BRIGHT HORIZONS FAMILY SOLUTIONS INC.
Form 10-Q
November 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014.

OR

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

For the transition period from to

Commission file number: 001-35780

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

Delaware (State or other jurisdiction of incorporation)	80-0188269 (I.R.S. Employer Identification Number)
200 Talcott Avenue South Watertown, MA (Address of principal executive offices)	02472 (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 October 24, 2014, the Company had 65,869,215 shares of common stock, $0.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION
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Item 1. Condensed Consolidated Financial Statements
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BRIGHT HORIZONS FAMILY SOLUTIONS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$109,008	$29,585
Accounts receivable—net	64,660	78,691
Prepaid expenses and other current assets	43,712	44,021
Current deferred income taxes	13,057	12,873
Total current assets	230,437	165,170
Fixed assets—net	398,635	390,894
Goodwill	1,096,840	1,096,283
Other intangibles—net	413,485	435,060
Deferred income taxes	229	236
Other assets	14,212	15,027
Total assets	$2,153,838	$2,102,670
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$7,900	$7,900
Accounts payable and accrued expenses	103,839	107,626
Deferred revenue	112,627	119,260
Other current liabilities	13,411	20,302
Total current liabilities	237,777	255,088
Long-term debt	752,657	756,323
Deferred rent and related obligations	41,067	37,467
Other long-term liabilities	22,435	19,006
Deferred revenue	7,467	5,761
Deferred income taxes	139,963	139,888
Total liabilities	1,201,366	1,213,533
Stockholders' equity:		
Preferred stock, $0.001 par value; 25,000,000 shares authorized and no shares issued or outstanding at September 30, 2014 and December 31, 2013	—	—
Common stock, $0.001 par value; 475,000,000 shares authorized; 66,077,335 and 65,302,814 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	66	65
Additional paid-in capital	1,289,939	1,270,198
Accumulated other comprehensive (loss) income	(8,132)	1,416
Accumulated deficit	(329,401)	(382,542)
Total stockholders' equity	952,472	889,137
Total liabilities and stockholders' equity	$2,153,838	$2,102,670

See notes to condensed consolidated financial statements.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue	$334,976	$308,663	$1,015,231	$899,599
Cost of services	262,115	240,158	782,107	689,879
Gross profit	72,861	68,505	233,124	209,720
Selling, general and administrative expenses	32,856	33,017	101,464	109,048
Amortization of intangible assets	6,959	7,699	22,068	22,049
Income from operations	33,046	27,789	109,592	78,623
Loss on extinguishment of debt	—	—	—	(63,682)
Interest income	48	16	74	76
Interest expense	(8,443)	(9,211)	(25,810)	(31,463)
Income (loss) before income taxes	24,651	18,594	83,856	(16,446)
Income tax (expense) benefit	(9,272)	(3,652)	(30,715)	5,114
Net income (loss)	15,379	14,942	53,141	(11,332)
Net loss attributable to non-controlling interest	—	(102)	—	(212)
Net income (loss) attributable to Bright Horizons Family Solutions Inc.	$15,379	$15,044	$53,141	$(11,120)
Earnings (loss) per common share:				
Common stock—basic	$0.23	$0.23	$0.81	$(0.18)
Common stock—diluted	$0.23	$0.23	$0.79	$(0.18)
Weighted average number of common shares outstanding:				
Common stock—basic	66,087,184	64,916,558	65,755,911	61,815,607
Common stock—diluted	67,635,657	66,831,413	67,433,972	61,815,607

See notes to condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$15,379	$14,942	$53,141	$(11,332)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(16,562)	15,768	(9,548)	3,804
Total other comprehensive (loss) income	(16,562)	15,768	(9,548)	3,804
Comprehensive (loss) income	(1,183)	30,710	43,593	(7,528)
Less: Comprehensive income (loss) attributable to non-controlling interest	—	199	—	(33)
Comprehensive (loss) income attributable to Bright Horizons Family Solutions Inc.	$(1,183)	$30,511	$43,593	$(7,495)

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)

	Nine months ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$53,141	$(11,332)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	58,332	53,313
Amortization of original issue discount and deferred financing costs	2,259	2,009
Loss on extinguishment of debt	—	63,682
Interest paid in kind	—	2,143
Loss (gain) on foreign currency transactions	70	(11)
Non-cash revenue and other	(239)	(239)
Loss on disposal of fixed assets	376	721
Stock-based compensation	6,462	9,528
Deferred rent	2,132	1,868
Deferred income taxes	(59)	367
Changes in assets and liabilities:		
Accounts receivable	13,938	10,977
Prepaid expenses and other current assets	(1,121)	(21,123)
Accounts payable and accrued expenses	(3,617)	(553)
Deferred revenue	(4,502)	2,479
Accrued rent and related obligations	1,687	6,390
Other assets	675	(1,966)
Other current and long-term liabilities	(8,223)	3,212
Net cash provided by operating activities	121,311	121,465
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(47,953)	(55,159)
Payments for acquisitions, net of cash acquired	(6,522)	(125,389)
Settlement of purchase price for prior year acquisitions	1,030	—
Net cash used in investing activities	(53,445)	(180,548)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt, net of issuance costs of $20.6 million	—	769,360
Extinguishment of long-term debt	—	(972,468)
Proceeds from initial public offering, net of issuance costs of $20.6 million	—	234,944
Borrowings under revolving line of credit	—	80,600
Repayments under revolving line of credit	—	(60,000)
Principal payments of long-term debt	(5,925)	(5,925)
Purchase of treasury stock	(7,233)	—
Proceeds from issuance of common stock upon exercise of options	13,656	8,671
Proceeds from issuance of restricted stock	4,709	—
Tax benefit from stock-based compensation	6,856	4,845
Net cash provided by financing activities	12,063	60,027
Effect of exchange rates on cash and cash equivalents	(506)	(43)
Net increase in cash and cash equivalents	79,423	901

Cash and cash equivalents—beginning of period	29,585	34,109
Cash and cash equivalents—end of period	$109,008	$35,010
NON-CASH TRANSACTION:		
Fixed asset purchases recorded in accounts payable and accrued expenses	$2,000	$—
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for interest	$24,259	$26,757
Cash payments of taxes	$30,597	$9,911

See notes to condensed consolidated financial statements.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

The Company provides its center-based child care services under two general business models: a profit and loss ("P&L") model, where the Company assumes the financial risk of operating a child care center; and a cost-plus model, where the Company is paid a fee by an employer client for managing a child care center on a cost-plus basis. The P&L model is further classified into two subcategories: (i) a sponsor model, where Bright Horizons provides child care and early educational services on either an exclusive or priority enrollment basis for employees of a specific employer sponsor; and (ii) a lease/consortium model, where the Company provides child care and early education services to the employees of multiple employers located within a specific real estate development (for example, an office building or office park), as well as to families in the surrounding community. In both our cost-plus and sponsor P&L models, the development of a new child care center, as well as ongoing maintenance and repair, is typically funded by an employer sponsor with whom the Company enters into a multi-year contractual relationship. In addition, employer sponsors typically provide subsidies for the ongoing provision of child care services for their employees. 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.

