BRIGHT HORIZONS FAMILY SOLUTIONS INC.
Form 10-K
March 02, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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	80-0188269
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

200 Talcott Avenue South
Watertown, MA 02472
(Address of principal executive offices and zip code)
(617) 673-8000
(Registrant's telephone number, including area code)

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

Title of each class	Name of exchange on which registered
Common Stock, $0.001 par value per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions of “large accelerated filer,” “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. :

Large accelerated Filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the shares of common stock of the registrant held by non-affiliates of Bright Horizons Family Solutions Inc. computed by reference to the closing price of the registrant’s common stock on the New York Stock Exchange as of June 30, 2014 was approximately $1.3 billion.

As of February 11, 2015, there were 61,651,158 outstanding shares of the registrant’s common stock, $0.001 par value per share, which is the only outstanding capital stock of the registrant.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference in Part III, Items 10-14 of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K 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 annual 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 described under "Risk Factors" and elsewhere in this annual report and in our other public filings with the Securities and Exchange Commission.

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 annual 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 annual report, those results or developments may not be indicative of results or developments in subsequent periods.

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

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PART I

Item 1. Business

Our Company

We are a leading provider of high-quality child care, early education and other services designed to help employers and families better address the challenges of work and life. We provide services primarily under multi-year contracts with employers who offer child care and other dependent care solutions as part of their employee benefits packages to improve employee engagement, productivity, recruitment and retention. As of December 31, 2014, we had more than 900 client relationships with employers across a diverse array of industries, including more than 140 Fortune 500 companies and more than 80 of Working Mother magazine's 2014 "100 Best Companies for Working Mothers." Our service offerings include:

- Center-based full service child care and early education (representing approximately 86% of our revenue in the year ended December 31, 2014);
- Back-up dependent care; and
- Educational advisory services.

We believe we are a provider of choice for each of the solutions we offer. As of December 31, 2014, we operated a total of 884 child care and early education centers across a wide range of customer industries with the capacity to serve approximately 101,000 children in the United States, as well as in the United Kingdom, the Netherlands, Ireland, Canada and India. We have achieved satisfaction ratings of approximately 95% among respondents in our employer and parent satisfaction surveys over each of the past five years and an annual client retention rate of 97% for employer-sponsored centers over each of the past ten years.

Our History

For over 25 years, we have operated child care and early education centers for employers and working families. In 1998, we transformed our business through the merger of Bright Horizons, Inc. and Corporate Family Solutions, Inc., both then Nasdaq-listed companies that were founded in 1986 and 1987, respectively. We were listed on Nasdaq from 1998 to May 2008, when we were acquired by investment funds affiliated with Bain Capital Partners LLC (collectively, the "Sponsor"), which we refer to as our going private transaction. Since then, we have continued to grow through challenging economic times while investing in our future. We have grown our international footprint to become a leader in the center-based child care market in the United Kingdom and have expanded into the Netherlands and India as a platform for further international expansion. In the United States, we have grown our partnerships with employer clients by expanding and enhancing our back-up dependent care services and by developing and growing our educational advisory services. We have invested in new technologies to better support our full suite of services and expanded our marketing efforts with additional focus on maximizing occupancy levels in centers where we can improve our economics with increased enrollment. On January 30, 2013, we completed our initial public offering (the "Offering"). Upon the completion of the initial public offering, our common stock was listed on the New York Stock Exchange under the symbol "BFAM."

Industry Overview

We compete in the global market for child care and early education services as well as the market for work/life services offered by employers as benefits to employees. The child care industry can generally be subdivided into center-based and home-based child care. We operate in the center-based market, which is highly fragmented.

The center-based child care market includes both retail and employer-sponsored centers and can be further divided into full-service centers and back-up centers. The employer-sponsored model, which has been central to our business since we were founded in 1986, is characterized by a single employer or consortium of employers entering into a long-term contract for the provision of child care at a center located at or near the employer sponsor's worksite. The sponsor generally funds the development as well as ongoing maintenance and repair of a child care center at or near its worksite and subsidizes the provision of child care services to make them more affordable for its employees.

Additionally, we compete in the growing markets for back-up dependent care and educational advisory services, and we believe we are the largest and one of the only multi-national providers of back-up dependent care services.

