BRIGHT HORIZONS FAMILY SOLUTIONS INC.
Form 10-Q
August 09, 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 June 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	**80-0188269**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification Number)**
200 Talcott Avenue South Watertown, MA	**02472**
(Address of principal executive offices)	**(Zip code)**

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

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 x 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 x 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	x	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 x

As of August 6, 2013, the Company had 64,841,683 shares of common stock, $0.001 par value, outstanding.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.

FORM 10-Q

June 30, 2013

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 62,999	$ 34,109
Accounts receivable net	56,664	62,714
Prepaid expenses and other current assets	42,237	27,827
Current deferred income taxes	11,310	11,367
Total current assets	173,210	136,017
Fixed assets net	366,802	340,376
Goodwill	1,047,049	997,344
Other intangibles net	434,398	432,580
Deferred income taxes	125	132
Other assets	11,167	9,659
Total assets	$ 2,032,751	$ 1,916,108
LIABILITIES, NONCONTROLLING INTEREST AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 7,900	$ 2,036
Accounts payable and accrued expenses	111,066	97,207
Deferred revenue and parent deposits	108,905	90,563
Other current liabilities	17,474	12,087
Total current liabilities	245,345	201,893
Long-term debt	758,766	904,607
Accrued rent and related obligations	33,950	24,944
Other long-term liabilities	17,934	23,717
Deferred revenue	4,551	3,727
Deferred income taxes	151,820	148,880
Total liabilities	1,212,366	1,307,768
Commitments and contingencies (Note 10)		
Redeemable non-controlling interest	7,894	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; 64,815,992 shares in 2013 and 6,062,653 shares in 2012 issued and outstanding	65	6
Additional paid-in capital	1,254,413	150,088
Accumulated other comprehensive loss	(20,658)	(8,816)

Accumulated deficit	(421,329)	(395,165)
Total stockholders equity (deficit)	812,491	(253,887)
Total liabilities, non-controlling interest, common stock and stockholders equity	$ 2,032,751	$ 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 June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Revenue	$ 310,813	$ 271,463	$ 590,936	$ 529,585
Cost of services	235,388	206,910	449,721	407,012
Gross profit	75,425	64,553	141,215	122,573
Selling, general and administrative expenses	32,426	41,859	76,031	67,226
Amortization	7,602	6,633	14,350	13,182
Income from operations	35,397	16,061	50,834	42,165
Loss on extinguishment of debt			(63,682)	
Interest income	39	50	60	62
Interest expense	(8,963)	(20,549)	(22,252)	(40,432)
Income (loss) before income taxes	26,473	(4,438)	(35,040)	1,795
Income tax (expense) benefit	(1,966)	2,524	8,766	(119)
Net income (loss)	24,507	(1,914)	(26,274)	1,676
Net (loss) income attributable to noncontrolling interest	(72)	53	(110)	134
Net income (loss) attributable to Bright Horizons Family Solutions Inc.	$ 24,579	$ (1,967)	$ (26,164)	$ 1,542
Accretion of Class L preference		19,589		38,102
Accretion of Class L preference for vested options		3,926		3,992
Net income (loss) available to common shareholders	$ 24,579	$ (25,482)	$ (26,164)	$ (40,552)
Allocation of net income (loss) to common stockholders basic and diluted:				
Class L	$	$ 19,589	$	$ 38,102
Common stock	$ 24,579	$ (25,482)	$ (26,164)	$ (40,552)
Earnings (loss) per share:				
Class L basic and diluted	$	$ 14.76	$	$ 28.75
Common stock basic	$ 0.38	$ (4.20)	$ (0.43)	$ (6.70)
Common stock diluted	$ 0.37	$ (4.20)	$ (0.43)	$ (6.70)
Weighted average number of common shares outstanding:				
Class L basic and diluted		1,327,115		1,325,297
Common stock basic	64,732,730	6,062,664	60,265,132	6,054,360
Common stock diluted	66,635,484	6,062,664	60,265,132	6,054,360

See notes to condensed consolidated financial statements.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income (loss)	$ 24,507	$ (1,914)	$ (26,274)	$ 1,676
Foreign currency translation adjustments	104	(5,308)	(11,964)	(2,139)
Comprehensive income (loss)	24,611	(7,222)	(38,238)	(463)
Comprehensive income (loss) attributable to non-controlling interest	51	(795)	(232)	(231)
Comprehensive income (loss) attributable to Bright Horizons Family Solutions Inc.	$ 24,560	$ (6,427)	$ (38,006)	$ (232)
Accretion of Class L preference		19,589		38,102
Accretion of Class L preference for vested options		3,926		3,992
Comprehensive income (loss) attributable to common shareholders	$ 24,560	$ (29,942)	$ (38,006)	$ (42,326)