The Company also provides back-up dependent care services through our own centers and through our Back-Up Care Advantage ("BUCA") program, which offers access to a contracted network of in-home care agencies and center-based providers in locations where we do not otherwise have centers with available capacity.

Basis of Presentation—Bright Horizons is majority-owned by investment funds affiliated with Bain Capital Partners, LLC as a result of a transaction in 2008, pursuant to which a wholly owned merger subsidiary was merged with and into Bright Horizons Family Solutions, Inc.. As part of the transaction, a new basis of accounting was established and the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values.

The accompanying unaudited condensed consolidated balance sheet as of September 30, 2014 and the condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the interim periods ended September 30, 2014 and 2013 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, 2013.

In the opinion of the Company’s management, the Company’s unaudited consolidated balance sheet as of September 30, 2014 and the results of its consolidated operations and consolidated cash flows for the interim periods ended September 30, 2014 and 2013, 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.

Reclassifications—The Company has revised the presentation of certain captions for prior periods within the condensed consolidated statements of cash flows to conform to the current period presentation. The Company has separately classified the amortization of original issue discount and deferred financing costs which were previously combined with depreciation and amortization expense. The revision had no impact to net cash provided (used by) operating, investing, or financing activities.

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

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 the Class A common

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stock into common stock, for which 475 million shares were authorized. The Company also authorized 25 million shares of undesignated preferred stock for issuance.

On June 19, 2013 and March 25, 2014, certain of the Company’s shareholders completed the sale of 9.8 million and 7.9 million shares, respectively, of the Company’s stock in secondary offerings (“the Secondaries”). The Company did not receive proceeds from the sale of shares in the Secondaries. The Company incurred $0.6 million during the year ended December 31, 2013 in relation to the 2013 secondary offering, as well as $0.6 million during the nine months ended September 30, 2014 in relation to the 2014 secondary offering, which are included in selling, general and administrative expenses.

New Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration included in the transaction price and allocating the transaction price to each separate performance obligation. The guidance is effective for annual reporting periods beginning on or after December 15, 2016, and interim periods within those annual periods. Early adoption is not permitted. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

2. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the nine months ended September 30, 2014 are as follows (in thousands):

	Full service center-based care	Back-up dependent care	Other educational advisory services	Total
Beginning balance at December 31, 2013	$912,134	$160,145	$24,004	$1,096,283
Additions from acquisitions	5,378	—	—	5,378
Adjustments to prior year acquisitions	902	—	(203)	699
Effect of foreign currency translation	(4,695)	(825)	—	(5,520)
Balance at September 30, 2014	$913,719	$159,320	$23,801	$1,096,840

The Company also has intangible assets, which consist of the following at September 30, 2014 and December 31, 2013 (in thousands):

	Weighted average amortization period	Cost	Accumulated amortization	Net carrying amount
September 30, 2014				
Definite-lived intangibles:				
Customer relationships	14.5 years	$400,535	$(174,809)	$225,726
Trade names	8.1 years	6,002	(2,071)	3,931
Non-compete agreements	5 years	55	(43)	12
		406,592	(176,923)	229,669
Indefinite-lived intangibles:				
Trade names	N/A	183,816	—	183,816
		$590,408	$(176,923)	$413,485

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	Weighted average amortization period	Cost	Accumulated amortization	Net carrying amount
December 31, 2013				
Definite-lived intangibles:				
Customer relationships	14.5 years	$400,481	$(153,939)	$246,542
Trade names	8.1 years	6,072	(1,542)	4,530
Non-compete agreements	5 years	54	(39)	15
		406,607	(155,520)	251,087
Indefinite-lived intangibles:				
Trade names	N/A	183,973	—	183,973
		$590,580	$(155,520)	$435,060

The Company estimates that it will record amortization expense related to intangible assets existing as of September 30, 2014 as follows over the next five years (in thousands):

	Estimated amortization expense
Remainder of 2014	$7,144
2015	$26,733
2016	$25,465
2017	$24,640
2018	$23,676

3. ACQUISITIONS

As part of the Company’s growth strategy to expand through strategic and synergistic acquisitions, the Company has made the following acquisitions in the nine months ended September 30, 2014 and year ended December 31, 2013. The goodwill resulting from these acquisitions arises largely from synergies expected from combining the operations of the businesses acquired with our existing operations, as well as from benefits derived from the assembled workforce acquired.

2014 Acquisitions

During the nine months ended September 30, 2014, the Company acquired three centers in the United States for cash consideration of $6.5 million. The Company recorded goodwill of $5.4 million related to the full service center-based care segment, which will be deductible for tax purposes. Intangible assets of $1.2 million, consisting primarily of customer relationships, fixed assets of $0.3 million, and a working capital deficit of $0.4 million were also recorded in relation to these acquisitions. The allocation of purchase price consideration is 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.

2013 Acquisitions

Children’s Choice Learning Centers, Inc.

On July 22, 2013, the Company acquired the outstanding shares of Children’s Choice Learning Centers, Inc., an operator of 49 employer-sponsored child care centers throughout the United States, for cash consideration of $50.8 million, inclusive of certain adjustments. The purchase price was financed with available cash on hand and funds available under the Company’s revolving credit facility, which were repaid in the fourth quarter of 2013.

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

	At acquisition date (as reported at September 30, 2013)	Measurement period adjustments	At acquisition date (as adjusted and reported at September 30, 2014)
Accounts receivable	$981	$(126)	$855
Prepaid expenses and other assets	334	411	745
Fixed assets	5,637	535	6,172
Intangible assets	12,800	(1,190)	11,610
Goodwill	38,818	(1,086)	37,732
Total assets acquired	58,570	(1,456)	57,114
Accounts payable and accrued expenses	(3,441)	(2,018)	(5,459)
Deferred revenue and parent deposits	(885)	18	(867)
Total liabilities assumed	(4,326)	(2,000)	(6,326)
Purchase price	$54,244	$(3,456)	$50,788

During the third quarter of 2014, the Company recorded an adjustment to the purchase accounting which increased goodwill and increased taxes payable by $1.2 million.

The Company recorded goodwill of $37.7 million, which will be deductible for tax purposes as permitted under federal tax rules. Goodwill related to this acquisition is reported within the full service center-based care segment. Intangible assets consist primarily of $11.3 million of customer relationships that will be amortized over approximately eleven years.