Industry Trends

We believe that the following key factors contribute to growth in the markets for employer-sponsored child care and for back-up dependent care and educational advisory services:

Increasing Participation by Women and Two Working Parent Families in the Workforce. A significant percentage of mothers currently participate in the workforce. In 2013, for example, 64% of mothers with children under the age of six

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participated in the workforce in the United States, according to the Bureau of Labor Statistics. We expect that the number of working mothers and two working parent families will continue to increase over time, resulting in an increase in the need for child care and other work/life services. By 2016, for example, women are expected to earn 54% of all doctorate and professional degrees in the United States, according to a 2011 report by the Families and Work Institute.

Greater Demand for High-Quality Center-Based Child Care and Early Education. We believe that recognition of the importance of early education and consistent quality child care has led to increased demand for higher-quality center-based care. In 1965, 8% of children under the age of five with working mothers were enrolled in center-based child care, compared to approximately 24% of such children by 2011, according to data gathered by the U.S. Census Bureau. With the shift towards center-based care, there is an increased focus on the establishment of objective, standards-based methods of defining and measuring the quality of child care, such as accreditation. In a highly fragmented market comprised largely of center operators lacking scale, we believe this trend will favor larger industry participants with the size and capital resources to achieve quality standards on a consistent basis.

Recognized Return on Investment to Employers. Based on studies we have conducted through our Horizons Workforce Consulting practice, we believe that employer sponsors of center-based child care and back-up dependent care services realize strong returns on their investments from reduced turnover and increased productivity. For example, we estimate that users of our back-up dependent care services have been able to work, on average, 6 days annually that they otherwise would have missed due to breakdowns in child care arrangements. Additionally, according to a 2014 survey of our clients, 97% of respondents reported that access to dependable back-up dependent care helps them to focus on work and be more productive. We believe that this return on investment for employers will result in additional growth in employer-sponsored back-up dependent care services.

Growing Global Demand for Child Care and Early Education Services. We expect that a long-term shift to service-based economies and an increasing emphasis on education by government and families will contribute to further growth in the global child care and early education market as well as the developing markets for back-up dependent care and educational advisory services. In addition, in certain countries in which we operate, public policy decisions have facilitated increased demand for child care and early education services. In 2006, the United Kingdom instituted a ten-year plan to make child care more accessible and more affordable for all parents. In the Netherlands, a 2005 child care law increased the demand for child care and early education services by making child care more affordable for working families and thereby encouraging women to return to the workforce.

Our Competitive Strengths

Market Leading Service Provider

We believe we are the leader in the markets for employer-sponsored center-based child care and back-up dependent care, and that the breadth, depth and quality of our service offerings—developed over a successful 25-year-plus history—represent significant competitive advantages. We have approximately five times more employer-sponsored centers in the United States than our closest competitor, according to Child Care Information Exchange’s 2010 Employer Child Care Trend Report. We believe the broad geographic reach of our child care centers, with targeted clusters in areas where we believe demand is generally higher and where income demographics are attractive, provides us with an effective platform to market our services to current and new clients.

Collaborative, Long-term Relationships with Diverse Customer Base

We have more than 900 client relationships with employers across a diverse array of industries, including more than 140 of the Fortune 500 companies, with our largest client contributing less than 2% of our revenue in fiscal 2014 and our largest 10 clients representing less than 10% of our revenue in that year. Our business model places an emphasis on multi-year employer sponsorship contracts where our clients typically fund the development of new child care centers at or near to their worksites and frequently support the ongoing operations of these centers.

Our multiple touch points with both employers and employees give us unique insight into the corporate culture of our clients. This enables us to identify and provide innovative and tailored solutions to address our clients’ specific work/life needs. In addition to full service center-based care, we provide access to a multi-national back-up dependent care network and educational advisory support, allowing us to offer various combinations of services to best meet the needs of specific clients or specific locations for a single client. Our tailored, collaborative approach to

employer-sponsored child care has resulted in an annual client retention rate for employer-sponsored centers of approximately 97% over each of the past ten years.

Commitment to Quality

Our business is anchored in our commitment to consistently provide high-quality service offerings to employers and families. We have therefore designed our child care centers to meet or exceed applicable accreditation and rating standards in all of our key markets, including in the United States through the National Academy of Early Childhood Programs, a division

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of the National Association for the Education of Young Children (“NAEYC”), and in the United Kingdom through the ratings of the Office of Standards in Education. We believe that our voluntary commitment to achieving accreditation standards offers a competitive advantage in securing employer sponsorship opportunities and in attracting and retaining families, because an increasing number of potential and existing employer clients require adherence to accreditation criteria.