See notes to condensed consolidated financial statements.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands, except share data)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Equity (Deficit)
Balance at December 31, 2012	**6,062,653**	**$ 6**	**$ 150,088**	**$ (8,816)**	**$ (395,165)**	**$ (253,887)**
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	429,873		4,668			4,668
Stock-based compensation			8,305			8,305
Tax benefit from stock option exercises			2,366			2,366
Translation adjustments, net of ($122) attributable to non-controlling interest				(11,842)		(11,842)
Net loss attributable to Bright Horizons Family Solutions Inc.					(26,164)	(26,164)
Balance at June 30, 2013	**64,815,992**	**$ 65**	**$ 1,254,413**	**$ (20,658)**	**$ (421,329)**	**$ 812,491**

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)

	Six Months ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (26,274)	$ 1,676
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	35,856	32,617
Loss on extinguishment of debt	63,682	
Interest paid in kind	2,143	11,497
Change in the fair value of the interest rate cap		64
Loss on foreign currency transactions	39	102
Non-cash revenue and other	(159)	(159)
Impairment losses on long-lived assets		400
Loss on disposal of fixed assets	633	491
Stock-based compensation	8,305	15,799
Deferred income taxes	431	(13,310)
Changes in assets and liabilities:		
Accounts receivable	7,691	12,688
Prepaid expenses and other current assets	(18,256)	7,115
Accounts payable and accrued expenses	5,213	17,767
Deferred revenue	6,884	(1,356)
Accrued rent and related obligations	7,398	1,515
Other assets	(1,296)	(92)
Other current and long-term liabilities	6,136	3,629
Net cash provided by operating activities	98,426	90,443
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(39,662)	(27,688)
Payments for acquisitions net of cash acquired	(64,213)	(108,168)
Net cash used in investing activities	(103,875)	(135,856)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	769,360	82,321
Extinguishment of long-term debt	(972,468)	
Proceeds from initial public offering, including over-allotment, net	234,944	
Principal payments of long-term debt	(3,950)	(5,048)
Purchase of treasury stock		(5,140)
Proceeds from issuance of common stock upon exercise of options	4,668	2,115
Tax benefit from stock-based compensation	2,791	3,506
Net cash provided by financing activities	35,345	77,754
Effect of exchange rates on cash and cash equivalents	(1,006)	(25)
Net increase in cash and cash equivalents	28,890	32,316

Cash and cash equivalents beginning of period		34,109		30,448
Cash and cash equivalents end of period	$	62,999	$	62,764
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash payments of interest	$	18,268	$	16,802
Cash payments of taxes	$	6,404	$	3,035

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, Puerto Rico, Canada, the United Kingdom, 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 through the statement of operations. The Company used the proceeds of the Offering, as well as certain amounts from the 2013 refinancing discussed in Note 3, 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 (Secondary). The Company did not receive any of the 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 consolidated balance sheet as of June 30, 2013 and the consolidated statements of operations, comprehensive loss, changes in stockholders equity and cash flows for the interim periods ended June 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 June 30, 2013 and the results of its consolidated operations and consolidated cash flows for the interim periods ended June 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.

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 8 below.

2. GOODWILL AND INTANGIBLE ASSETS

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

	Full service center-based care	Back-up dependent care	Other educational advisory services	Total
Beginning balance at December 31, 2012	$ 817,304	$ 159,215	$ 20,825	$ 997,344
Additions from acquisitions	55,349			55,349
Tax benefit from the exercise of continuation options	(344)	(72)	(9)	(425)
Effect of foreign currency translation	(4,323)	(896)		(5,219)
Balance at June 30, 2013	$ 867,986	$ 158,247	$ 20,816	$ 1,047,049

Goodwill as of December 31, 2012 has been recasted in 2013 to reflect an adjustment made within the measurement period for the Huntyard acquisition, which increased goodwill and the deferred tax liability by $3.9 million.

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

	Weighted average amortization period	Cost	Accumulated amortization	Net carrying amount
June 30, 2013:				
Definite-lived intangibles:				
Contractual rights and customer relationships	14.5 years	$ 384,635	$ (137,780)	$ 246,855
Trade names	7.8 years	5,290	(1,055)	4,235
Non-compete agreements	5 years	54	(36)	18
		$ 389,979	$ (138,871)	$ 251,108
Indefinite-lived intangibles:				
Trade names	N/A	183,290		183,290
		$ 573,269	$ (138,871)	$ 434,398

	Weighted average amortization period	Cost	Accumulated amortization	Net carrying amount
December 31, 2012:				
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

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

	Estimated amortization expense
Remainder of 2013	$ 15.0
2014	$ 26.9
2015	$ 24.7
2016	$ 24.0
2017	$ 23.4

3. BORROWING ARRANGEMENTS

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

	June 30, 2013	December 31, 2012
Term loans	$ 786,050	$
Tranche B and Series C new term loans		430,474
Senior subordinated notes		300,000
Senior notes		197,810
Total	786,050	928,284
Deferred financing costs and original issue discount	(19,384)	(21,641)
Total debt	766,666	906,643
Less current maturities	7,900	2,036
Long-term debt	$ 758,766	$ 904,607

On January 30, 2013, the Company entered into new $890.0 million senior secured credit facilities 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 were no borrowings outstanding at June 30, 2013.