Kidsunlimited Group Limited

On April 10, 2013, the Company entered into a share purchase agreement with Lloyds Development Capital (Holdings) Limited and Kidsunlimited Group Limited pursuant to which it acquired 100% of Kidsunlimited, an operator of 64 nurseries throughout the United Kingdom for cash consideration of $68.9 million, subject to certain adjustments. The purchase price was financed with available cash on hand.

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

	At acquisition date (as reported at June 30, 2013)	Measurement period adjustments	At acquisition date (as adjusted and reported at March 31, 2014)
Cash	$4,888	$—	$4,888
Accounts receivable	1,809	—	1,809
Prepaid expenses and other assets	2,509	—	2,509
Fixed assets	13,901	(192)	13,709
Favorable leases	—	2,892	2,892
Intangible assets	17,442	765	18,207
Goodwill	55,349	(2,372)	52,977
Total assets acquired	95,898	1,093	96,991
Accounts payable and accrued expenses	(9,450)	3,798	(5,652)
Unfavorable leasehold interests	(1,759)	(5,325)	(7,084)
Deferred revenue	(12,853)	8,378	(4,475)
Other current liabilities	—	(8,378)	(8,378)
Deferred taxes	(2,735)	245	(2,490)
Total liabilities assumed	(26,797)	(1,282)	(28,079)
Purchase price	$69,101	$(189)	$68,912

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No changes have been made to the purchase accounting from the balances reported as of March 31, 2014.

The Company recorded goodwill of $53.0 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 consist primarily of $15.9 million of customer relationships 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.

Pro Forma Information

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

	Pro forma (Unaudited) Nine Months Ended September 30, 2013
Revenue	$943,745
Net loss attributable to Bright Horizons Family Solutions Inc.	$(9,221)

The unaudited pro forma results reflect certain adjustments related to the acquisitions, such as increased amortization expense related to the acquired intangible assets.

These acquired businesses contributed total revenues of $91.4 million in the nine months ended September 30, 2014. The Company has also determined that the presentation of net income for each of those acquisitions, from the date of acquisition, is impracticable due to the integration of the operations upon acquisition.

4. BORROWING ARRANGEMENTS

Outstanding borrowings were as follows at September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Term loans	$776,175	$782,100
Deferred financing costs and original issue discount	(15,618)	(17,877)
Total debt	760,557	764,223
Less current maturities	7,900	7,900
Long-term debt	$752,657	$756,323

The effective interest rate for the term loans was 3.75% at September 30, 2014 and the weighted average interest rate was 3.83% for the nine months ended September 30, 2014. There were no borrowings outstanding on the $100.0 million revolving credit facility at September 30, 2014 or during the nine months then ended, and the full facility was available for borrowings. The weighted average interest rate for the revolving credit facility was 5.0% for the nine months ended September 30, 2014.

The Company incurred financing fees of $12.7 million and original issue discount costs of $7.9 million in connection with the issuance of the term loans and establishment of the revolving credit facility in January 2013. These fees are being amortized over the terms of the related debt instruments. Amortization expense of deferred financing costs and original issue discount costs in the nine months ended September 30, 2014 were $1.4 million and $0.8 million, respectively, which are included in interest expense.

The future principal payments under the term loans at September 30, 2014 are as follows (in thousands):

Remainder of 2014	$1,975
2015	7,900
2016	7,900
2017	7,900
2018	7,900
Thereafter	742,600
	$776,175

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5. EARNINGS (LOSS) PER SHARE

Basic earnings per share is calculated by dividing net income by the weighted-average common shares outstanding. Diluted earnings per share is calculated by dividing net income by the weighted-average common shares and potentially dilutive securities outstanding during the period.

Earnings per share is calculated using the two-class method, which requires the allocation of earnings to each class of common stock outstanding and to unvested share-based payment awards that participate in dividends with common stock, also referred to herein as unvested participating shares.

The Company's unvested share-based payment awards include unvested shares awarded as restricted stock awards at the discretion of the Company's Board of Directors. The restricted stock awards vest at the end of three years. The unvested shares participate equally in dividends. See Note 6 for a discussion of the current year unvested stock awards and issuances.

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Earnings per Share - Basic

The following table sets forth the computation of earnings per share using the two-class method for unvested participating shares (in thousands, except share and per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Basic earnings per share:				
Net income (loss) attributable to Bright Horizons Family Solutions Inc.	$15,379	$15,044	$53,141	$(11,120)
Allocation of net income (loss) to common stockholders:				
Common stock	$15,319	$15,044	$52,936	$(11,120)
Unvested participating shares	60	—	205	—
	$15,379	$15,044	$53,141	$(11,120)
Weighted average number of common shares:				
Common stock	66,087,184	64,916,558	65,755,911	61,815,607
Unvested participating shares	259,525	—	254,719	—
Earnings (loss) per share:				
Common stock	$0.23	$0.23	$0.81	$(0.18)

Earnings per Share - Diluted

The Company calculates diluted earnings per share for common stock using the more dilutive of (1) the treasury stock method, or (2) the two-class method. The following table sets forth the computation of diluted earnings per share using the two-class method for unvested participating shares (in thousands, except share and per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Diluted earnings per share:				
Earnings allocated to common stock	$15,319	$15,044	$52,936	$(11,120)
Plus earnings allocated to unvested participating shares	60	—	205	—
Less adjusted earnings allocated to unvested participating shares	(59)	—	(200)	—
Earnings allocated to common stock	$15,320	$15,044	$52,941	$(11,120)
Weighted average number of common shares:				
Common stock	66,087,184	64,916,558	65,755,911	61,815,607
Effect of dilutive securities	1,548,473	1,914,855	1,678,061	—
	67,635,657	66,831,413	67,433,972	61,815,607
Earnings (loss) per share:				
Common stock	$0.23	$0.23	$0.79	$(0.18)

Options outstanding to purchase 0.9 million shares of common stock were excluded from diluted earnings per share for the three and nine months ended September 30, 2014. Options outstanding to purchase 0.1 million shares and 4.7 million shares of common stock were excluded from diluted earnings per share for the three and nine months ended September 30, 2013, respectively, since their effect was anti-dilutive, which may be dilutive in the future.

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6. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Treasury Stock

On March 28, 2014, the Board of Directors of the Company authorized the repurchase of up to $225.0 million of its common stock. During the nine months ended September 30, 2014, 177,639 shares were repurchased for $7.2 million under this program. All repurchased shares have been retired.

Equity Incentive Plan

The Company has the 2012 Omnibus Long-Term Incentive Plan (the "Plan"), which became effective on January 24, 2013, and allows for the issuance of equity awards of up to 5 million shares of common stock. As of September 30, 2014, there were approximately 3.4 million shares of common stock available for grant.