We maintain our proprietary curriculum at the forefront of early education practices by introducing elements that respond to the changing expectations and views of society and new information and theories about the ways in which children learn and grow. We also believe that strong adult-to-child ratios are a critical factor in delivering our curriculum effectively as well as helping to facilitate more focused care. Our programs often provide adult-to-child ratios that are more stringent than many state licensing standards.

Market Leading People Practices

Our ability to deliver consistently high-quality care, education and other services is directly related to our ability to attract, retain and motivate our highly skilled workforce. We have consistently been named as a top employer by third-party sources in the United States, the United Kingdom and the Netherlands, including being named as one of the “100 Best Places to Work in America” by Fortune Magazine 15 times.

We believe the education and experience of our center leaders and teachers exceed the industry average. In addition to recurring in-center training and partial tuition reimbursement for continuing education, we have developed a training program that establishes standards for our teachers as well as an in-house online training academy (Bright Horizons University), which allows our employees to earn nationally-recognized child development credentials.

Capital Efficient Operating Model Provides Platform for Growth, with Attractive Economics

We have achieved uninterrupted year-over-year revenue and adjusted EBITDA growth for each of the last thirteen years despite broader macro-economic fluctuations. With employer sponsors funding the majority of the capital required for new centers developed on their behalf, we have been able to grow our business with limited capital investment, which has contributed to strong cash flows from operations.

Proven Acquisition Track Record

We have an established acquisition team to pursue potential targets using a proven framework to effectively evaluate potential transactions with the goal of maximizing our return on investment while minimizing risk. Since 2006, and as of December 31, 2014, we have completed acquisitions of 242 child care centers in the United States, the United Kingdom and the Netherlands, as well as various providers of back-up dependent care services and educational advisory services in the United States.

Our Growth Strategy

We believe that there are significant opportunities to continue to grow our business globally and expand our leadership position by continuing to execute on the following strategies:

Grow Our Client Relationships

- Secure Relationships with New Employer Clients. Our addressable market includes approximately 15,000 employers, each with at least 1,000 employees, within the industries that we currently service in the United States and the United Kingdom. Our dedicated sales force focuses on establishing new client relationships and is supported by our Horizons Workforce Consulting practice, which helps potential clients to identify the precise work/life offerings that will best meet their strategic goals.
- Expand Relationships with Existing Employer Clients Through Additional Centers and Cross-Selling. As of December 31, 2014, we operated 218 centers for 65 clients with multiple facilities, and we believe there is a significant opportunity to add additional employer-sponsored centers for both these and other existing clients as well as to increase the number of our clients that use more than one of our four principal service offerings.
- Continue to Expand Through the Assumption of Management of Existing Sponsored Child Care Centers. We occasionally assume the management of existing centers from the incumbent management team, which enables us to develop new client relationships, typically with no capital investment and no purchase price payment.

Sustain Annual Price Increases to Enable Continued Investments in Quality

We look for opportunities to invest in quality as a way to enhance our reputation with our clients and their employees. By developing a strong reputation for high-quality services and facilities, we are able to support consistent

price increases that keep pace with our cost increases. Over our history, these price increases have contributed to our revenue growth and have enabled us to drive margin expansion.

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Increase Utilization at Existing Centers

We believe that our mature profit and loss centers (centers that have been open for more than three years) are currently operating at utilization levels below our target run rate, in part due to a general deterioration in economic condition from 2008 to 2010. Utilization rates at our mature profit and loss centers stabilized in 2010 and have grown since. We expect to further close the gap between current utilization rates and our target run rate over the next few years.

Selectively Add New Lease/Consortium Centers and Expand Through Selective Acquisitions

We have typically added between six and fifteen new lease/consortium centers annually for the past seven years, focusing on urban or city surrounding markets where demand is generally higher and where income demographics are generally more supportive of a new center. In addition, we have a long track record of successfully completing and integrating selective acquisitions. The domestic and international markets for child care and other family support services remain highly fragmented. We will therefore continue to seek attractive opportunities both for center acquisitions and the acquisition of complementary service offerings.

Our Operations

Our primary reporting and operating segments are full-service center-based child care services and back-up dependent care services. Full-service center-based child care includes traditional center-based child care, preschool and elementary education. Back-up dependent care includes center-based back-up child care, in-home care, mildly ill child care and adult/elder care. Our remaining operations, including our educational advisory services, are included in other educational advisory services.

The following table sets forth our segment information as of the dates and for the periods indicated. Additional segment information is included in Note 16, "Segment and Geographic Information," included in the notes to the consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K.

