in the United Kingdom under the name Casterbridge Early Care and Education, for cash consideration of \$110.8 million. The Company also incurred acquisition costs of \$0.5 million during the second and third quarters of 2012.

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The purchase price for this acquisition has been allocated based on the estimated fair values of the acquired assets and assumed liabilities at the date of acquisition as follows (in thousands):

Cash	\$ 2,872
Accounts receivable	341
Prepays and other current assets	2,880
Fixed assets	65,843
Intangible assets, primarily customer relationships	6,004
Goodwill	49,573
<b>Total assets acquired</b>	<b>127,513</b>
Accounts payable and accrued expenses	(7,520)
Taxes payable	(656)
Deferred revenue and parent deposits	(3,006)
Deferred taxes	(5,570)
<b>Total liabilities assumed</b>	<b>(16,752)</b>
<b>Purchase price</b>	<b>\$ 110,761</b>

The Company recorded goodwill of \$49.6 million, which will not be deductible for tax purposes. Goodwill related to this acquisition is reported within the full service center-based care segment.

Intangible assets of \$6.0 million consist of customer relationships and trade names that will be amortized over five and seven years, respectively. A deferred tax liability of \$1.5 million was recorded related to the intangible assets for which the amortization is not deductible for tax purposes.

During the second quarter of 2013, the Company obtained additional information to determine the fair values of certain assets acquired and liabilities assumed as of the acquisition date. Based on such information, the Company retrospectively adjusted the fiscal year 2012 comparative information resulting in an increase in goodwill of \$3.9 million with a corresponding increase in deferred income taxes. There were no changes to the previously reported condensed consolidated statements of operations or condensed consolidated statements of cash flows.

**Pro Forma Information**

The operating results for each of the acquisitions are included in the consolidated results of operations from the date of acquisition. The following table presents consolidated pro forma information as if the acquisitions of Children's Choice Learning Centers, Inc. and Kidsunlimited had occurred on January 1, 2012, and as if the acquisition of Huntyard had occurred on January 1, 2011 (in thousands):

<b>Pro forma (Unaudited)</b>	
<b>Nine Months Ended</b>	<b>Nine Months Ended</b>
<b>September 30, 2013</b>	<b>September 30, 2012</b>

Revenue	\$ 943,745	\$ 896,609
Net (loss) income attributable to Bright Horizons Family Solutions Inc.	\$ (9,221)	\$ 8,888

These acquired businesses contributed total revenues of \$74.7 million in the nine months ended September 30, 2013. The Company has also determined that the presentation of net income for each of those acquisitions, from the date of acquisition, is impracticable due to the integration of the operations upon acquisition. The goodwill resulting from the 2012 and 2013 acquisitions arises largely from the synergies expected from combining the operations of the acquisitions with our existing operations.

**Table of Contents****4. BORROWING ARRANGEMENTS**

Outstanding borrowings were as follows at September 30, 2013 and December 31, 2012 (in thousands):

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Term loans	\$ 784,075	\$
Tranche B and Series C new term loans		430,474
Senior subordinated notes		300,000
Senior notes		197,810
<b>Total</b>	<b>784,075</b>	<b>928,284</b>
Deferred financing costs and original issue discount	(18,631)	(21,641)
<b>Total debt</b>	<b>765,444</b>	<b>906,643</b>
Less current maturities	7,900	2,036
<b>Long-term debt</b>	<b>\$ 757,544</b>	<b>\$ 904,607</b>

On January 30, 2013, the Company entered into new \$890.0 million senior secured credit facilities, which are secured by substantially all assets of the Company, to refinance all of the existing indebtedness under the senior credit facilities and the senior subordinated notes and to reflect modifications to certain provisions of the senior credit facilities. Significant terms of the refinancing are as follows:

\$790.0 million term loan facility, with quarterly principal payments of \$2.0 million, which commenced March 31, 2013, and a final payment due on January 30, 2020.

\$100.0 million revolving credit facility with a maturity date in 2018, of which there was \$20.6 million outstanding at September 30, 2013 with an effective interest rate of 5%.

The applicable margin percentages for the term loans are 2.0% per annum for base rate loans and 3.0% per annum for LIBOR rate loans provided that the base rate for the term loan may not be lower than 2.0% and LIBOR may not be lower than 1.0%.

The existing term loans (Tranche B and Series C term loans) were redeemed for an aggregate \$431.0 million, including the redemption premium on the Series C term loans, and the \$300.0 million senior subordinated notes were redeemed in full for an aggregate \$328.2 million, including the redemption premium. The Company used the net proceeds of its initial public offering and certain proceeds from the issuance of the \$790.0 million senior secured term loan to redeem the senior notes in full for \$213.3 million, including the redemption premium.

The refinancing, which reduced the Company's overall weighted average interest rate from approximately 8.5% as of December 31, 2012 to 4.2% as of September 30, 2013, resulted in a loss on extinguishment of debt of \$63.7 million, which included the redemption premiums and the write-off of existing deferred financing costs.

The future principal payments under the new term loan at September 30, 2013 are as follows (in millions):

Remainder of 2013	\$ 2.0
2014	7.9
2015	7.9
2016	7.9
2017	7.9
Thereafter	750.5
	\$ 784.1

The senior secured credit facilities contain certain customary affirmative covenants and other covenants that, among other things, may restrict the ability of Bright Horizons Family Solutions LLC, our indirect subsidiary, and its restricted subsidiaries, to incur certain liens, make investments, loans, advances and acquisitions, incur additional indebtedness or guarantees, pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated indebtedness, engage in transactions with affiliates, sell assets, including capital stock of our subsidiaries, alter the business we conduct, enter into agreements restricting our subsidiaries' ability to pay dividends; and consolidate or merge.

The revolving credit facility requires Bright Horizons Family Solutions LLC, the borrower, and its restricted subsidiaries, to comply with a maximum senior secured first lien net leverage ratio financial maintenance covenant, to be tested only if, on the last day of each fiscal quarter, revolving loans and/or swingline loans in excess of a specified percentage of the revolving commitments on such date are outstanding under the revolving credit facility.

## **5. STOCKHOLDERS EQUITY**

On January 11, 2013, the Company effected a 1 for 1.9704 reverse split of its Class A common stock. All previously reported Class A per share and Class A share amounts in the accompanying condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the reverse stock split.

The Company's Class L common stock was classified outside of permanent equity as the timing of the conversion or redemption event was outside of the control of the Company. In December 2012, the Company's controlling shareholder effectively fixed the conversion ratio and the Class L common stock was re-measured to its final redemption amount using the fixed conversion ratio and the estimated fair value at that time.



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In connection with the 1 for 1.9704 reverse split of its Class A common stock and as determined by its holders, the Company converted each share of its Class L common stock into 35.1955 shares of Class A common stock, and, immediately following the conversion of its Class L common stock, reclassified those shares as well as all outstanding shares of Class A common stock, into common stock. As a result of the reclassification of Class A common stock to common stock, all references to Class A common stock have been changed to common stock for all periods presented.

On January 30, 2013, the Company completed the Offering and, after the exercise of the overallotment option on February 21, 2013, issued a total of 11.6 million shares of common stock.

The Company also authorized 25 million shares of undesignated preferred stock in 2013 for issuance, of which none was issued as of September 30, 2013.

**6. EARNINGS (LOSS) PER SHARE**

Net earnings (loss) per share is calculated using the two-class method, which is an earnings allocation formula that determines net income (loss) per share for the holders of the Company's common stock and the holders of Class L common stock. Holders of Class L shares contained participation rights in any dividend paid by the Company or upon liquidation of the Company and were entitled to a minimum preferred return of 10% per annum, compounded quarterly.