- The applicable margin percentages for the loan facilities 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 4.1% as of June 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 arrangements at June 30, 2013 are as follows (in millions):

Remainder of 2013	$ 4.0
2014	$ 7.9
2015	$ 7.9
2016	$ 7.9
2017	$ 7.9
Thereafter	$ 750.5
	$ 786.1

4. 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 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.

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 its 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 for issuance, of which none was issued as of June 30, 2013.

5. 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 available to Class A common shareholders includes the effects of any Class L preference amounts. Net income 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 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):

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net (loss) income basic and diluted	$ 24,579	$ (1,967)	$ (26,164)	$ 1,542
Accretion of Class L preference		19,589		38,102
Accretion of Class L preference for vested options		3,926		3,992
Net loss available to common shareholders	$ 24,579	$ (25,482)	$ (26,164)	$ (40,552)
Allocation of net (loss) income to common stockholders basic and diluted:				
Class L	$	$ 19,589	$	$ 38,102
Common stock	$ 24,579	$ (25,482)	$ (26,164)	$ (40,552)
Weighted average number of common shares:				
Class L basic and diluted		1,327,115		1,325,297
Common stock:				
Basic	64,732,730	6,062,664	60,265,132	6,054,360
Diluted	66,635,484	6,062,664	60,265,132	6,054,360
Earnings (loss) per common share:				
Class L basic and diluted	$	$ 14.76	$	$ 28.75
Common stock:				
Basic	$ 0.38	$ (4.20)	$ (0.43)	$ (6.70)
Diluted	$ 0.37	$ (4.20)	$ (0.43)	$ (6.70)

Options outstanding to purchase 0.7 million shares of common stock were excluded from diluted earnings per share for the three and six months ended June 30, 2012, respectively, since their effect was anti-dilutive. Options outstanding to purchase 0.4 million and 5.0 million shares of common stock were excluded from diluted earnings per share for the three and six months ended June 30, 2013, respectively, since their effect was anti-dilutive, which may be dilutive in varying amounts to future quarterly or year-to-date amounts.

6. 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 six months ended June 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 quarter was $9.70 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 40%; risk free interest rate of 1.24%; and expected life of options of 6.5 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 4, 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.

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 $8.3 million in selling, general and administrative expenses during the first half of 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 June 30, 2013, there was $8.6 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.

7. INCOME TAXES

The Company s unrecognized tax benefits were $2.2 million at June 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 June 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 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 June 30, 2013, there were not any federal, state or foreign income tax audits in process. 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.

8. ACQUISITIONS

2013 Acquisition of 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 an aggregate cash purchase price of $69.1 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 June 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
Prepaids and other assets	2,509
Fixed assets	13,901
Intangible assets, primarily customer relationships	17,442
Goodwill	55,349
Total assets acquired	95,898
Accounts payable and accrued expenses	(9,450)
Unfavorable leasehold interests	(1,759)
Deferred revenue and parent deposits	(12,853)
Deferred taxes	(2,735)

Total liabilities assumed	(26,797)
Purchase price	$ 69,101

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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 $55.3 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 $17.4 million consist of customer relationships and trade names that will be amortized over approximately eight years. A deferred tax liability of $4.0 million was recorded related to the intangible assets for which the amortization is not deductible for tax purposes.

The operating results for this acquisition are included in the consolidated results of operations from the date of acquisition. The following pro forma summary presents consolidated information as if the acquisition had occurred on January 1, 2012 (in thousands):

	Pro forma (Unaudited)	
	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenue	$ 610,567	$ 563,324
Net (loss) income attributable to Bright Horizons Family Solutions Inc.	$ (25,353)	$ 3,086

The acquired business contributed revenues of $16.6 million and net income of $0.7 million in the six months ended June 30, 2013.

2012 Acquisition of Huntyard Limited

In May 2012, the Company acquired the outstanding shares of Huntyard Limited, 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.

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

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 to deferred tax liabilities. There were no changes to the previously reported consolidated statements of operations or statements of cash flows.

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The operating results for this acquisition are included in the consolidated results of operations from the date of acquisition. If the acquisition had occurred on January 1, 2012, consolidated revenues and net income attributable to Bright Horizons Family Solutions Inc. for the six months ended June 30, 2012 would have been approximately $547.0 million and $3.2 million, respectively. The acquired business contributed revenues of $4.9 million and net income of $0.5 million in the six months ended June 30, 2012.