During the nine months ended September 30, 2014, the Company granted options to purchase 893,877 shares of common stock at a weighted average price of $36.75 per share that have ratable or cliff vesting over one to five years. The weighted average fair value of options granted during the nine months ended September 30, 2014 was $11.25 per share. The fair value of each 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 30.0%; risk free interest rate of 1.82%; and expected life of options of 5.3 years.

Restricted stock awards are also granted at the discretion of the Board of Directors as allowed under the Plan. During the nine months ended September 30, 2014, 259,525 shares of restricted stock were granted to certain senior managers and key employees, which vest at the end of three years and are accounted for as nonvested stock. The restricted stock was sold for a price equal to 50% of the fair value of the stock at the date of grant. Proceeds from the issuance of restricted stock are recorded as other liabilities in the consolidated balance sheet until the earlier of vesting or forfeiture of the awards. Stock-based compensation expense for restricted stock awards is calculated based on the fair value of the award on the date of grant, which will be recognized on a straight line basis over the requisite service period. At September 30, 2014, there were 259,525 unvested shares of restricted stock outstanding, which were legally issued at the date of grant but are not considered common stock issued and outstanding in accordance with accounting guidance until the requisite service period is fulfilled.

During the nine months ended September 30, 2014, restricted stock units were awarded to members of the Board of Directors as allowed under the Plan. The awards allow for the issuance of a share of the Company's common stock for each vested unit upon the earliest of termination of service as a member of the Board of Directors or five years after the date of the award. The Company issued 6,066 units at a weighted average fair value of $39.58 for a total value of $0.2 million. The units vested upon issuance.

The Company recorded stock-based compensation expense of $6.0 million in selling, general and administrative expenses and $0.5 million in cost of services during the nine months ended September 30, 2014.

At September 30, 2014, there was $15.5 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 periods of approximately three years.

7. INCOME TAXES

The Company's effective income tax rates were 37.6% and 19.6% for the three months ended September 30, 2014 and 2013, respectively. For the nine months ended September 30, 2014 and 2013, the Company's effective income tax rates were 36.6% and 31.1%, respectively. The effective income tax rate is based upon estimated income before income taxes for the year, the geographical composition of the income and estimated permanent tax adjustments. The effective income tax rate may fluctuate from quarter to quarter for various reasons, including discrete items such as settlement of foreign, Federal and State tax issues. The effective income tax rate for the nine months ended September 30, 2013 varied from the statutory rate due to the greater impact of permanent adjustments on a lower income before income taxes in 2013. The income was lower in 2013 resulting from the loss on extinguishment of debt, the Sponsor termination fee and the performance-based stock compensation expense in 2013. Also, during the nine months ended September 30, 2013, we recognized a previously unrecognized tax benefit of approximately $4.1 million upon completion of a UK tax enquiry.

The Company’s unrecognized tax benefits were $2.0 million at September 30, 2014 and December 31, 2013. Interest and penalties related to unrecognized tax benefits were $1.7 million at September 30, 2014 and $1.6 million at

December 31, 2013.

The Company expects the unrecognized tax benefits to change over the next twelve months if certain tax matters settle with the applicable taxing jurisdiction during this time frame, or, if the applicable statutes of limitations lapse. The impact of the amount of such changes to previously recorded uncertain tax positions could range from zero to $1.0 million, exclusive of interest and penalties.

The Company and its domestic subsidiaries are subject to U.S. Federal income tax as well as multiple state jurisdictions. U.S. Federal income tax returns are typically subject to examination by the Internal Revenue Service (IRS) and the statute of limitations for Federal income tax returns is three years. The Company's filings for 2011 through 2013 are subject to audit based upon the Federal statute of limitations and there is an ongoing audit of the 2011 tax year.

State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. The state impact of any Federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. There were no significant settlements of state audits during the third quarter of 2014. As of September 30, 2014, there were four income tax audits in process and the tax years from 2010 to 2013 are subject to audit.

The Company is also subject to corporate income tax at its subsidiaries located in the United Kingdom, the 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. In the third quarter, the Netherlands subsidiaries were notified of an audit to begin in the fourth quarter of 2014.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Company’s financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and long-term debt. The fair value of the Company’s financial instruments approximates their carrying value. As of September 30, 2014, the Company’s long-term debt had a book value of $776.2 million and a fair value of $767.4 million using a model that considers observable inputs (level 2 inputs). As of December 31, 2013, the Company's long-term debt had a book value of $782.1 million and a fair value of $784.1 million using a model that considers observable inputs (level 2 inputs).

Financial instruments that potentially expose the Company to concentrations of credit risk consist mainly of cash and cash equivalents and accounts receivable. The Company mitigates its exposure by maintaining its cash and cash equivalents in financial institutions of high credit standing. The Company’s accounts receivable, which are derived primarily from the services it provides, are dispersed across many clients in various industries with no single client accounting for more than 10% of the Company’s net revenue or accounts receivable. The Company believes that no significant credit risk exists at September 30, 2014.

9. SEGMENT INFORMATION

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

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

	Full service center-based care	Back-up dependent care	Other educational advisory services	Total
	(In thousands)			
Three months ended September 30, 2014				
Revenue	$282,798	$43,493	$8,685	$334,976
Amortization of intangible assets	6,634	181	144	6,959
Income from operations	19,079	12,356	1,611	33,046
Three months ended September 30, 2013				
Revenue	$263,198	$38,648	$6,817	$308,663
Amortization of intangible assets	7,442	181	76	7,699
Income from operations (1)	16,392	10,215	1,182	27,789

(1) For the three months ended September 30, 2013, income from operations includes secondary offering expenses and acquisition related costs of $1.7 million which has been allocated to full service center-based care.

	Full service center-based care	Back-up dependent care	Other educational advisory services	Total
	(In thousands)			
Nine months ended September 30, 2014				
Revenue	$870,546	$120,689	$23,996	$1,015,231
Amortization of intangibles	21,090	543	435	22,068
Income from operations (1)	70,587	36,229	2,776	109,592
Nine months ended September 30, 2013				
Revenue	$775,358	$107,526	$16,715	$899,599
Amortization of intangibles	21,279	543	227	22,049
Income from operations (2)	49,326	28,609	688	78,623

(1) For the nine months ended September 30, 2014, income from operations includes secondary offering expenses of $0.6 million which has been allocated to full service center-based care.

(2) For the nine months ended September 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, and acquisition related costs. These costs have been allocated on a proportionate basis to each segment ($13.3 million to full service center-based care, $1.9 million to back-up dependent care, and $0.8 million to other educational services).