Net income (loss) available to common shareholders includes the effects of any Class L preference amounts. Net income (loss) available to shareholders is allocated on a pro rata basis to each share as if all of the earnings for the period had been distributed. Diluted net income (loss) per share is calculated using the treasury stock method for all outstanding stock options and the as-converted method for the Class L shares.

The numerator in calculating Class L basic and diluted earnings per share represents changes in the redemption value of the Class L shares during each period.

The weighted average number of Class L shares in the Class L earnings per share calculation represents the weighted average from the beginning of the period up through the date of conversion of the Class L shares into common shares.

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The weighted average number of common shares in the common diluted earnings (loss) per share calculation excludes all Class L shares and stock options outstanding during the respective periods, as they would not be dilutive. The weighted average number of Class L shares in the earnings per share calculation excludes all Class L stock options outstanding during the respective periods as they would not be dilutive. The computation of basic and diluted earnings per common share is as follows (in thousands, except share and per share amounts):

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Net income (loss) basic and diluted</b>	\$ 15,044	\$ 2,446	\$ (11,120)	\$ 3,988
Accretion of Class L preference		20,299		58,401
Accretion of Class L preference for vested options		668		4,660
 Net income (loss) available to common shareholders	 \$ 15,044	 \$ (18,521)	 \$ (11,120)	 \$ (59,073)
<b>Allocation of net income (loss) to common stockholders basic and diluted:</b>				
Class L	\$	\$ 20,299	\$	\$ 58,401
Common stock	\$ 15,044	\$ (18,521)	\$ (11,120)	\$ (59,073)
<b>Weighted average number of common shares:</b>				
Class L basic and diluted		1,327,115		1,325,903
Common stock:				
Basic	64,916,558	6,062,664	61,815,607	6,057,128
Diluted	66,831,413	6,062,664	61,815,607	6,057,128
<b>Earnings (loss) per common share:</b>				
Class L basic and diluted	\$	\$ 15.30	\$	\$ 44.05
Common stock:				
Basic	\$ 0.23	\$ (3.05)	\$ (0.18)	\$ (9.75)
Diluted	\$ 0.23	\$ (3.05)	\$ (0.18)	\$ (9.75)

Options outstanding to purchase 0.7 million shares of common stock were excluded from diluted earnings per share for the three and nine months ended September 30, 2012, respectively, since their effect was anti-dilutive. Options outstanding to purchase 0.1 million and 4.7 million shares of common stock were excluded from diluted earnings per share for the three and nine months ended September 30, 2013, respectively, since their effect was anti-dilutive, which may be dilutive in varying amounts to future quarterly or year-to-date amounts.

**7. STOCK-BASED COMPENSATION**

The Company has the 2012 Omnibus Long-Term Incentive Plan, which became effective on January 24, 2013, and allows for the issuance of equity awards with respect to up to 5 million shares of common stock, which are fully

reserved for. For the nine months ended September 30, 2013, the Company granted options to purchase 406,772 shares of common stock at a weighted average price of \$23.39 per share that vest over three to five years.

The weighted average fair value of options granted during the nine months ended September 30, 2013 was \$9.41 per share. The fair value of each stock option to purchase common stock was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 44.2%; risk free interest rate of 0.93%; and expected life of options of 5.3 years.

The Company also had an incentive compensation plan (the 2008 Equity Incentive Plan ) which, as amended in March 2012, was authorized to issue 150,000 shares of Class L common stock and 1.5 million shares of Class A common stock. As discussed in Note 5, the Company effected a 1 for 1.9704 reverse split of its Class A common stock and therefore all previously reported options to purchase Class A shares and Class A share exercise prices in the accompanying financial statements and related notes have been retroactively adjusted to reflect the reverse stock split. No additional options will be granted under the 2008 Equity Incentive Plan. However, all outstanding options continue to be governed by their existing terms.

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In addition, on January 11, 2013, the Company converted each share of its Class L common stock into 35.1955 shares of Class A common stock, and, immediately following the conversion of its Class L common stock, reclassified those shares as well as all outstanding shares of Class A common stock into common stock. All outstanding options to purchase Class L common stock have been converted into options to acquire common stock using the 35.1955 conversion ratio with the exercise price adjusted similarly for the conversion ratio.

The Company recorded stock-based compensation expense of \$9.5 million in selling, general and administrative expenses during the nine months ended September 30, 2013, which included approximately \$5.0 million associated with options to purchase 1.3 million shares of common stock that had been issued under the 2008 Equity Incentive plan, which vested upon the effectiveness of the Offering on January 24, 2013.

At September 30, 2013, there was \$7.4 million of total unrecognized compensation expense related to unvested share-based compensation arrangements granted under the plans, which is expected to be recognized over the remaining requisite service period.

## **8. INCOME TAXES**

The Company's unrecognized tax benefits were \$2.2 million at September 30, 2013 and \$7.4 million at December 31, 2012. Interest and penalties related to unrecognized tax benefits were \$2.3 million and \$2.6 million at September 30, 2013 and December 31, 2012, respectively. The decrease in unrecognized tax benefits was primarily due to the resolution of an income tax enquiry in the United Kingdom, in the second quarter, for the period from 2009 through 2011.

The Company expects the unrecognized tax benefits to change over the next 12 months if certain tax matters settle with the applicable taxing jurisdiction during this time frame, or, if applicable, statutes of limitations lapse. The impact of the amount of such changes to previously recorded uncertain tax positions could amount to approximately \$0.5 million, exclusive of interest and penalties.

As of September 30, 2013, there were not any Federal or foreign income tax audits in process. The Company's subsidiaries have income tax audits in certain States for periods that related to 2008 up to 2011. The Company is also subject to corporate income tax at its subsidiaries located in the United Kingdom, Netherlands, India, Canada, Ireland, and Puerto Rico. The tax returns for the Company's subsidiaries located in foreign jurisdictions are subject to examination for periods ranging from one to seven years.

## **9. COMPREHENSIVE (LOSS) INCOME**

Comprehensive (loss) income is comprised of net (loss) income and foreign currency translation adjustments, and is reported in the consolidated statements of comprehensive (loss) income net of taxes for all periods presented. The Company does not provide for U.S. income taxes on the portion of undistributed earnings of foreign subsidiaries that is intended to be permanently reinvested outside of the U.S. Therefore, taxes are not provided for the related currency translation adjustments.

## **10. COMMITMENTS AND CONTINGENCIES**

### *Leases*

The Company leases various office equipment, child care and early education center facilities and office space under non-cancelable operating leases. Most of the leases expire within ten years and many contain renewal options for various periods.

***Litigation***

The Company is a defendant in certain legal matters in the ordinary course of business. Management believes the resolution of such legal matters will not have a material effect on the Company's financial condition, results of operations or cash flows.

***Insurance and Regulatory***

The Company self-insures a portion of its medical insurance plans and has a high deductible workers' compensation plan. 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 position, results of operations or cash flows.

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The Company's child care and early education centers are subject to numerous federal, state and local regulations and licensing requirements. Failure of a center to comply with applicable regulations can subject it to governmental sanctions, which could require expenditures by the Company to bring its child care and early education centers into compliance.

### **11. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company defines fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date and applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The hierarchy gives the highest priority to observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The Company uses observable inputs where relevant and whenever possible.