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.

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 has an interest rate cap, which is carried at fair value, and is included in other assets on the consolidated balance sheets. The interest rate cap, which had an original cost of $1.0 million, had a fair value of less than $0.1 million (based on level two inputs) at December 31, 2012 and of zero at June 30, 2013. Changes in the fair value of the interest rate cap are recorded in interest expense and were immaterial for each of the periods presented.

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 June 30, 2013, the Company s long-term debt had a book value of $786.1 million and a fair value of $791.0 million using quoted market prices and a model that considers observable inputs (level two inputs).

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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 June 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.

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.

	Full service center-based care	Back-up dependent care	Other educational advisory services	Total
		(In thousands)		
Three months ended June 30, 2013				
Revenue	$ 269,910	$ 35,717	$ 5,186	$ 310,813
Amortization of intangibles	7,346	181	75	7,602
Income from operations	24,062	10,927	408	35,397
Three months ended June 30, 2012				
Revenue	$ 235,592	$ 31,635	$ 4,236	$ 271,463
Amortization of intangibles	6,377	181	75	6,633
Income (loss) from operations (1)	10,731	6,402	(1,072)	16,061

(1) For the quarter ended June 30, 2012, income from operations includes expenses incurred in connection with the modification of stock options in the amount of $15.1 million, allocated on a proportionate basis to each segment ($11.2 million to full service center-based care, $2.7 million to back-up dependent care, and $1.2 million to other educational advisory services).

	Full service center-based care	Back-up dependent care	Other educational advisory services	Total
		(In thousands)		
Six months ended June 30, 2013				
Revenue	$ 512,160	$ 68,878	$ 9,898	$ 590,936
Amortization of intangibles	13,837	362	151	14,350
Income (loss) from operations (1)	32,934	18,394	(494)	50,834
Six months ended June 30, 2012				
Revenue	$ 459,632	$ 61,747	$ 8,206	$ 529,585
Amortization of intangibles	12,669	362	151	13,182
Income (loss) from operations (2)	27,907	15,209	(951)	42,165

(1) For the six months ended June 30, 2013, income from operations includes expenses incurred in connection with the Offering, 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 ($9.8 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 six months ended June 30, 2012, income from operations includes expenses incurred in connection with the modification of stock options in the amount of $15.1 million, allocated on a proportionate basis to each segment ($11.2 million to full service center-based care, $2.7 million to back-up dependent care, and $1.2 million to other educational advisory services).

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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 six months ended June 30, 2013. As of June 30, 2013, investment funds affiliated with the Sponsor hold approximately 64.6% of our common stock.

14. SUBSEQUENT EVENTS

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 $53.0 million, subject to certain adjustments and inclusive of the value of net operating loss carryforwards. The purchase price was financed with available cash on hand and funds available under our revolving credit facility.

Given the proximity of the acquisition to the date of this filing, the Company has not completed the detailed valuation analysis necessary to finalize the associated purchase accounting. As a result, the Company has not provided additional disclosures related to the acquisition, including the allocation of the purchase price as well as the required pro forma information since it is impracticable to do so.

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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, seeks, proje approximately, intends, plans, estimates or anticipates, or, in each case, their negatives or other variations or 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 six months ended June 30, 2013 compared to the three and six months ended June 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.

Results of Operations

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

	Three Months Ended June 30,			
	2013	%	2012	%
Revenue	$ 310,813	100.0%	$ 271,463	100.0%
Cost of services (1)	235,388	75.7%	206,910	76.2%
Gross profit	75,425	24.3%	64,553	23.8%
Selling general & administrative expenses (2)	32,426	10.4%	41,859	15.4%
Amortization	7,602	2.5%	6,633	2.5%
Income from operations	35,397	11.4%	16,061	5.9%
Net interest expense and other	(8,924)	-2.9%	(20,499)	-7.6%
Income (loss) before income tax	26,473	8.5%	(4,438)	-1.7%
Income tax (expense) benefit	(1,966)	-0.6%	2,524	0.9%
Net income (loss)	$ 24,507	7.9%	$ (1,914)	-0.8%
Adjusted EBITDA (3)	$ 56,673	18.2%	$ 47,879	17.6%
Adjusted income from operations (3)	$ 36,309	11.7%	$ 31,578	11.6%
Adjusted net income (3)	$ 23,104	7.4%	$ 11,598	4.3%

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

	Six Months Ended June 30,			
	2013	%	2012	%
Revenue	$ 590,936	100.0%	$ 529,585	100.0%
Cost of services (1)	449,721	76.1%	407,012	76.9%
Gross profit	141,215	23.9%	122,573	23.1%
Selling general & administrative expenses (2)	76,031	12.9%	67,226	12.7%
Amortization	14,350	2.4%	13,182	2.5%
Income from operations	50,834	8.6%	42,165	7.9%
Loss on extinguishment of debt	(63,682)	-10.8%		0.0%
Net interest expense and other	(22,192)	-3.7%	(40,370)	-7.6%
(Loss) income before income tax	(35,040)	-5.9%	1,795	0.3%
Income tax benefit (expense)	8,766	1.5%	(119)	
Net (loss) income	$ (26,274)	-4.4%	$ 1,676	0.3%
Adjusted EBITDA (3)	$ 105,188	17.8%	$ 89,499	16.9%
Adjusted income from operations (3)	$ 65,713	11.1%	$ 57,682	10.9%
Adjusted net income (3)	$ 38,670	6.5%	$ 20,006	3.8%

(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.

Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012

Revenue. Revenue increased $39.4 million, or 14.5%, to $310.8 million for the three months ended June 30, 2013 from $271.5 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 three months ended June 30, 2013 increased by $34.3 million, or 14.6%, 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 Casterbridge Care and Education, an operator of 27 centers in the United Kingdom on May 23, 2012, contributed approximately $27.6 million of revenue in the three months ended June 30, 2013.

Revenue generated by back-up dependent care services in the three months ended June 30, 2013 increased by $4.1 million, or 12.8%, when compared to the same period in 2012. Additionally, revenue generated by other educational advisory services in the three months ended June 30, 2013 increased by $0.9 million, or 22.4%, when compared to the same period in 2012.

At June 30, 2013, we operated 830 child care and early education centers compared to 773 centers at June 30, 2012.

Cost of Services. Cost of services increased $28.5 million, or 13.8%, to $235.4 million for the three months ended June 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 $26.6 million, or 14.3%, to $212.7 million in 2013. Personnel costs typically represent approximately 75% of total cost of services for this segment, and personnel costs increased 11.0% as a result of a 12.0% increase in overall enrollment and routine wage increases. In addition, program supplies, materials, food and facilities costs increased 24.0% in connection with the enrollment growth and the incremental occupancy costs associated with centers that have been added since June 30, 2012. Cost of services in the back-up dependent care segment increased $1.5 million, or 7.9%, to $19.9 million in the three months ended June 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 $0.4 million, or 17.1%, to $2.8 million in the three months ended June 30, 2013 due to personnel and technology costs related to the incremental sales of these services.

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Gross Profit. Gross profit increased $10.9 million, or 16.8%, to $75.4 million for the three months ended June 30, 2013 when compared to the same period in the prior year, and as a percentage of revenue, increased to 24.3% in the three months ended June 30, 2013 from 23.8% in the three months ended June 30, 2012. The increase is primarily due to contributions from new centers and from ramping P&L centers, which achieve proportionately lower levels of operating costs in relation to revenue as they ramp up enrollment to steady state levels, increased enrollment in our mature P&L centers and expanded back-up services revenue with proportionately lower direct cost of services.

Selling, General and Administrative Expenses. SGA decreased $9.4 million, or 22.5%, to $32.4 million for the three months ended June 30, 2013 compared to $41.9 million for the same period in the prior year, and as a percentage of revenue decreased to 10.4% from 15.4% in the same period in the prior year. Results for the second quarter of 2012 included $15.1 million of incremental compensation costs associated with the modification of the previously existing awards and the issuance of immediately vested options, and $0.4 million of expenses associated with the Offering. Exclusive of these expenses totaling $15.5 million in the second quarter of 2012, SGA increased $6.1 million during the second quarter of 2013 due primarily due to continued investments in technology and marketing, incremental overhead associated with the Kidsunlimited centers, 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 $7.6 million for the three months ended June 30, 2013, compared to $6.6 million for the three months ended June 30, 2012, due to the acquisitions previously described.

Income from Operations. Income from operations increased by $19.4 million, or 120.4%, to $35.4 million for the three months ended June 30, 2013 when compared to the same period in 2012. Income from operations was 11.4% of revenue for the three months ended June 30, 2013, compared to 5.9% of revenue for the three months ended June 30, 2012. The increase was due to the following:

- In the full service center-based care segment, income from operations increased $13.3 million for the three months ended June 30, 2013. Results for the second quarter of 2012 included $11.4 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options as well as costs related to the initial public offering. Results for the three months ended June 30, 2013 included $0.6 million of costs associated with the completion of a secondary offering of common shares and $0.3 million of acquisition related costs. Exclusive of these charges, income from operations increased $2.8 million primarily due to the price increases and enrollment gains over the prior year as well as contributions from the acquisitions of Kidsunlimited and Casterbridge and contributions from new centers that have been added since June 30, 2012, offset by increases in allocated SGA costs.

- Income from operations for the back-up dependent care segment increased $4.5 million in the three months ended June 30, 2013. Results for the second quarter of 2012 included $2.8 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options. Exclusive of the $2.8 million charge in the second quarter of 2012, income from operations increased $1.7 million due to the expanding revenue base.