10. TRANSACTIONS WITH RELATED PARTIES

The Company had a management agreement with Bain Capital Partners LLC (the “Sponsor”), which provided for annual payments of $2.5 million through May 2018. In connection with the Offering, the Company and the Sponsor terminated the management agreement in exchange for a $7.5 million payment from the Company to the Sponsor, which is included in selling, general and administrative expenses in the accompanying statement of operations for the nine months ended September 30, 2013. As of September 30, 2014, investment funds affiliated with the Sponsor hold approximately 51.5% of our common stock.

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

Forward-Looking Statements

This periodic report on Form 10-Q includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the "safe harbor" provisions of the Act. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes," "expects," "may," "will," "should," "seek "projects," "approximately," "intends," "plans," "estimates" or "anticipates," or, in each case, their negatives or other variation 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, 2013:

- 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.

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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.

Introduction and Overview

The following is a discussion of the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of Bright Horizons Family Solutions Inc. (“we” or the “Company”) for the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013. 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, 2013.

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.

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Results of Operations

The following table sets forth statement of operations data as a percentage of revenue for the three months ended September 30, 2014 and 2013 (in thousands, except percentages):

	Three Months Ended September 30,			
	2014	%	2013	%
Revenue	$334,976	100.0%	$308,663	100.0%
Cost of services (1)	262,115	78.2%	240,158	77.8%
Gross profit	72,861	21.8%	68,505	22.2%
Selling, general and administrative expenses (2)	32,856	9.8%	33,017	10.7%
Amortization of intangible assets	6,959	2.1%	7,699	2.5%
Income from operations	33,046	9.9%	27,789	9.0%
Net interest expense and other	(8,395)	(2.5%)	(9,195)	(3.0%)
Income before income tax	24,651	7.4%	18,594	6.0%
Income tax expense	(9,272)	(2.8%)	(3,652)	(1.2%)
Net income	$15,379	4.6%	$14,942	4.8%
Adjusted EBITDA (3)	$55,284	16.5%	$49,975	16.2%
Adjusted income from operations (3)	$33,046	9.9%	$29,536	9.6%
Adjusted net income (3)	$21,367	6.4%	$18,436	6.0%

The following table sets forth statement of operations data as a percentage of revenue for the nine months ended September 30, 2014 and 2013 (in thousands, except percentages):

	Nine Months Ended September 30,			
	2014	%	2013	%
Revenue	$1,015,231	100.0%	$899,599	100.0%
Cost of services (1)	782,107	77.0%	689,879	76.7%
Gross profit	233,124	23.0%	209,720	23.3%
Selling, general and administrative expenses (2)	101,464	10.0%	109,048	12.1%
Amortization of intangible assets	22,068	2.2%	22,049	2.5%
Income from operations	109,592	10.8%	78,623	8.7%
Loss on extinguishment of debt	—	—%	(63,682)	(7.1%)
Net interest expense and other	(25,736)	(2.5)%	(31,387)	(3.5%)
Income (loss) before income tax	83,856	8.3%	(16,446)	(1.9%)
Income tax (expense) benefit	(30,715)	(3.0)%	5,114	0.6%
Net income (loss)	$53,141	5.3%	$(11,332)	(1.3%)
Adjusted EBITDA (3)	$177,068	17.4%	$155,163	17.2%
Adjusted income from operations (3)	$110,142	10.8%	$95,249	10.6%
Adjusted net income (3)	$71,535	7.0%	$57,106	6.3%

(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 expenses consist primarily of salaries, payroll taxes and benefits (including stock compensation costs) for corporate, regional and business development personnel. Other overhead costs include information technology, occupancy costs for corporate and regional personnel, professional services fees, including accounting and legal services, and other general corporate expenses.

(3) Adjusted EBITDA, adjusted income from operations and adjusted net income are non-GAAP measures, which are reconciled to net income (loss) below.

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Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Revenue. Revenue increased $26.3 million, or 9%, to $335.0 million for the three months ended September 30, 2014 from $308.7 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 3-4%. Revenue generated by full service center-based care services in the three months ended September 30, 2014 increased by $19.6 million, or 7%, when compared to the same period in 2013. Revenue generated by back-up dependent care services in the three months ended September 30, 2014 increased by $4.8 million, or 13%, when compared to the same period in 2013. Additionally, revenue generated by other educational advisory services in the three months ended September 30, 2014 increased by $1.9 million, or 27%, when compared to the same period in 2013.

At September 30, 2014, we operated 876 child care and early education centers compared to 880 centers at September 30, 2013.

Cost of Services. Cost of services increased $22.0 million, or 9%, to $262.1 million for the three months ended September 30, 2014 when compared to the same period in the prior year. Cost of services in the full service center-based care services segment increased $19.3 million, or 9%, to $232.6 million in 2014. Personnel costs, which typically represent approximately 70-75% of total cost of services for this segment, increased 7% as a result of a 10% increase in overall enrollment and routine wage increases. In addition, program supplies, materials, food and facilities costs increased 15% in connection with the enrollment growth at new and existing centers, and the incremental occupancy costs associated with centers that have been added since September 30, 2013. Cost of services in the back-up dependent care segment increased $2.1 million, or 9%, to $25.2 million in the three months ended September 30, 2014, 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 $0.6 million, or 16%, to $4.4 million in the three months ended September 30, 2014 due to personnel and technology costs related to the incremental sales of these services.

Gross Profit. Gross profit increased $4.4 million, or 6%, to $72.9 million for the three months ended September 30, 2014 when compared to the same period in the prior year. Gross profit margin as a percentage of revenue was 22% for the three months ended September 30, 2014 and 2013. The increase in gross profit 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 costs of services.

Selling, General and Administrative Expenses ("SGA"). SGA of $32.9 million for the three months ended September 30, 2014 was approximately even with the $33.0 million reported for the same period in the prior year, and as a percentage of revenue decreased to 9.8% for the three months ended September 30, 2014 from 10.7% for the same period in the prior year. Results for the three months ended September 30, 2013 included approximately $1.7 million of costs related to acquisitions. After taking these charges into account, SGA increased over the comparable period due to continued investments in technology and marketing, incremental overhead associated with the operations of acquired businesses, an increase in compensation costs, including annual wage increases and stock-based compensation, as well as routine increases in SGA costs.

Amortization. Amortization expense on intangible assets of $7.0 million for the three months ended September 30, 2014 was approximately consistent with the three months ended September 30, 2013.

Income from Operations. Income from operations increased by $5.2 million, or 19%, to $33.0 million for the three months ended September 30, 2014 when compared to the same period in 2013. Income from operations was 10% of revenue for the three months ended September 30, 2014, compared to 9% of revenue for the three months ended September 30, 2013. The increase in income from operations was due to the following:

- In the full service center-based care segment, income from operations increased $2.7 million for the three months ended September 30, 2014. Results for the three months ended September 30, 2013 included $1.7 million of acquisition related costs. In addition to these items, income from operations increased over the comparable period due to the tuition increases and enrollment gains over the prior year as well as contributions from new centers that have been added since September 30, 2013.