Level 1 Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and long-term debt. The fair value of the Company's financial instruments approximates their carrying value. As of September 30, 2013, the Company's long-term debt had a book value of \$784.1 million and a fair value of \$782.1 million using quoted market prices and a model that considers observable inputs (level two inputs).

Financial instruments that potentially expose the Company to concentrations of credit risk consist mainly of cash and cash equivalents and accounts receivable. The Company mitigates its exposure by maintaining its cash and cash equivalents in financial institutions of high credit standing. The Company's accounts receivable, which are derived primarily from the services it provides, are dispersed across many clients in various industries with no single client accounting for more than 10% of the Company's net revenue or accounts receivable. The Company believes that no significant credit risk exists at September 30, 2013.

### **12. SEGMENT INFORMATION**

Bright Horizons work/life services are primarily comprised of full service center-based child care, back-up dependent care, and other educational advisory services. Full service center-based care includes the traditional center-based child care, preschool, and elementary education, which have similar operating characteristics and meet the criteria for aggregation. Full service center-based care derives its revenues primarily from contractual arrangements with corporate clients and from tuition. The Company's back-up dependent care services consist of center-based back-up child care, in-home care, mildly ill care, and adult/elder care. The Company's other educational advisory services consists of the remaining services, including college preparation and admissions counseling and tuition assistance, counseling and management services, which do not meet the quantitative thresholds for separate disclosure and are not

material for segment reporting individually or in the aggregate. The Company and its chief operating decision makers evaluate performance based on revenues and income from operations.

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The assets and liabilities of the Company are managed centrally and are reported internally in the same manner as the consolidated financial statements; thus, no additional information is produced or included herein.

	<b>Full service center-based care</b>	<b>Back-up dependent care</b>	<b>Other educational advisory services</b>	<b>Total</b>
<b>(In thousands)</b>				
<b>Three months ended September 30, 2013</b>				
Revenue	\$ 263,198	\$ 38,648	\$ 6,817	\$ 308,663
Amortization of intangibles	7,442	181	76	7,699
Income from operations (1)	16,392	10,215	1,182	27,789
<b>Three months ended September 30, 2012</b>				
Revenue	\$ 230,046	\$ 33,008	\$ 4,873	\$ 267,927
Amortization of intangibles	6,859	182	75	7,116
Income from operations (2)	16,201	8,382	772	25,355

- (1) For the quarter ended September 30, 2013, income from operations includes acquisition-related expenses of \$1.7 million related to full service center-based care.
- (2) For the quarter ended September 30, 2012, income from operations includes expenses incurred in connection with the Offering completed in January 2013 in the amount of \$1.0 million, allocated on a proportionate basis to each segment (\$0.7 million to full service center-based care, \$0.2 million to back-up dependent care, and \$0.1 million to other educational services).

	<b>Full service center-based care</b>	<b>Back-up dependent care</b>	<b>Other educational advisory services</b>	<b>Total</b>
<b>(In thousands)</b>				
<b>Nine months ended September 30, 2013</b>				
Revenue	\$ 775,358	\$ 107,526	\$ 16,715	\$ 899,599
Amortization of intangibles	21,279	543	227	22,049
Income from operations (1)	49,326	28,609	688	78,623
<b>Nine months ended September 30, 2012</b>				
Revenue	\$ 689,678	\$ 94,755	\$ 13,079	\$ 797,512
Amortization of intangibles	19,528	544	226	20,298
Income (loss) from operations (2)	44,108	23,591	(179)	67,520

- (1) For the nine months ended September 30, 2013, income from operations includes expenses incurred in connection with the Offering completed in January 2013, including a \$7.5 million fee for the termination of the management agreement with Bain Capital Partners LLC, and \$5.0 million for certain stock options that vested upon completion of the Offering, allocated on a proportionate basis to each segment, and \$3.5 million of



- acquisition-related expenses related to full-service center-based care (\$13.3 million to full service center-based care, \$1.9 million to back-up dependent care, and \$0.8 million to other educational advisory services).
- (2) For the nine months ended September 30, 2012, income from operations includes expenses incurred in connection with the modification of stock options in the amount of \$15.1 million and expenses incurred in connection with the Offering completed in January 2013 in the amount of \$1.4 million, allocated on a proportionate basis to each segment (\$12.2 million to full service center-based care, \$3.0 million to back-up dependent care, and \$1.3 million to other educational advisory services).

### **13. TRANSACTIONS WITH RELATED PARTIES**

The Company had a management agreement with Bain Capital Partners LLC (the Sponsor), which provided for annual payments of \$2.5 million through May 2018. In connection with the Offering, the Company and the Sponsor terminated the management agreement in exchange for a \$7.5 million payment from the Company to the Sponsor, which is included in selling, general and administrative expenses in the accompanying statement of operations for the nine months ended September 30, 2013. As of September 30, 2013, investment funds affiliated with the Sponsor hold approximately 64.3% of our common stock.

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

**Forward-Looking Statements**

This periodic report on Form 10-Q includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the safe harbor provisions of the Act. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms believes, expects, may, will, should, projects, approximately, intends, plans, estimates or anticipates, or, in each case, their negatives or other various comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which we and our partners operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those listed below and included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012:

Changes in the demand for child care and other dependent care services;

Our ability to hire and retain qualified teachers;

Our substantial indebtedness could affect our financial condition;

That the terms of our indebtedness could restrict our current and future operations;

The possibility that acquisitions may disrupt our operations and expose us to additional risk;

Our reliance on the expertise of operating staff, especially in international markets;

The possibility that adverse publicity would have a negative impact on the demand for our services and the value of our brand;

The possibility that our business activities subject us to litigation risks that could result in significant monetary or reputational damages;

Our ability to pass on our increased costs;

Changes in our relationships with employer sponsors;

Our ability to obtain and maintain adequate insurance coverage at a reasonable cost;

Changes in laws or regulations that govern our business;

Our ability to withstand seasonal fluctuations in the demand for our services;

Our ability to retain and attract key management and key employees;

Significant competition within our industry;

Our ability to implement our growth strategies successfully;

Our susceptibility to the economic impact of governmental or universal child care programs in the countries in which we operate;

Breaches in data security; and

The impact of a regional or global health pandemic or other catastrophic event.

These factors should not be construed as exhaustive.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this quarterly report, those results or developments may not be indicative of results or developments in subsequent periods.

Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statement that we make in this quarterly report speaks only as of the date of such statement, and we undertake no obligation to update any forward-looking statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments.

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**Introduction and Overview**

The following is a discussion of the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of Bright Horizons Family Solutions Inc. ( we or the Company ) for the three and nine months ended September 30, 2013 compared to the three and nine months ended September 30, 2012. This discussion should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements of the Company and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Our business is subject to seasonal and quarterly fluctuations. Demand for child care and early education and elementary school services has historically decreased during the summer months when school is not in session, at which time families are often on vacation or have alternative child care arrangements. In addition, our enrollment declines as older children transition to elementary schools. Demand for our services generally increases in September and October coinciding with the beginning of the new school year and remains relatively stable throughout the rest of the school year. In addition, use of our back-up dependent care services tends to be higher when schools are not in session and during holiday periods, which can increase the operating costs of the program and impact 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, including enrollment and staffing fluctuations, the number and timing of new center openings, acquisitions and management transitions, the length of time required for new centers to achieve profitability, center closings, refurbishment or relocation, the contract model mix (P&L versus cost-plus) of new and existing centers, the timing and level of sponsorship payments, competitive factors and general economic conditions.