	Full Service Center-Based Child Care Services	Back-up Dependent Care Services	Other Educational Advisory Services	Total
	(In thousands, except percentages)			
Year ended December 31, 2014				
Revenue	$1,156,661	$162,886	$33,452	$1,352,999
As a percentage of total revenue	86 %	12 %	2 %	100 %
Income from operations	$92,229	$49,317	$5,374	$146,920
As a percentage of total income from operations	63 %	33 %	4 %	100 %
Year ended December 31, 2013				
Revenue	$1,049,854	$144,432	$24,490	$1,218,776
As a percentage of total revenue	86 %	12 %	2 %	100 %
Income from operations	$67,287	$39,710	$2,037	$109,034
As a percentage of total income from operations	62 %	36 %	2 %	100 %
Year ended December 31, 2012				
Revenue	$922,214	$130,082	$18,642	$1,070,938
As a percentage of total revenue	86 %	12 %	2 %	100 %
Income from operations	$60,154	$33,863	$1,447	$95,464
As a percentage of total income from operations	63 %	35 %	2 %	100 %

Full-Service Child Care

We provide our center-based child care services under two general business models: a profit and loss (“P&L”) model, where we assume the financial risk of operating a child care center; and a cost-plus model, where we are paid a fee by an employer client for managing a child care center on a cost-plus basis. Our P&L model is further classified into two subcategories: (i) a sponsor model, where we provide child care and early education services on either an exclusive or priority enrollment basis for the employees of a specific employer sponsor; and (ii) a lease/consortium model, where we provide 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

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funded by an employer sponsor with whom we enter into a multi-year contractual relationship. In addition, employer sponsors typically provide subsidies for the ongoing provision of child care services for their employees.

Our full-service center operations are organized into geographic divisions led by a Division Vice President of Center Operations who, in turn, reports to a Senior Vice President of Center Operations. Each division is further divided into regions, each supervised by a Regional Manager who oversees the operational performance of approximately six to eight centers and is responsible for supervising the program quality, financial performance and client relationships. A typical center is managed by a small administrative team under the leadership of a Center Director. A Center Director has day-to-day operating responsibility for the center, including training, management of staff, licensing compliance, implementation of curricula, conducting child assessments and enrollment. Our corporate offices provide centralized administrative support for accounting, finance, information systems, legal, payroll, risk management, marketing and human resources functions. We follow this underlying operational structure for center operations in each country in which we operate.

Center hours of operation are designed to match the schedules of employer sponsors and working families. Most of our centers are open 10 to 12 hours a day with typical hours of operation from 7:00 a.m. to 6:00 p.m., Monday through Friday. We offer a variety of enrollment options, ranging from full-time to part-time scheduling.

Tuition paid by families varies depending on the age of the child, the available adult-to-child ratio, the geographic location and the extent to which an employer sponsor subsidizes tuition. Based on a sample of 320 of our child care and early education centers, the average tuition rate at our centers in the United States is $1,735 per month for infants (typically ages three to sixteen months), $1,590 per month for toddlers (typically ages sixteen months to three years) and $1,270 per month for preschoolers (typically ages three to five years). Tuition at most of our child care and early education centers is payable in advance and is due either monthly or weekly. In many cases, families can pay tuition through payroll deductions or through Automated Clearing House withdrawals.

Revenue per center typically averages between $1.4 million and $1.6 million at our centers in North America, and averages between $0.9 million and $1.2 million at our centers in Europe, primarily due to the larger average size of our centers in North America. Gross margin at our centers typically averages between 15% and 25%, with our cost-plus model centers typically at the lower end of that range and our lease/consortium centers at the higher end.

Cost of services consists of direct expenses associated with the operation of child care and early education centers and direct expenses to provide back-up dependent care services and educational advisory services. Direct expenses consist primarily of payroll and benefits for personnel, food costs, program supplies and materials, parent marketing and facilities costs, which include depreciation. Personnel costs are the largest component of a center's operating costs and comprise approximately 70% of a center's operating expenses. In a P&L model center, we are often responsible for additional costs that are typically paid or provided directly by a client in centers operating under the cost-plus model, such as facilities costs. As a result, personnel costs in centers operating under P&L models will often represent a smaller percentage of overall costs when compared to centers operating under cost-plus models.