- Income from operations for the back-up dependent care segment increased $2.1 million in the three months ended September 30, 2014 due to the expanding revenue base.
- Income from operations in the other educational advisory services segment increased $0.4 million for the three months ended September 30, 2014 compared to the same period in 2013 due to the expanding revenue base.

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Net Interest Expense and Other. Net interest expense and other decreased to $8.4 million for the three months ended September 30, 2014 from $9.2 million for the same period in 2013 due to a reduction in the effective interest rates on borrowings.

Income Tax Expense. We recorded income tax expense of $9.3 million during the three months ended September 30, 2014 compared to an income tax expense of $3.7 million during the comparable period in the prior year. The effective rate increased to 38% for the three months ended September 30, 2014 compared to 20% in the three months ended September 30, 2013. The difference between the effective income tax rate of 20% and the statutory rate in the third quarter of 2013 was due to the impact of permanent differences, primarily deductions allowed in foreign jurisdictions on a lower income before income taxes in 2013.

Adjusted EBITDA and Adjusted Income from Operations. Adjusted EBITDA and adjusted income from operations increased $5.3 million, or 11%, and $3.5 million, or 12%, respectively, for the three months ended September 30, 2014 over the comparable period in 2013 primarily as a result of the increase in gross profit due to additional contributions from full-service centers, as well as growth in the back-up dependent care business.

Adjusted Net Income. Adjusted net income increased $2.9 million, or 16%, for the three months ended September 30, 2014 when compared to the same period in 2013 primarily due to the incremental gross profit described above, which was offset by increases in SGA spending to support the growth.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Revenue. Revenue increased $115.6 million, or 13%, to $1.0 billion for the nine months ended September 30, 2014 from $899.6 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 3-4%. Revenue generated by full service center-based care services in the nine months ended September 30, 2014 increased by $95.2 million, or 12%, when compared to the same period in 2013. Our acquisitions of Kidsunlimited, an operator of 64 centers in the United Kingdom on April 10, 2013, and Children’s Choice Learning Centers, Inc. ("Children's Choice"), an operator of 49 centers in the United States on July 22, 2013, contributed approximately $45.3 million of incremental revenue in the nine months ended September 30, 2014. Revenue generated by back-up dependent care services in the nine months ended September 30, 2014 increased by $13.2 million, or 12%, when compared to the same period in 2013. Additionally, revenue generated by other educational advisory services in the nine months ended September 30, 2014 increased by $7.3 million, or 44%, when compared to the same period in 2013.

Cost of Services. Cost of services increased $92.2 million, or 13%, to $782.1 million for the nine months ended September 30, 2014 when compared to the same period in the prior year. Cost of services in the full service center-based care services segment increased $82.8 million, or 13%, to $701.0 million in 2014. Personnel costs increased 11% as a result of a 12% increase in overall enrollment and routine wage increases. In addition, program supplies, materials, food and facilities costs increased 20% in connection with the enrollment growth and the incremental occupancy costs associated with centers that have been added since September 30, 2013. Cost of services in the back-up dependent care segment increased $5.6 million, or 9%, to $67.9 million in the nine months ended September 30, 2014, 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 $3.7 million, or 39%, to $13.2 million in the nine months ended September 30, 2014 due to personnel and technology costs related to the incremental sales of these services.

Gross Profit. Gross profit increased $23.4 million, or 11%, to $233.1 million for the nine months ended September 30, 2014 when compared to the same period in the prior year. Gross profit margin as a percentage of revenue was 23% for the nine months ended September 30, 2014 and 2013. The increase in gross profit is primarily due to contributions from new and acquired centers, increased enrollment in our mature and ramping P&L centers and expanded back-up services revenue with proportionately lower direct cost partially offset by training and integration costs of the 2013 acquisitions as well as costs associated with additional lease model centers opened in 2013 and 2014.

Selling, General and Administrative Expenses. SGA decreased $7.5 million, or 7%, to $101.5 million for the nine months ended September 30, 2014 compared to $109.0 million for the same period in the prior year, and as a percentage of revenue decreased to 10% from 12% in the same period in the prior year. Results for the nine months ended September 30, 2013 included a $7.5 million fee for the termination of the management agreement with Bain Capital Partners LLC (“Sponsor termination fee”), a $5.0 million stock-based compensation charge for certain stock options that vested upon completion of the initial public offering (“performance-based stock compensation charge”), $0.6 million of costs associated with the completion of a secondary offering and $3.5 million of acquisition related costs. After taking these respective charges into account, SGA increased over the comparable period due to continued investments in technology and marketing, incremental overhead associated with the operations of acquired businesses, an increase in compensation costs, including annual wage increases and stock-based compensation costs, as well as routine increases in SGA costs compared to the prior year.

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Amortization. Amortization expense on intangible assets of $22.1 million for the nine months ended September 30, 2014, was comparable with the nine months ended September 30, 2013.

Income from Operations. Income from operations increased by $31.0 million, or 39%, to $109.6 million for the nine months ended September 30, 2014 when compared to the same period in 2013. Income from operations was 11% of revenue for the nine months ended September 30, 2014, compared to 9% of revenue for the nine months ended September 30, 2013. The increase was due to the following:

- In the full service center-based care segment, income from operations increased $21.3 million for the nine months ended September 30, 2014. Results for the nine months ended September 30, 2013 included an aggregate proportionate charge of $13.9 million for the Sponsor termination fee, the performance-based stock compensation charge, costs associated with the completion of a secondary offering of our common shares and acquisition related costs. After taking these charges into account, income from operations increased $7.8 million in 2014 primarily due to the tuition increases and enrollment gains over the prior year as well as contributions from new and acquired centers that have been added since September 30, 2013, partially offset by incremental overhead from acquired centers during the integration period.
- Income from operations for the back-up dependent care segment increased $7.6 million in the nine months ended September 30, 2014. Results for the nine months ended September 30, 2013 included an aggregate proportionate charge of $1.9 million for the Sponsor termination fee and the performance-based stock compensation charge. After taking these charges into account, income from operations increased $5.7 million in 2014 due to the expanding revenue base.
- Income from operations in the other educational advisory services segment increased $2.1 million for the nine months ended September 30, 2014 compared to the same period in 2013. Results for the nine months ended September 30, 2013 included an aggregate proportionate charge of $0.8 million for the Sponsor termination fee and the performance-based stock compensation charge. After taking these charges into account, income from operations increased $1.3 million in 2014.