**Table of Contents****Results of Operations**

The following table sets forth statement of operations data as a percentage of revenue for the three months ended September 30, 2013 and 2012 (in thousands, except percentages):

	<b>Three Months Ended September 30,</b>			
	<b>2013</b>	<b>%</b>	<b>2012</b>	<b>%</b>
Revenue	\$ 308,663	100.0%	\$ 267,927	100.0%
Cost of services (1)	240,158	77.8%	207,835	77.6%
Gross profit	68,505	22.2%	60,092	22.4%
Selling, general and administrative expenses (2)	33,017	10.7%	27,621	10.3%
Amortization	7,699	2.5%	7,116	2.6%
Income from operations	27,789	9.0%	25,355	9.5%
Net interest expense and other	(9,195)	-3.0%	(21,332)	-8.0%
Income before income tax	18,594	6.0%	4,023	1.5%
Income tax expense	(3,652)	-1.2%	(1,417)	-0.5%
Net income	\$ 14,942	4.8%	\$ 2,606	1.0%
Adjusted EBITDA (3)	\$ 49,975	16.2%	\$ 44,301	16.5%
Adjusted income from operations (3)	\$ 29,536	9.6%	\$ 26,355	9.8%
Adjusted net income (3)	\$ 18,436	6.0%	\$ 8,434	3.1%

The following table sets forth statement of operations data as a percentage of revenue for the nine months ended September 30, 2013 and 2012 (in thousands, except percentages):

	<b>Nine Months Ended September 30,</b>			
	<b>2013</b>	<b>%</b>	<b>2012</b>	<b>%</b>
Revenue	\$ 899,599	100.0%	\$ 797,512	100.0%
Cost of services (1)	689,879	76.7%	614,847	77.1%
Gross profit	209,720	23.3%	182,665	22.9%
Selling, general and administrative expenses (2)	109,048	12.1%	94,847	11.9%
Amortization	22,049	2.5%	20,298	2.5%
Income from operations	78,623	8.7%	67,520	8.5%
Loss on extinguishment of debt	(63,682)	-7.1%		0.0%
Net interest expense and other	(31,387)	-3.5%	(61,702)	-7.8%

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(Loss) income before income tax	(16,446)	-1.9%	5,818	0.7%
Income tax benefit (expense)	5,114	0.6%	(1,536)	-0.2%
Net (loss) income	\$ (11,332)	-1.3%	\$ 4,282	0.5%
Adjusted EBITDA (3)	\$ 155,163	17.2%	\$ 133,800	16.8%
Adjusted income from operations (3)	\$ 95,249	10.6%	\$ 84,037	10.5%
Adjusted net income (3)	\$ 57,106	6.3%	\$ 28,444	3.6%

- (1) Cost of services consists of direct expenses associated with the operation of child care centers, and direct expenses to provide back-up dependent care services, including fees to back-up care providers, and educational advisory services. Direct expenses consist primarily of salaries, taxes and benefits for personnel, food costs, program supplies and materials, parent marketing and facilities costs, which include occupancy costs and depreciation.
- (2) Selling, general and administrative ( SGA ) expenses consist primarily of salaries, payroll taxes and benefits (including stock compensation costs) for corporate, regional and business development personnel. Other overhead costs include information technology, occupancy costs for corporate and regional personnel, professional services fees, including accounting and legal services, and other general corporate expenses.
- (3) Adjusted EBITDA, adjusted income from operations and adjusted net income are non-GAAP measures, which are reconciled to net income (loss) below.

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**Table of Contents*****Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012***

**Revenue.** Revenue increased \$40.7 million, or 15.2%, to \$308.7 million for the three months ended September 30, 2013 from \$267.9 million for the same period in the prior year. Revenue growth is primarily attributable to contributions from new and ramping child care and early education centers, expanded sales of our back-up dependent care services and typical annual tuition increases of 3% to 4%. Revenue generated by full service center-based care services in the three months ended September 30, 2013 increased by \$33.2 million, or 14.4%, when compared to the same period in 2012. Our acquisitions of Kidsunlimited, an operator of 64 centers in the United Kingdom on April 10, 2013, and Children's Choice Learning Centers, Inc. ( Children's Choice ), an operator of 49 centers in the United States on July 22, 2013, contributed approximately \$26.0 million of revenue in the three months ended September 30, 2013.

Revenue generated by back-up dependent care services in the three months ended September 30, 2013 increased by \$5.6 million, or 17.1%, when compared to the same period in 2012. Additionally, revenue generated by other educational advisory services in the three months ended September 30, 2013 increased by \$1.9 million, or 39.9%, when compared to the same period in 2012.

At September 30, 2013, we operated 880 child care and early education centers compared to 776 centers at September 30, 2012.

**Cost of Services.** Cost of services increased \$32.3 million, or 15.5%, to \$240.2 million for the three months ended September 30, 2013 when compared to the same period in the prior year. Cost of services in the full service center-based care services segment increased \$28.3 million, or 15.3%, to \$213.3 million in 2013. Personnel costs typically represent approximately 75% of total cost of services for this segment, and personnel costs increased 12.8% as a result of a 16.0% increase in overall enrollment and routine wage increases. In addition, program supplies, materials, food and facilities costs increased 22.2% in connection with the enrollment growth at new and existing centers, and the incremental occupancy costs associated with centers that have been added since September 30, 2012. Cost of services in the back-up dependent care segment increased \$2.7 million, or 13.5%, to \$23.1 million in the three months ended September 30, 2013, primarily for personnel costs and for increased care provider fees associated with the higher levels of back-up services provided. Cost of services in the other educational advisory services segment increased by \$1.3 million, or 53.5%, to \$3.8 million in the three months ended September 30, 2013 due to personnel and technology costs related to the incremental sales of these services.

**Gross Profit.** Gross profit increased \$8.4 million, or 14.0%, to \$68.5 million for the three months ended September 30, 2013 when compared to the same period in the prior year, and as a percentage of revenue, was 22.2% in the three months ended September 30, 2013 compared to 22.4% in the three months ended September 30, 2012. The increase in gross profit is primarily due to contributions from new and acquired centers as well as increased enrollment in our mature and ramping P&L centers and expanded back-up services revenue with proportionately lower direct cost of services. The increase was partially offset by training and integration costs of the acquisitions completed in 2013, as well as costs associated with additional lease model centers in 2013.

**Selling, General and Administrative Expenses.** SGA increased \$5.4 million, or 19.5%, to \$33.0 million for the three months ended September 30, 2013 compared to \$27.6 million for the same period in the prior year, and as a percentage of revenue increased to 10.7% from 10.3% in the same period in the prior year. Results for the third quarter of 2013 included \$1.7 million of acquisition related costs while results for the third quarter of 2012 included \$1.0 million of expenses associated with the initial public offering ( the Offering ). Exclusive of these expenses, SGA increased \$4.7 million during the third quarter of 2013 primarily due to continued investments in technology and marketing, incremental overhead associated with the businesses acquired in 2013, an increase in compensation costs, including annual wage increases and stock-based compensation costs, as well as routine increases in SGA costs

compared to the prior year.

*Amortization.* Amortization expense on intangible assets totaled \$7.7 million for the three months ended September 30, 2013, compared to \$7.1 million for the three months ended September 30, 2012, due to the acquisitions previously described.