- Income from operations in the other educational advisory services segment increased $1.5 million for the three months ended June 30, 2013 compared to the same period in 2012. Results for the second quarter of 2012 included $1.3 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options. Exclusive of the $1.3 million charge in the second quarter of 2012, income from operations increased $0.2 million due to the expanding growth of the business offset by investments in technology.

Interest Expense. Interest expense decreased to $8.9 million for the three months ended June 30, 2013 from $20.5 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. Our income tax expense and effective tax rate are as follows (in thousands, except percentages):

	Three months ended June 30,	
	2013	**2012**

Income tax (expense) benefit	$ (1,966)	$ 2,524
Effective income tax rate	7.4%	56.9%

We recorded income tax expense of $2.0 million during the three months ended June 30, 2013 compared to an income tax benefit of $2.5 million during the comparable period in the prior year. The change in the effective rate was due to the impact of similar permanent differences, primarily deductions allowed in foreign jurisdictions, on a projected lower base of pre-tax income in 2013 due largely to the loss on extinguishment of $63.7 million, as well as the recognition of a previously unrecognized tax benefit of approximately $4.1 million upon resolution of a UK tax enquiry in the second quarter of 2013.

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Adjusted EBITDA and Adjusted Income from Operations. Adjusted EBITDA and adjusted income from operations increased $8.8 million, or 18.4%, and $4.7 million, or 15.0%, respectively, for the three months ended June 30, 2013 over the comparable period in 2012 primarily as a result of the increase in gross profit due 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 $11.5 million, or 99.2%, for the three months ended June 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.

Six Months Ended June 30, 2013 Compared to the Six Months Ended June 30, 2012

Revenue. Revenue increased $61.4 million, or 11.6%, to $590.9 million for the six months ended June 30, 2013 from $529.6 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 six months ended June 30, 2013 increased by $52.5 million, or 11.4%, when compared to the same period in 2012. Our acquisitions of Kidsunlimited, an operator of 64 centers in the United Kingdom on April 10, 201,3 and Casterbridge Care and Education, an operator of 27 centers in the United Kingdom on May 23, 2012, contributed approximately $38.2 million of revenue in the six months ended June 30, 2013. Revenue generated by back-up dependent care services in the six months ended June 30, 2013 increased by $7.1 million, or 11.5%, when compared to the same period in 2012. Additionally, revenue generated by other educational advisory services in the six months ended June 30, 2013 increased by $1.7 million, or 20.6%, when compared to the same period in 2012.

Cost of Services. Cost of services increased $42.7 million, or 10.5%, to $449.7 million for the six months ended June 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 $38.4 million, or 10.5%, to $404.9 million in 2013. Personnel costs typically represent approximately 75% of total cost of services for this segment, and personnel costs increased 8.4% as a result of a 9.0% increase in overall enrollment and routine wage increases. In addition, program supplies, materials, food and facilities costs increased 16.6% in connection with the enrollment growth and the incremental occupancy costs associated with centers that have been added since June 30, 2012. Cost of services in the back-up dependent care segment increased $3.3 million, or 9.2%, to $39.1 million in the first six months of 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 $1.0 million, or 21.6%, to $5.7 million in the first six months of 2013 due to personnel and technology costs related to the incremental sales of these services.

Gross Profit. Gross profit increased $18.6 million, or 15.2%, to $141.2 million for the six months ended June 30, 2013 when compared to the same period in the prior year, and as a percentage of revenue, increased to 23.9% in the six months ended June 30, 2013 from 23.1% in the six months ended June 30, 2012. The increase is primarily due to contributions from new centers and from ramping P&L centers, which achieve proportionately lower levels of operating costs in relation to revenue as they ramp up enrollment to steady state levels, increased enrollment in our mature P&L centers and expanded back-up services revenue with proportionately lower direct cost of services.

Selling, General and Administrative Expenses. SGA increased $8.8 million, or 13.1%, to $76.0 million for the six months ended June 30, 2013 compared to $67.2 million for the same period in the prior year, and as a percentage of revenue increased to 12.9% from 12.7% in the same period in the prior year. Results for the six months ended June 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 $0.4 million of expenses associated with the offering. Results for the six months ended June 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 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 $1.8 million of acquisition related costs. Excluding the incremental impact of these items, SGA increased $9.4 million or 18.2% over the comparable period due primarily due to continued investments in technology and marketing, incremental overhead related to the operations of Kidsunlimited and Casterbridge, 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 $14.4 million for the six months ended June 30, 2013, compared to $13.2 million for the six months ended June 30, 2012 due to acquisitions previously described.