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

Net Interest Expense and Other. Net interest expense and other decreased to $25.7 million for the nine months ended September 30, 2014 from $31.4 million for the same period in 2013 due to the debt refinancing completed on January 30, 2013, which reduced the borrowings outstanding as well as the interest rates on such borrowings.

Income Tax Expense. We recorded an income tax expense of $30.7 million during the nine months ended September 30, 2014 compared to an income tax benefit of $5.1 million during the comparable period in the prior year. The effective rate increased to 37% for the nine months ended September 30, 2014 compared to 31% in the prior year, both of which are less than the statutory rate due to the impact of permanent differences, primarily deductions allowed in foreign jurisdictions. The effective income tax rate for the nine months ended September 30, 2013 varied from the statutory rate due to the greater impact of permanent adjustments on a lower income before income taxes in 2013. The income was lower in 2013 resulting from the loss on extinguishment of debt, the Sponsor termination fee and the performance-based stock compensation expense in 2013. Additionally, we recognized a previously unrecognized tax benefit of approximately $4.1 million during the nine months ended September 30, 2013 upon completion of a tax enquiry in the United Kingdom.

Adjusted EBITDA and Adjusted Income from Operations. Adjusted EBITDA and adjusted income from operations increased $21.9 million, or 14%, and $14.9 million, or 16% respectively, for the nine months ended September 30, 2014 over the comparable period in 2013 primarily as a result of the increase in gross profit due to additional contributions from full-service centers, including the impact of acquired centers, as well as the growth in the back-up dependent care business, offset by increases in SGA spending.

Adjusted Net Income. Adjusted net income increased $14.4 million, or 25%, for the nine months ended September 30, 2014 when compared to the same period in 2013 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$15,379	$14,942	$53,141	$(11,332)
Interest expense, net	8,395	9,195	25,736	31,387
Income tax expense (benefit)	9,272	3,652	30,715	(5,114)
Depreciation	12,423	11,013	36,264	31,264
Amortization of intangible assets (a)	6,959	7,699	22,068	22,049
EBITDA	52,428	46,501	167,924	68,254
Additional Adjustments:				
Deferred rent (b)	817	504	2,132	1,867
Stock compensation expense (c)	2,039	1,223	6,462	9,528
Sponsor management fee (d)	—	—	—	7,674
Loss on extinguishment of debt (e)	—	—	—	63,682
Expenses related to secondary offering	—	—	550	647
Acquisition-related costs (f)	—	1,747	—	3,511
Total adjustments	2,856	3,474	9,144	86,909
Adjusted EBITDA	$55,284	$49,975	$177,068	$155,163
Income from operations	$33,046	$27,789	$109,592	$78,623
Performance-based stock compensation (c)	—	—	—	4,968
Sponsor termination fee (d)	—	—	—	7,500
Expenses related to secondary offering	—	—	550	647
Acquisition-related costs (f)	—	1,747	—	3,511
Adjusted income from operations	$33,046	$29,536	$110,142	$95,249
Net income (loss)	$15,379	$14,942	$53,141	$(11,332)
Income tax expense (benefit)	9,272	3,652	30,715	(5,114)
Income (loss) before tax	24,651	18,594	83,856	(16,446)
Stock compensation expense (c)	2,039	1,223	6,462	9,528
Sponsor management fee (d)	—	—	—	7,674
Amortization of intangible assets (a)	6,959	7,699	22,068	22,049
Loss on extinguishment of debt (e)	—	—	—	63,682
Expenses related to secondary offering	—	—	550	647
Acquisition-related costs (f)	—	1,747	—	3,511
Adjusted income before tax	33,649	29,263	112,936	90,645
Income tax expense (g)	(12,282)	(10,827)	(41,401)	(33,539)
Adjusted net income	$21,367	$18,436	$71,535	$57,106

(a) Represents amortization of intangible assets, including approximately $5.0 million for the three months ended September 30, 2014 and 2013, and approximately $15.0 million for the nine months ended September 30, 2014 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 life of the lease in accordance with Accounting Standards Codification Topic 840, Leases.

(c) Represents non-cash stock-based compensation expense, including performance-based stock compensation charge in 2013.

(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 associated with the acquisition of businesses.
(g) Represents income tax expense calculated on adjusted income before tax at the effective rate of approximately 37% in 2014 and 2013.

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 initial public 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 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 nine months ended September 30, 2013 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 period.

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 and restricted stock, using the more dilutive of either the two-class method or the treasury stock method. Shares sold in the initial public 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

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such shares were actually issued. Diluted earnings per pro forma common share is calculated using net income in accordance with GAAP. Diluted adjusted earnings per pro forma common share is calculated using adjusted net income, as defined above.

Diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share are not presentations made in accordance with GAAP, and our use of the terms diluted earnings per pro forma common share and diluted adjusted earnings per pro forma common share may vary from similar measures reported by others in our industry due to the potential differences in the method of calculation. Diluted earnings per pro forma common share and diluted adjusted earnings per pro forma 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except share data)			
Diluted earnings (loss) per pro forma common share:				
Net income (loss)	$15,379	$14,942	$53,141	$(11,332)
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
Adjustment to weight Class L shares over respective period	—	—	—	(1,277,963)
Weighted average number of Class L shares over period	—	—	—	49,152
Class L conversion factor	—	—	—	35.1955
Weighted average number of converted Class L common shares	—	—	—	1,729,929
Weighted average number of common shares	66,087,184	64,916,558	65,755,911	61,815,607
Pro forma weighted average number of common shares—basic	66,087,184	64,916,558	65,755,911	63,545,536
Incremental dilutive shares (2)	1,548,473	1,914,855	1,678,061	—
Pro forma weighted average number of common shares—diluted	67,635,657	66,831,413	67,433,972	63,545,536
Diluted earnings (loss) per pro forma common share	$0.23	$0.22	$0.79	$(0.18)
Diluted adjusted earnings per pro forma common share:				
Adjusted net income	$21,367	$18,436	$71,535	$57,106
	66,087,184	64,916,558	65,755,911	63,545,536

Pro forma weighted average number of common shares—basic				
Incremental dilutive shares (2)	1,548,473	1,914,855	1,678,061	1,860,276
Pro forma weighted average number of common shares—diluted	67,635,657	66,831,413	67,433,972	65,405,812
Diluted adjusted earnings per pro forma common share	$0.32	$0.28	$1.06	$0.87

(1) The weighted average number of Class L shares in the actual Class L earnings per share calculation for the nine months ended September 30, 2013 represents the weighted average from the beginning of the period up through the date of conversion of the Class L shares into common shares. As such, the pro forma weighted average number of common

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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 period. 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 and restricted stock using the two-class method. For purposes of the diluted loss per pro forma common share for the nine months ended September 30, 2013, there is no dilutive effect since there was a loss recorded during the period.