*Income from Operations.* Income from operations increased by \$2.4 million, or 9.6%, to \$27.8 million for the three months ended September 30, 2013 when compared to the same period in 2012. Income from operations was 9.0% of revenue for the three months ended September 30, 2013, compared to 9.5% of revenue for the three months ended September 30, 2012. The increase in income from operations was due to the following:

In the full service center-based care segment, income from operations increased \$0.2 million for the three months ended September 30, 2013. Results for the three months ended September 30, 2013 included \$1.7 million of acquisition related costs. Results for the third quarter of 2012 included \$0.7 million related to the Offering. Exclusive of these charges, income from operations increased \$1.2 million primarily due to the tuition increases and enrollment gains over the prior year as well as contributions from new and acquired centers that have been added since September 30, 2012, partially offset by incremental overhead from acquired centers during the integration period.



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Income from operations for the back-up dependent care segment increased \$1.8 million in the three months ended September 30, 2013 due to the expanding revenue base.

Income from operations in the other educational advisory services segment increased \$0.4 million for the three months ended September 30, 2013 compared to the same period in 2012 due to the expanding growth of the business partially offset by investments in technology.

*Net Interest Expense and Other.* Net interest expense and other decreased to \$9.2 million for the three months ended September 30, 2013 from \$21.3 million for the same period in 2012 due to the debt refinancing completed on January 30, 2013, which reduced the borrowings outstanding as well as the rate at which interest is payable.

*Income Tax Expense.* We recorded income tax expense of \$3.7 million during the three months ended September 30, 2013 compared to an income tax expense of \$1.4 million during the comparable period in the prior year. The difference between the effective income tax rate of 19.6% and the statutory rate in the third quarter of 2013 was due to the impact of permanent differences, primarily deductions allowed in foreign jurisdictions.

*Adjusted EBITDA and Adjusted Income from Operations.* Adjusted EBITDA and adjusted income from operations increased \$5.7 million, or 12.8%, and \$3.2 million, or 12.1%, respectively, for the three months ended September 30, 2013 over the comparable period in 2012 primarily as a result of the increase in gross profit due to additional contributions from full-service centers, including the impact of acquired centers, as well as the growth in the back-up dependent care business, offset by increases in SGA spending.

*Adjusted Net Income.* Adjusted net income increased \$10.0 million, or 118.6%, for the three months ended September 30, 2013 when compared to the comparable period in 2012 primarily due to the incremental gross profit described above, which was offset by increases in SGA spending to support the growth. Adjusted net income also increased due to the reduction in interest expense associated with the refinancing of our debt in January 2013.

### ***Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012***

*Revenue.* Revenue increased \$102.1 million, or 12.8%, to \$899.6 million for the nine months ended September 30, 2013 from \$797.5 million for the same period in the prior year. Revenue growth is primarily attributable to contributions from new and ramping child care and early education centers, expanded sales of our back-up dependent care services and typical annual tuition increases of 3% to 4%. Revenue generated by full service center-based care services in the nine months ended September 30, 2013 increased by \$85.7 million, or 12.4%, when compared to the same period in 2012. Our acquisitions of Kidsunlimited on April 10, 2013, Children's Choice on July 22, 2013, and Casterbridge Care and Education on May 23, 2012, contributed approximately \$57.2 million of incremental revenue in the nine months ended September 30, 2013.

Revenue generated by back-up dependent care services in the nine months ended September 30, 2013 increased by \$12.8 million, or 13.5%, when compared to the same period in 2012. Additionally, revenue generated by other educational advisory services in the nine months ended September 30, 2013 increased by \$3.6 million, or 27.8%, when compared to the same period in 2012.

*Cost of Services.* Cost of services increased \$75.0 million, or 12.2%, to \$689.9 million for the nine months ended September 30, 2013 when compared to the same period in the prior year. Cost of services in the full service center-based care services segment increased \$66.7 million, or 12.1%, to \$618.2 million in 2013. Personnel costs typically represent approximately 75% of total cost of services for this segment, and personnel costs increased 9.9% as a result of an 11.7% increase in overall enrollment and routine wage increases associated with centers that have been

added since September 30, 2012. In addition, program supplies, materials, food and facilities costs increased 18.3% in connection with the enrollment growth and the incremental occupancy costs associated with centers that have been added since September 30, 2012. Cost of services in the back-up dependent care segment increased \$6.0 million, or 10.7%, to \$62.2 million in the nine months ended September 30, 2013, primarily for personnel costs and for increased care provider fees associated with the higher levels of back-up services provided. Cost of services in the other educational advisory services segment increased by \$2.3 million, or 32.5%, to \$9.5 million in the nine months ended September 30, 2013 due to personnel and technology costs related to the incremental sales of these services.

*Gross Profit.* Gross profit increased \$27.1 million, or 14.8%, to \$209.7 million for the nine months ended September 30, 2013 when compared to the same period in the prior year, and as a percentage of revenue, increased to 23.3% in the nine months ended September 30, 2013 from 22.9% in the nine months ended September 30, 2012. The increase is primarily due to contributions from acquired centers, increased enrollment in our mature and ramping P&L centers and expanded back-up services revenue with proportionately lower direct cost partially offset by training and integration costs of the 2013 acquisitions as well as costs associated with additional lease model centers in 2013.

*Selling, General and Administrative Expenses.* SGA increased \$14.2 million, or 15.0%, to \$109.0 million for the nine months ended September 30, 2013 compared to \$94.8 million for the same period in the prior year, and as a percentage of revenue increased to 12.1% from 11.9% in the same period in the prior year. Results for the nine months ended September 30, 2013 included a \$7.5 million fee for the termination of the management agreement with Bain Capital Partners LLC ( Sponsor termination fee ), a \$5.0 million

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stock-based compensation charge for certain stock options that vested upon completion of the Offering ( performance-based stock compensation charge ), \$0.6 million of costs associated with the completion of a secondary offering of common shares and \$3.5 million of acquisition related costs. Results for the nine months ended September 30, 2012 included \$15.1 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options and \$1.4 million of expenses associated with the Offering. In addition to these items, SGA increased over the comparable period due primarily to continued investments in technology and marketing, incremental overhead related to the operations of the acquired businesses, an increase in compensation costs, including annual wage increases and stock-based compensation costs, as well as routine increases in SGA costs compared to the prior year.

*Amortization.* Amortization expense on intangible assets totaled \$22.0 million for the nine months ended September 30, 2013, compared to \$20.3 million for the nine months ended September 30, 2012 due to acquisitions previously described.

*Income from Operations.* Income from operations increased by \$11.1 million, or 16.4%, to \$78.6 million for the nine months ended September 30, 2013 when compared to the same period in 2012. Income from operations was 8.7% of revenue for the nine months ended September 30, 2013, compared to 8.5% of revenue for the nine months ended September 30, 2012. The increase was due to the following:

In the full service center-based care segment, income from operations increased \$5.2 million for the nine months ended September 30, 2013. Results for the nine months ended September 30, 2013 included an aggregate proportionate charge of \$13.9 million for the Sponsor termination fee, the performance-based stock compensation charge, costs associated with the completion of a secondary offering of our common shares and acquisition related costs. Results for the nine months ended September 30, 2012 included \$12.2 million of incremental compensation costs associated with the modification of the previously existing awards and the issuance of immediately vested options as well as costs related to the Offering. Excluding the effect of these charges, income from operations increased \$7.0 million in 2013 primarily due to the tuition increases and enrollment gains over the prior year as well as contributions from new and acquired centers that have been added since September 30, 2012, partially offset by incremental overhead from acquired centers during the integration period.