Selling, general and administrative expenses ("SGA") consist primarily of salaries, payroll taxes and benefits (including stock-based compensation costs) for non-center personnel, which includes corporate, regional and business development personnel, accounting and legal, information technology, occupancy costs for corporate and regional personnel, management/advisory fees and other general corporate expenses.

Back-Up Dependent Care

We provide back-up dependent care services through our full-service centers or our dedicated back-up centers, as well as through our Back-Up Care Advantage ("BUCA") program. BUCA offers access to a contracted network of in-home care agencies and approximately 2,800 center-based providers in locations where we do not otherwise have centers with available capacity.

Our back-up dependent care division is led by a Senior Vice President of Operations with Divisional Vice Presidents leading back-up center operations and the BUCA program. The dedicated back-up centers that we operate are organized in a similar structure to full-service centers, with Regional Managers overseeing approximately six to eight centers each and with center-based administrative teams that mirror the administrative teams in full-service centers. The dedicated back-up centers are either exclusive to a single employer or are consortium centers that have multiple employer sponsors, as well as uses from the BUCA program. Care is arranged through a 24 hours-a-day contact center

or online, allowing employees to reserve care in advance or at the last minute. We operate our own contact center in Broomfield, Colorado, which is overseen by the Division Vice President responsible for BUCA, and contract with an additional contact center located in Durham, North Carolina to complement our ability to handle demand fluctuations and to provide seamless service 24 hours a day.

Back-up dependent care revenue is comprised of fees or subsidies paid by employer sponsors, as well as co-payments collected from users at the point of service. Cost of services consist of fees paid to providers for care delivered as part of their contractual relationships with us, personnel and related direct service costs of the contact centers and any other expenses related

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to the coordination or delivery of care and service. For Bright Horizons back-up centers, cost of services also includes all direct expenses associated with the operation of the centers. SGA related to back-up dependent care is similar to SGA for full-service care, with additional expenses related to the information technology necessary to operate this service, the ongoing development and maintenance of the provider network and additional personnel needed as a result of more significant client management and reporting requirements.

Educational Advisory Services

Our educational advisory services consist of our College Coach services and our EdAssist services. Educational advisory services revenue is comprised of fees or subsidies paid by employer clients, as well as copayments or retail fees collected from users at the point of service. Cost of services consist of personnel and direct service costs of the contact centers, and other expenses related to the coordination and delivery of advisory and counseling services.

EdAssist. Edassist provides tuition reimbursement administration for corporate clients. Administration services are provided through a proprietary software system for processing and data analytics, as well as a team of compliance professionals who audit employee reimbursements. We also provide educational advising to client employees on a one-on-one basis through our team of advisors, who help employees make better decisions regarding their education. Customer service is also provided through contact centers in Broomfield, Colorado and Durham, North Carolina. The EdAssist services derive revenue directly from fees paid by employer sponsors under contracts that are typically three years in length. The EdAssist division is managed by a Vice President and General Manager who has responsibility for the growth and profitability of this division.

College Coach. College Coach provides college advisory services through our team of educators, all of whom have experience working at senior levels in admissions or financial aid at colleges and universities. We work with employer clients who offer these services as a benefit to their employees, and we also provide these services directly to families on a retail basis. We have 12 College Coach offices in the United States, located primarily in metropolitan areas, where we believe the demand for these services is greatest. College Coach derives revenue mainly from employer clients who contract with us for an agreed upon number of workshops, access to our proprietary virtual learning center and individual counseling. The College Coach division is managed by a Vice President and General Manager who has responsibility for the growth and profitability of this division.

Seasonality

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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Geography

We operate in two primary regions: North America, which includes the United States, Canada and Puerto Rico, and Europe, which we define to include the United Kingdom, the Netherlands, Ireland and India. The following table sets forth certain financial data for these geographic regions for the periods indicated.

	North America	Europe	Total
	(In thousands, except percentages)		
Year ended December 31, 2014			
Revenue	$1,074,951	$278,048	$1,352,999
As a percentage of total revenue	79 %	21 %	100 %
Long-lived assets, net	$277,971	$120,976	$398,947
As a percentage of total fixed assets, net	70 %	30 %	100 %
Year ended December 31, 2013			
Revenue	$980,537	$238,239	$1,218,776
As a percentage of total revenue	80 %	20 %	100 %
Long-lived assets, net	$260,483	$130,411	$390,894
As a percentage of total fixed assets, net	67 %	33 %	100 %
Year ended December 31, 2012			
Revenue	$901,210	$169,728	$1,070,938
As a percentage of total revenue	84 %	16 %	100 %
Long-lived assets, net	$230,807	$109,569	$340,376
As a percentage of total fixed assets, net	68 %	32 %	100 %

Our international business primarily consists of child care centers throughout the United Kingdom and the Netherlands and is overseen by a senior vice president. In 2013, we added 64 child care centers in the United Kingdom increasing our footprint in Europe. As of December 31, 2014, we had a total of 231 centers in Europe.