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Income from Operations. Income from operations increased by $8.7 million, or 20.6%, to $50.8 million for the six months ended June 30, 2013 when compared to the same period in 2012. Income from operations was 8.6% of revenue for the six months ended June 30, 2013, compared to 7.9% of revenue for the six months ended June 30, 2012. The increase was due to the following:

In the full service center-based care segment, income from operations increased $5.0 million for the six months ended June 30, 2013. Results for the six months ended June 30, 2012 included $11.4 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 initial public offering. Results for the six months ended June 30, 2013 included an aggregate proportionate charge of $12.2 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. Excluding the effect of these charges, income from operations increased $5.8 million in 2013 primarily due to the price increases and enrollment gains over the prior year as well as contributions from new centers that have been added since June 30, 2012, including acquired centers, offset by increases in allocated SGA costs.

Income from operations for the back-up dependent care segment increased $3.2 million in the six months ended June 30, 2013. Results for the six months ended June 30, 2012 included $2.8 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options. Results for the six months ended June 30, 2013 included an aggregate proportionate charge of $1.8 million for the Sponsor termination fee and the performance-based stock compensation charge. Excluding the effect of these charges, income from operations increased $2.2 million in 2013 due to the expanding revenue base.

Loss from operations in the other educational advisory services segment decreased $0.5 million for the six months ended June 30, 2013 compared to the same period in 2012. Results for the six months ended June 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. Results for the six months ended June 30, 2013 included an aggregate proportionate charge of $0.8 million for the Sponsor termination fee and the performance-based stock compensation charge. Excluding the effect of these charges, income from operations remained relatively consistent.

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.

Interest Expense. Interest expense decreased to $22.2 million for the six months ended June 30, 2013 from $40.4 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.

Income Tax Expense. Our income tax expense and effective tax rate are as follows (in thousands, except percentages):

	Six months ended June 30,	
	2013	**2012**
Income tax benefit (expense)	$ 8,766	$ (119)
Effective income tax rate	25.0%	6.6%

We recorded an income tax benefit of $8.8 million during the six months ended June 30, 2013 compared to an income tax expense of $0.1 million during the comparable period in the prior year. The effective rate for both periods is less than the statutory rate due to the impact of permanent differences, primarily deductions allowed in foreign jurisdictions, on a lower base of pre-tax income. During the six months ended June 30, 2013, we recognized a previously unrecognized tax benefit of approximately $4.1 million upon completion of a UK tax enquiry.

Adjusted EBITDA and Adjusted Income from Operations Adjusted EBITDA and adjusted income from operations increased $15.7 million, or 17.5%, and $8.0 million, or 13.9, respectively, for the six months ended June 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 $18.7 million, or 93.3%, for the six months ended June 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.

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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):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income (loss)	$ 24,507	$ (1,914)	$ (26,274)	$ 1,676
Interest expense, net	8,924	20,499	22,192	40,370
Income tax expense (benefit)	1,966	(2,524)	(8,766)	119
Depreciation	10,553	8,214	20,251	16,103
Amortization (a)	7,602	6,633	14,350	13,182
EBITDA	53,552	30,908	21,753	71,450
Additional Adjustments:				
Straight line rent expense (b)	524	372	1,363	600
Stock compensation expense (c)	1,685	15,574	8,305	15,799
Sponsor management fee (d)		625	7,674	1,250
Loss on extinguishment of debt (e)			63,682	
Stock offering costs (f)	647	400	647	400
Acquisition-related costs (g)	265		1,764	
Total adjustments	3,121	16,971	83,435	18,049
Adjusted EBITDA	$ 56,673	$ 47,879	$ 105,188	$ 89,499
Income from operations	$ 35,397	$ 16,061	$ 50,834	$ 42,165
Stock compensation for performance-based awards (2013) and effect of option modification (2012) (c)		15,117	4,968	15,117
Sponsor termination fee (d)			7,500	
Stock offering costs (f)	647	400	647	400
Acquisition-related costs (g)	265		1,764	
Adjusted income from operations	$ 36,309	$ 31,578	$ 65,713	$ 57,682
Net income (loss)	$ 24,507	$ (1,914)	$ (26,274)	$ 1,676
Income tax expense (benefit)	1,966	(2,524)	(8,766)	119
Income (loss) before tax	26,473	(4,438)	(35,040)	1,795
Stock compensation expense (c)	1,685	15,574	8,305	15,799
Sponsor management fee (d)		625	7,674	1,250
Amortization (a)	7,602	6,633	14,350	13,182
Loss on extinguishment of debt (e)			63,682	
Stock offering costs (f)	647	400	647	400
Acquisition-related costs (g)	265		1,764	
Adjusted income before tax	36,672	18,794	61,382	32,426
Income tax expense (h)	(13,568)	(7,196)	(22,712)	(12,420)
Adjusted net income	$ 23,104	$ 11,598	$ 38,670	$ 20,006

(a) Represents amortization of intangible assets, including $10.1 million for the six months ended June 30, 2012 and 2013 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 lease life 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.