Income from operations for the back-up dependent care segment increased \$5.0 million in the nine months ended September 30, 2013. Results for the nine months ended September 30, 2013 included an aggregate proportionate charge of \$1.9 million for the Sponsor termination fee and the performance-based stock compensation charge. Results for the nine months ended September 30, 2012 included \$3.0 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options. Excluding the effect of these charges, income from operations increased \$3.9 million in 2013 due to the expanding revenue base.

Income from operations in the other educational advisory services segment increased \$0.9 million for the nine months ended September 30, 2013 compared to the same period in 2012. Results for the nine months ended September 30, 2013 included an aggregate proportionate charge of \$0.8 million for the Sponsor termination fee and the performance-based stock compensation charge. Results for the nine months ended September 30, 2012 included \$1.3 million of incremental compensation associated with the modification of

the previously existing awards and the issuance of immediately vested options. Excluding the effect of these charges, income from operations increased \$0.4 million in 2013.

*Loss on Extinguishment of Debt.* In connection with the refinancing of all of our existing debt on January 30, 2013, we recorded a loss on extinguishment of debt of \$63.7 million, which included the redemption premiums and the write-off of existing deferred financing costs.

*Net Interest Expense and Other.* Net interest expense and other decreased to \$31.4 million for the nine months ended September 30, 2013 from \$61.7 million for the same period in 2012 due to the debt refinancing completed on January 30, 2013, which reduced the rate at which interest is payable, and the reduction of the borrowings outstanding as a result of the use of proceeds from the Offering.

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*Income Tax Expense.* We recorded an income tax benefit of \$5.1 million during the nine months ended September 30, 2013 compared to an income tax expense of \$1.5 million during the comparable period in the prior year. The difference between the effective income tax of 31.1% and the statutory rate for the nine months ended September 30, 2013 was due to the impact of permanent differences, primarily deductions allowed in foreign jurisdictions. Additionally, we recognized a previously unrecognized tax benefit of approximately \$4.1 million during the nine months ended September 30, 2013 upon completion of a tax enquiry in the United Kingdom.

*Adjusted EBITDA and Adjusted Income from Operations* Adjusted EBITDA and adjusted income from operations increased \$21.4 million, or 16.0%, and \$11.2 million, or 13.3%, respectively, for the nine months ended September 30, 2013 over the comparable period in 2012 primarily as a result of the increase in gross profit due to additional contributions from full-service centers, including the impact of acquired centers as well as the growth in the back-up business, offset by increases in SGA spending.

*Adjusted Net Income.* Adjusted net income increased \$28.7 million, or 100.8%, for the nine months ended September 30, 2013 when compared to the same period in 2012 primarily due to the incremental gross profit described above, which was offset by increases in SGA spending to support the growth. Adjusted net income also increased due to the reduction in interest expense associated with the refinancing of our debt in January 2013.

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A reconciliation of the non-GAAP measures of adjusted EBITDA, adjusted income from operations and adjusted net income are as follows (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income (loss)	\$ 14,942	\$ 2,606	\$ (11,332)	\$ 4,282
Interest expense, net	9,195	21,332	31,387	61,702
Income tax expense (benefit)	3,652	1,417	(5,114)	1,536
Depreciation	11,013	8,809	31,264	24,912
Amortization (a)	7,699	7,116	22,049	20,298
<b>EBITDA</b>	<b>46,501</b>	<b>41,280</b>	<b>68,254</b>	<b>112,730</b>
<i>Additional Adjustments:</i>				
Straight line rent expense (b)	504	495	1,867	1,095
Stock compensation expense (c)	1,223	901	9,528	16,700
Sponsor management fee (d)		625	7,674	1,875
Loss on extinguishment of debt (e)			63,682	
Stock offering costs (f)		1,000	647	1,400
Acquisition-related costs (g)	1,747		3,511	
<b>Total adjustments</b>	<b>3,474</b>	<b>3,021</b>	<b>86,909</b>	<b>21,070</b>
<b>Adjusted EBITDA</b>	<b>\$ 49,975</b>	<b>\$ 44,301</b>	<b>\$ 155,163</b>	<b>\$ 133,800</b>
Income from operations	\$ 27,789	\$ 25,355	\$ 78,623	\$ 67,520
Stock compensation for performance-based awards (2013) and effect of option modification (2012) (c)			4,968	15,117
Sponsor termination fee (d)			7,500	
Stock offering costs (f)		1,000	647	1,400
Acquisition-related costs (g)	1,747		3,511	
<b>Adjusted income from operations</b>	<b>\$ 29,536</b>	<b>\$ 26,355</b>	<b>\$ 95,249</b>	<b>\$ 84,037</b>
Net income (loss)	\$ 14,942	\$ 2,606	\$ (11,332)	\$ 4,282
Income tax expense (benefit)	3,652	1,417	(5,114)	1,536
Income (loss) before tax	18,594	4,023	(16,446)	5,818
Stock compensation expense (c)	1,223	901	9,528	16,700
Sponsor management fee (d)		625	7,674	1,875
Amortization (a)	7,699	7,116	22,049	20,298
Loss on extinguishment of debt (e)			63,682	
Stock offering costs (f)		1,000	647	1,400
Acquisition-related costs (g)	1,747		3,511	

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Adjusted income before tax	29,263	13,665	90,645	46,091
Income tax expense (h)	(10,827)	(5,231)	(33,539)	(17,647)
Adjusted net income	\$ 18,436	\$ 8,434	\$ 57,106	\$ 28,444

- (a) Represents amortization of intangible assets, including \$15.1 million for the nine months ended September 30, 2013 and 2012 associated with intangible assets recorded in connection with our going private transaction in May 2008.
- (b) Represents rent in excess of cash paid for rent, recognized on a straight line basis over the life of the lease in accordance with Accounting Standards Codification ( ASC ) Topic 840, *Leases*.
- (c) Represents non-cash stock-based compensation expense, including performance-based stock compensation charge.
- (d) Represents fees paid to our Sponsor under a management agreement, including the Sponsor termination fee.
- (e) Represents redemption premiums and write off of unamortized debt issue costs and original issue discount associated with indebtedness that was repaid in connection with a refinancing.
- (f) Represents costs incurred in connection with secondary offering of common stock completed in June 2013 and costs incurred in connection with initial public offering of common stock completed in January 2013, respectively.
- (g) Represents costs associated with the acquisition of businesses.
- (h) Represents income tax expense calculated on adjusted income before tax at the effective rate of 37.0% in 2013 and 38.3% in 2012.

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Adjusted EBITDA, adjusted income from operations and adjusted net income are not presentations made in accordance with GAAP, and the use of the terms adjusted EBITDA, adjusted income from operations, and adjusted net income may differ from similar measures reported by other companies. We believe that adjusted EBITDA, adjusted income from operations and adjusted net income provide investors with useful information with respect to our historical operations. We present adjusted EBITDA, adjusted income from operations and adjusted net income as supplemental performance measures because we believe they facilitate a comparative assessment of our operating performance relative to our performance based on our results under GAAP, while isolating the effects of some items that vary from period to period. Specifically, adjusted EBITDA allows for an assessment of our operating performance and of our ability to service or incur indebtedness without the effect of non-cash charges, such as depreciation, amortization, the excess of rent expense over cash rent expense and stock compensation expense, and the effect of fees associated with our Sponsor management agreement, which was terminated in connection with the completion of our Offering on January 30, 2013, as well as the expenses related to the acquisition of businesses. In addition, adjusted income from operations and adjusted net income allow us to assess our performance without the impact of the specifically identified items that we believe do not directly reflect our core operations. These measures also function as benchmarks to evaluate our operating performance. Adjusted EBITDA, adjusted income from operations and adjusted net income are not measurements of our financial performance under GAAP and should not be considered in isolation or as an alternative to income before taxes, net income, net cash provided by operating, investing or financing activities or any other financial statement data presented as indicators of financial performance or liquidity, each as presented in accordance with GAAP. The Company understands that although adjusted EBITDA, adjusted income from operations and adjusted net income are frequently used by securities analysts, lenders and others in their evaluation of companies, they have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

adjusted EBITDA, adjusted income from operations, and adjusted net income do not fully reflect the Company's cash expenditures, future requirements for capital expenditures or contractual commitments;

adjusted EBITDA, adjusted income from operations, and adjusted net income do not reflect changes in, or cash requirements for, the Company's working capital needs;

adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on debt;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future; and,

adjusted EBITDA, adjusted income from operations and adjusted net income do not reflect any cash requirements for such replacements.