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 are our cash flows from operations and borrowings available under our $100.0 million revolving credit facility. No amounts were outstanding at September 30, 2014 or December 31, 2013 under the revolving credit facility.

We had a working capital deficit of $7.3 million and $89.9 million at September 30, 2014 and December 31, 2013, respectively. Our working capital deficit has arisen 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 and for share repurchases.

On January 30, 2013, we completed our initial public offering (the "Offering"), raising $234.9 million, net of expenses, underwriting discounts and commissions, including the exercise of the underwriters' overallotment option which was completed on February 21, 2013. We used the net proceeds from the 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.

On March 28, 2014, the Board of Directors of the Company approved a $225 million repurchase program of its common stock. 177,639 shares of common stock have been re-acquired for $7.2 million and retired as of September 30, 2014.

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, and 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.

Cash Flows

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Net cash provided by operating activities	$121,311	$121,465
Net cash used in investing activities	$(53,445)	$(180,548)
Net cash provided by financing activities	$12,063	$60,027
Cash and cash equivalents (beginning of period)	$29,585	$34,109
Cash and cash equivalents (end of period)	$109,008	$35,010

Cash Provided by Operating Activities

Cash provided by operating activities was $121.3 million for the nine months ended September 30, 2014, compared to $121.5 million for the same period in 2013. Net income increased by $64.5 million, offset by a decrease in the adjustment for the non-cash loss on extinguishment of debt of $63.7 million recorded in the prior year.

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Cash Used in Investing Activities

Cash used in investing activities was $53.4 million for the nine months ended September 30, 2014 and was primarily related to fixed asset additions arising from 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 was $180.5 million for the same period in 2013 and included the acquisitions of Kidsunlimited and Children's Choice, in addition to fixed asset additions.

Cash Provided by Financing Activities

Cash provided by financing activities amounted to $12.1 million for the nine months ended September 30, 2014 compared to $60.0 million for the same period in 2013. Cash provided by financing activities for the nine months ended September 30, 2014 consisted principally of proceeds from the exercise of options to purchase common stock of $13.7 million, proceeds from the issuance of restricted stock of $4.7 million, and the tax benefit of stock compensation in the amount of $6.9 million, offset by principal payments of $5.9 million on our debt and stock repurchases of $7.2 million.

On January 30, 2013, we used the net proceeds of the Offering and certain proceeds from the exercise of the underwriter's overallotment, as well as 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 proceeds from the new senior secured term loan to refinance all of the remaining existing indebtedness under the senior credit facilities and the senior subordinated notes.

Debt

Outstanding borrowings were as follows at September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Term loans	$776,175	$782,100
Deferred financing costs and original issue discount	(15,618)	(17,877)
Total debt	760,557	764,223
Less current maturities	7,900	7,900
Long-term debt	$752,657	$756,323

The $890.0 million senior secured credit facilities consist of a $790.0 million secured term loan facility and a $100.0 million revolving credit facility. The term loans and revolving credit facility mature on January 30, 2020 and January 30, 2018, respectively. The term loan facility requires quarterly principal payments of $2.0 million, with the remaining balance due at maturity. There were no borrowings outstanding on the revolving credit facility at September 30, 2014 with the entire amount available for borrowings as of that date.

All borrowings under the credit agreement are subject to variable interest rates. Borrowings under the term loan facility bear interest at a rate per annum ranging from 1.75% to 2.0% over the Base Rate, or 2.75% to 3.0% over the Eurocurrency Rate, each as defined in the credit agreement. Borrowings under our revolving facility bear interest at a rate per annum equal to 1.75% over the Base Rate, or 2.75% over the Eurocurrency Rate. The Base Rate is the highest of (1) the prime rate of Goldman Sachs Bank USA, (2) the federal funds effective rate plus 0.5% and (3) the Eurocurrency Rate with a one month interest period plus 1.0%. The Eurocurrency Rate option is the one, two, three or six month LIBOR rate, as selected by Bright Horizons Family Solutions LLC (the "Borrower"), or, with the approval of the applicable lenders, the nine, twelve or less than one month LIBOR rate. The Base Rate is subject to an interest rate floor of 2.0% and the Eurocurrency Rate is subject to an interest rate floor of 1.0%, both only with respect to the term loan facility.

The senior secured credit facilities contain certain customary affirmative covenants and other covenants that, among other things, may restrict the ability of Bright Horizons Family Solutions LLC, our indirect subsidiary, and its restricted subsidiaries, to: incur certain liens; make investments, loans, advances and acquisitions; incur additional indebtedness or guarantees; engage in transactions with affiliates; sell assets, including capital stock of our subsidiaries; alter the business conducted; 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, the amount of revolving loans and/or swingline loans outstanding under the revolving credit facility exceed 25% of the revolving commitments on such date. The breach of this covenant is subject to certain equity cure rights.

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The credit agreement governing the senior secured credit facilities contains certain customary affirmative covenants and events of default. We were in compliance with our financial covenants at September 30, 2014.

Off-Balance Sheet Arrangements

As of September 30, 2014, we have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Since December 31, 2013, there have been no significant changes in the Company's exposures to interest rate or foreign currency rate fluctuations. The Company currently does not enter into derivatives or other market risk sensitive instruments for the purpose of hedging or for trading purposes.

Item 4. Controls and Procedures

As of September 30, 2014, the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods and that such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued an updated version of its Internal Control - Integrated Framework (2013 Framework). Originally issued in 1992 (1992 Framework), the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. The 1992 Framework remains available during the transition period, which extends to December 15, 2014, after which time COSO will consider it as superseded by the 2013 Framework. As of September 30, 2014, the Company continues to utilize the 1992 Framework during the transition to the 2013 Framework by the end of 2014.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A “Risk Factors” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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

The table below sets forth information regarding the Company's purchases of its equity securities during the three months ended September 30, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (In thousands) (1)
July 1, 2014 to July 31, 2014	—	$—	—	$221,921
August 1, 2014 to August 31, 2014	—	$—	—	$221,921
September 1, 2014 to September 30, 2014	99,192	$41.88	99,192	$217,767
	99,192		99,192	

(1) On March 28, 2014, the Board of Directors of the Company authorized the potential repurchase of up to $225.0 million of its common stock. The Company has repurchased a total of 177,639 shares in the open market under this authorization, including 99,192 shares in the three months ended September 30, 2014. All repurchased shares have been retired.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

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Item 6. Exhibits
(a) Exhibits:

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

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

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SIGNATURES

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

BRIGHT HORIZONS FAMILY SOLUTIONS INC.

Date:	November 7, 2014	By:	/s/ David Lissy
			David Lissy
			Chief Executive Officer