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(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.

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 six months ended June 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.

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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 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:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Diluted earnings (loss) per pro forma common share:				
Net income (loss) (in thousands)	$ 24,507	$ (1,914)	$ (26,274)	$ 1,676
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	1,325,297
Adjustment to weight Class L shares over respective period			(1,253,387)	
Weighted average number of Class L shares over period		1,327,115	73,728	1,325,297
Class L conversion factor	35.1955	35.1955	35.1955	35.1955
Weighted average number of converted Class L common shares		46,708,476	2,594,916	46,644,491
Weighted average number of common shares	64,732,730	6,062,664	60,265,132	6,054,360
Pro forma weighted average number of common shares basic	64,732,730	52,771,140	62,860,048	52,698,851
Incremental dilutive shares (2)	1,902,754			84,121
Pro forma weighted average number of common shares diluted	66,635,484	52,771,140	62,860,048	52,782,972
Diluted earnings (loss) per pro forma common share	**$ 0.37**	**$ (0.04)**	**$ (0.42)**	**$ 0.03**
Diluted adjusted earnings per pro forma common share:				
Adjusted net income (in thousands)	$ 23,104	$ 11,598	$ 38,670	$ 20,006
Pro forma weighted average number of common shares basic	64,732,730	52,771,140	62,860,048	52,698,851
Incremental dilutive shares (2)	1,902,754	39,650	1,832,986	84,121
Pro forma weighted average number of common shares diluted	66,635,484	52,810,790	64,693,034	52,782,972
Diluted adjusted earnings per pro forma common share	**$ 0.35**	**$ 0.22**	**$ 0.60**	**$ 0.38**

(1) The weighted average number of Class L shares in the actual Class L earnings per share calculation for the three and six months June 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 six 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 six months ended June 30, 2013 and the three months ended June 30, 2012, 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 borrowings available under our revolving credit facility, which was $75.0 million through January 30, 2013, and $100.0 million thereafter. No amounts were outstanding at June 30, 2013 and December 31, 2012 under the revolving credit facility.

We had a working capital deficit of $72.1 million at June 30, 2013 from $65.9 million December 31, 2012 primarily from using cash generated from operations to make long-term investments in fixed assets and 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 overallotment 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, an operator of 64 nurseries throughout the United Kingdom, for an aggregate cash purchase price of $69.1 million, subject to certain adjustments. Additionally, on July 22, 2013, we acquired 100% of the shares of Children s Choice Learning Centers, an operator of 49 employer-sponsored child care centers across the United States, for an aggregate cash purchase price of $53.0 million, subject to certain adjustments.

Cash Flows

	Six months ended June 30, 2013	Six months ended June 30, 2012
	(in thousands)	
Net cash provided by operating activities	$ 98,426	$ 90,443
Net cash used in investing activities	$ (103,875)	$ (135,856)
Net cash provided by financing activities	$ 35,345	$ 77,754
Cash and cash equivalents (end of period)	$ 62,999	$ 62,764

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Cash Provided by Operating Activities

Cash provided by operating activities was $98.4 million for the six months ended June 30, 2013, compared to $90.4 million for the same period in 2012. Net income, adjusted for non-cash expenses, increased by $35.5 million from 2012 to 2013 due to increases in gross profit. Changes in working capital decreased by $27.5 million for the six months ended June 30, 2013 over the same period in 2012 primarily due to timing differences in the collection of accounts receivable and advance payments recorded as deferred revenue, offset by an increase in prepaid income taxes associated with the loss on the extinguishment of debt.

Cash Used in Investing Activities

Cash used in investing activities was $103.9 million for the six months ended June 30, 2013 compared to $135.9 million for the same period in 2012, and related specifically to the acquisition of Kidsunlimited, for a purchase price of $64.2 million, net of cash acquired, 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 six months ended June 30, 2012 related to the acquisition of the 27 Casterbridge centers, which included 26 owned facilities, for $108.2 million, net of cash acquired, as well as fixed asset additions.

Cash Provided by Financing Activities

Cash provided by financing activities amounted to $35.3 million for the six months ended June 30, 2013 compared to $77.8 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 six months ended June 30, 2012 resulted primarily from additional borrowings to finance a portion of the acquisition of the 27 Casterbridge centers in May 2012.

Debt

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

	June 30, 2013	December 31, 2012
Term loans	$ 786,050	$
Tranche B and Series C new term loans		430,474
Senior subordinated notes		300,000
Senior notes		197,810
Total	786,050	928,284
Deferred financing costs and original issue discount	(19,384)	(21,641)
Total debt	766,666	906,643
Less current maturities	7,900	2,036
Long-term debt	$ 758,766	$ 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; 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 June 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 June 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 June 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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.

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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: August 9, 2013	By: /s/ David Lissy David Lissy Chief Executive Officer