Because of these limitations, adjusted EBITDA, adjusted income from operations, and adjusted net income should not be considered as discretionary cash available to us to reinvest in the growth of our business or as measures of cash that will be available to us to meet our obligations.

## *Non-GAAP Earnings (Loss) per Share*



On January 30, 2013, the Company completed an initial public offering ( the Offering ) and, after the exercise of the overallotment option on February 21, 2013, issued a total of 11.6 million shares of common stock. On January 11, 2013, the Company effected a 1 for 1.9704 reverse split of its Class A common stock. In addition, the Company converted each share of its Class L common stock into 35.1955 shares of Class A common stock, and, immediately following the conversion of its Class L common stock, reclassified those shares as well as all outstanding shares of Class A common stock, into common stock. As a result of the reclassification of Class A common stock to common stock, all references to Class A common stock have been changed to common stock for all periods presented. The number of common shares used in the calculations of diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share for the three and nine months ended September 30, 2013 and 2012 give effect to the conversion of all weighted average outstanding shares of Class L common stock at the conversion factor of 35.1955 common shares for each Class L share, as if the conversion was completed at the beginning of the each year.

The calculations of diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share also include the dilutive effect of common stock options, using the treasury stock method. Shares sold in the Offering are included in the diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share calculations beginning on the date that such shares were actually issued. Diluted earnings per pro forma common share is calculated using net income in accordance with GAAP. Diluted adjusted earnings per pro forma common share is calculated using adjusted net income, as defined above.

Diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share are not presentations made in accordance with GAAP, and our use of the terms diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share may vary from similar measures reported by others in our industry due to the potential differences in the method of calculation. Diluted earnings per pro forma common share and diluted adjusted earnings per pro forma

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common share should not be considered as alternatives to earnings (loss) per share derived in accordance with GAAP. Diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share have important limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Because of these limitations, we rely primarily on our GAAP results. However, we believe that presenting diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share is appropriate to provide additional information to investors to compare our performance prior to and after the completion of our initial public offering and related conversion of Class L shares into common as well as to provide investors with useful information regarding our historical operating results. The following table sets forth the computation of diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Diluted earnings (loss) per pro forma common share:</b>				
Net income (loss) (in thousands)	\$ 14,942	\$ 2,606	\$ (11,332)	\$ 4,282
Pro forma weighted average number of common shares diluted:				
Weighted average number of Class L shares over period in which Class L shares were outstanding (1)		1,327,115	1,327,115	1,325,903
Adjustment to weight Class L shares over respective period			(1,277,963)	
Weighted average number of Class L shares over period		1,327,115	49,152	1,325,903
Class L conversion factor	35.1955	35.1955	35.1955	35.1955
Weighted average number of converted Class L common shares		46,708,476	1,729,929	46,665,819
Weighted average number of common shares	64,916,558	6,062,664	61,815,607	6,057,128
Pro forma weighted average number of common shares basic	64,916,558	52,771,140	63,545,536	52,722,947
Incremental dilutive shares (2)	1,914,855	39,650		69,298
Pro forma weighted average number of common shares diluted	66,831,413	52,810,790	63,545,536	52,792,245
<b>Diluted earnings (loss) per pro forma common share</b>				
	<b>\$ 0.22</b>	<b>\$ 0.05</b>	<b>\$ (0.18)</b>	<b>\$ 0.08</b>

**Diluted adjusted earnings per  
pro forma common share:**

Adjusted net income (in thousands)	\$ 18,436	\$ 8,434	\$ 57,106	\$ 28,444
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Pro forma weighted average number of common shares basic	64,916,558	52,771,140	63,545,536	52,722,947
Incremental dilutive shares (2)	1,914,855	39,650	1,860,276	69,298

Pro forma weighted average number of common shares diluted	66,831,413	52,810,790	65,405,812	52,792,245
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<b>Diluted adjusted earnings per pro forma common share</b>	<b>\$ 0.28</b>	<b>\$ 0.16</b>	<b>\$ 0.87</b>	<b>\$ 0.54</b>
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- (1) The weighted average number of Class L shares in the actual Class L earnings per share calculation for the three and nine months September 30, 2013 represents the weighted average from the beginning of the period up through the date of conversion of the Class L shares into common shares. As such, the pro forma weighted average number of common shares includes an adjustment to the weighted average number of Class L shares outstanding to reflect the length of time the Class L shares were outstanding prior to conversion relative to the respective three and nine month periods. The converted Class L shares are already included in the weighted average number of common shares outstanding for the period after their conversion.
- (2) Represents the dilutive effect of stock options using the treasury stock method. For purposes of the diluted loss per pro forma common share for the nine months ended September 30, 2013, there is no dilutive effect since there was a loss recorded during the period.

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**Liquidity and Capital Resources**

Our primary cash requirements are for the ongoing operations of our existing child care centers, back-up dependent care and other educational advisory services, the addition of new centers through development or acquisition and debt financing obligations. Our primary sources of liquidity have been cash flow from operations and our revolving credit facility, which allowed for borrowings of up to \$75.0 million through January 30, 2013, and \$100.0 million thereafter. Borrowings outstanding and available to us under the revolving line of credit amounted to \$20.6 million and \$79.4 million, respectively, at September 30, 2013. There were no borrowings outstanding under the line of credit at December 31, 2012.

We had a working capital deficit of \$112.8 million at September 30, 2013 from \$65.9 million at December 31, 2012 primarily from using cash generated from operations to make long-term investments in acquisitions. We anticipate that we will continue to generate positive cash flows from operating activities and that the cash generated will be used principally to fund ongoing operations of our new and existing full service child care centers and expanded operations in the back-up dependent care and educational advisory segments, as well as to make scheduled principal and interest payments.

On January 30, 2013, we completed our initial public offering, raising \$234.9 million, net of expenses, underwriting discounts and commissions, including the exercise of the over-allotment option which was completed on February 21, 2013. We used the net proceeds of our Offering and certain proceeds from the issuance of a \$790.0 million senior secured term loan to redeem our senior notes in full for \$213.3 million. We used the remainder of the \$790.0 million senior secured term loan to refinance all of the remaining existing indebtedness under the senior credit facilities and the senior subordinated notes. The \$790.0 million senior secured term loan has a maturity date in 2020 and is part of an \$890.0 million senior credit facility, which includes a \$100.0 million revolving credit facility due 2018.

In anticipation of the Offering, holders of shares of Class L common stock, who were entitled to a liquidation preference upon the mandatory conversion in connection with the Offering, agreed to convert their Class L common stock into shares of Class A common stock at a rate of 35.1955 shares of Class A common stock for each share of Class L common stock. This conversion was effected on January 11, 2013 and shares of Class A common stock were then reclassified into common stock.

We believe that funds provided by operations, our existing cash and cash equivalent balances and borrowings available under our revolving line of credit will be adequate to meet planned operating and capital expenditures for at least the next 12 months under current operating conditions. However, if we were to undertake any significant acquisitions or investments in the purchase of facilities for new or existing child care and early education centers, which requires financing beyond our existing borrowing capacity, it may be necessary for us to obtain additional debt or equity financing. We may not be able to obtain such financing on reasonable terms, or at all.

As part of our growth strategy, in addition to making capital expenditures we expect to continue to make selective acquisitions, which may vary in size and which are less predictable in terms of the timing of the capital requirements. Specifically, on April 10, 2013, we acquired 100% of the shares of Kidsunlimited Group Limited for cash consideration of \$68.9 million, subject to certain adjustments. Additionally, on July 22, 2013, we acquired 100% of the shares of Children's Choice Learning Centers, Inc. for cash consideration of \$54.2 million, subject to certain adjustments.

***Cash Flows***

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>	
Net cash provided by operating activities	\$ 121,465	\$ 92,649
Net cash used in investing activities	\$ (180,548)	\$ (155,831)
Net cash provided by financing activities	\$ 60,027	\$ 77,417
Cash and cash equivalents (end of period)	\$ 35,010	\$ 45,057

**Table of Contents***Cash Provided by Operating Activities*

Cash provided by operating activities was \$121.5 million for the nine months ended September 30, 2013, compared to \$92.6 million for the same period in 2012. Net income, adjusted for non-cash expenses, increased by \$45.4 million from 2012 to 2013 due to increases in gross profit. Changes in working capital decreased by \$16.6 million for the nine months ended September 30, 2013 over the same period in 2012 primarily due to an increase in prepaid income taxes associated with the loss on extinguishment of debt, partially offset by an increase in accrued rent and related obligations and accounts payable due to the increase in the number of centers and timing of payments.

*Cash Used in Investing Activities*

Cash used in investing activities was \$180.5 million for the nine months ended September 30, 2013, compared to \$155.8 million for the same period in 2012, and related specifically to the acquisition of Children's Choice and Kidsunlimited, as well as fixed asset additions, including the addition of new child care centers, maintenance and refurbishments in our existing centers, and continued investments in technology, equipment and furnishings.

Cash used in investing activities during the nine months ended September 30, 2012 related to the acquisition of the Casterbridge centers for \$108.0 million, net of cash acquired, as well as fixed asset additions.

*Cash Provided by Financing Activities*

Cash provided by financing activities amounted to \$60.0 million for the nine months ended September 30, 2013 compared to \$77.4 million for the same period in 2012. In January 2013, we completed our Offering, including the exercise of the over-allotment, which raised \$234.9 million in 2013, net of directly attributable expenses and underwriting discounts and commission, and used the net proceeds along with certain proceeds from the issuance of a \$790.0 million senior secured term loan to redeem our senior notes in full for \$213.3 million. We used the remainder of the \$790.0 million senior secured term loan to refinance all of the remaining existing indebtedness under the senior credit facilities and the senior subordinated notes.

Cash provided from financing activities in during the nine months ended September 30, 2012 resulted primarily from additional borrowings to finance a portion of the acquisition of the Casterbridge centers in May 2012.

**Debt**

Outstanding borrowings were as follows at September 30, 2013 and December 31, 2012 (in thousands):

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Term loans	\$ 784,075	\$
Tranche B and Series C new term loans		430,474
Senior subordinated notes		300,000
Senior notes		197,810
<b>Total</b>	<b>784,075</b>	<b>928,284</b>
Deferred financing costs and original issue discount	(18,631)	(21,641)

Total debt	765,444	906,643
Less current maturities	7,900	2,036
Long-term debt	\$ 757,544	\$ 904,607

On January 30, 2013, we used the net proceeds of our Offering and certain proceeds from the issuance of a \$790.0 million senior secured term loan to redeem our senior notes in full for \$213.3 million. We also used the remainder of the proceeds from the new senior secured term loan to repay all of the remaining existing indebtedness under the senior subordinated notes, the Tranche B term loans and the Series C new term loans as of January 30, 2013, including any redemption premiums.

The \$890.0 million senior secured credit facilities include the following terms:

\$790.0 million secured term loan facility with a maturity date in 2020;

\$100.0 million revolving credit facility with a maturity date in 2018, of which borrowings in the amount of \$20.6 million were outstanding at September 30, 2013 at an effective interest rate of 5% and \$79.4 million was available for borrowing as of that date; and

applicable margin percentages for the loan facilities of 2.0% per annum for base rate loans and 3.0% per annum for LIBOR rate loans provided that the base rate for the term loan may not be lower than 2.0% and LIBOR may not be lower than 1.0%.

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Principal payments of \$2.0 million are due quarterly and commenced March 31, 2013, with the final payment due on January 30, 2020.

The agreement governing our new senior secured credit facilities contains a number of covenants that, among other things and subject to certain exceptions, may restrict the ability of Bright Horizons Family Solutions LLC, our indirect subsidiary, and its restricted subsidiaries to:

incur certain liens;

make investments, loans, advances and acquisitions;

incur additional indebtedness or guarantees;

pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated indebtedness;

engage in transactions with affiliates;

sell assets, including capital stock of our subsidiaries;

alter the business we conduct;

enter into agreements restricting our subsidiaries' ability to pay dividends; and

consolidate or merge.

In addition, the credit agreement governing the \$890.0 million senior secured credit facilities requires Bright Horizons Capital Corp., our direct subsidiary, to be a passive holding company, subject to certain exceptions. The revolving credit facility requires Bright Horizons Family Solutions LLC, the borrower, and its restricted subsidiaries to comply with a maximum senior secured first lien net leverage ratio financial maintenance covenant, to be tested only if, on the last day of each fiscal quarter, revolving loans and/or swingline loans in excess of a specified percentage of the revolving commitments on such date are outstanding under the revolving credit facility. The breach of this covenant is subject to certain equity cure rights.

The credit agreement governing the new senior secured credit facilities contains certain customary affirmative covenants and events of default. We were in compliance with our financial covenants at September 30, 2013.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**



Since December 31, 2012, there have been no significant changes in the Company's exposures to interest rate or foreign currency rate fluctuations. The Company currently does not enter into derivatives or other market risk sensitive instruments for the purpose of hedging or for trading purposes.

#### **Item 4. Controls and Procedures**

As of September 30, 2013, the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods and that such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are, from time to time, subject to claims and suits arising in the ordinary course of business. Such claims have in the past generally been covered by insurance. We believe the resolution of such legal matters will not have a material adverse effect on our financial condition, results of operations or cash flows, although we cannot predict the ultimate outcome of any such actions. Furthermore, there can be no assurance that our insurance will be adequate to cover all liabilities that may arise out of claims brought against us.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in Part I, Item 1A Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not Applicable.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

Not Applicable.

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**Item 6. Exhibits**

(a) Exhibits:

31.1	Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Ex. 101.INS*	XBRL Instance Document
Ex. 101.SCH*	XBRL Taxonomy Extension Schema Document
Ex. 101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
Ex. 101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
Ex. 101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
Ex. 101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed.

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**SIGNATURES**

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

BRIGHT HORIZONS FAMILY SOLUTIONS INC.

Date: November 7, 2013

By: /s/ David Lissy  
David Lissy  
Chief Executive Officer