Marketing

We market our services to prospective employer sponsors, current clients and their employees, and to parents. Our sales force is organized on both a centralized and regional basis and is responsible for identifying potential employer sponsors, targeting real estate development opportunities, identifying potential acquisitions and managing the overall sales process. We reach out to employers via word of mouth, direct mail campaigns, digital outreach and advertising, conference networking, webinars and social media. In addition, as a result of our visibility among human resources professionals as a high-quality dependent care service provider, potential employer sponsors regularly contact us requesting proposals, and we often compete for employer-sponsorship opportunities through request for proposal processes. Our management team is involved at the national level with education, work/life and children's advocacy, and we believe that their prominence and involvement in such issues also helps us attract new business. We communicate regularly with existing clients to increase awareness of the full suite of services that we provide for key life stages and to explore opportunities to enhance current partnerships.

We also have a direct-to-consumer, or parent, marketing department that supports parent enrollment efforts through the development of marketing programs, including the preparation of promotional materials. The parent marketing team is organized on both a centralized and regional basis and works with center directors and our contract centers to build enrollment. New enrollment is generated by word of mouth, print advertising, direct mail campaigns, digital marketing, parent referral programs and business outreach. Individual centers may receive assistance from employer sponsors, who often provide access to channels of internal communication, such as e-mail, websites, intranets, mailing lists and internal publications. In addition, many employer sponsors promote the child care and early education center as an important employee benefit.

Competition

We believe that we are a leader in the markets for employer-sponsored center-based child care and back-up dependent care. We maintain approximately six times more market share in the United States than our closest competitors who provide employer-sponsored center-based child care. The market for child care and early education services is highly fragmented, and we compete for enrollment and for sponsorship of child care and early education centers with a

variety of other businesses including large community-based child care companies, regional child care providers, family day care (operated out of the caregiver's home), nannies, for-profit and not-for-profit full- and part-time nursery schools, private schools and public elementary schools, and not-for-profit and government-funded providers of center-based child care. Our principal competitors for employer-sponsored centers include Knowledge Universe, Hildebrandt Learning Centers, New Horizons Academy, Childbase and Busy Bees in the United States and the United Kingdom. Competition for back-up dependent care and

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educational advising comes from some of these same competitors in addition to employee assistance programs, payment processors and smaller work/life companies. In addition, we compete for enrollment on a center-by-center basis with some of the providers named above, along with many local and national providers, such as Learning Care Group, Goddard Schools, Primrose Preschools, Asquith Day Nurseries, The Co-operative Childcare, Smallsteps, and Partou in the United States, the United Kingdom and the Netherlands.

We believe that the key factors in the competition for enrollment are quality of care, site convenience and cost. We believe that many center-based child care providers are able to offer care at lower prices than we do by utilizing less intensive adult-to-child ratios and offering their staff lower compensation and limited or less affordable benefits. While our tuition levels are generally higher than our competitors, we compete primarily based on the convenience of a work-site location and a higher level of program quality. In addition, many of our competitors may have access to greater financial resources (such as access to government funding or other subsidies), or may benefit from broader name recognition (such as established regional providers) or comply, or are required to comply, with fewer or less costly health, safety, and operational regulations than those with which we comply (such as the more limited health, safety and operational regulatory requirements typically applicable to family day care operations in caregivers' homes).We believe that our primary focus on employer clients and track record for achieving and maintaining high-quality standards distinguishes us from our competitors. We believe we are well-positioned to continue attracting new employer sponsors due to our extensive service offerings, established reputation, position as a quality leader and track record of serving major employer sponsors for over 25 years.

Intellectual Property

We believe that our name and logo have significant value and are important to our operations. We own and use various registered and unregistered trademarks covering the names Bright Horizons and Bright Horizons Family Solutions, our logo and a number of other names, slogans and designs. We frequently license the use of our registered trademarks to our clients in connection with the use of our services, subject to customary restrictions. We actively protect our trademarks by registering the marks in a variety of countries and geographic areas, including North America, Asia and Southeast Asia, the Pacific Rim, Europe and Australia. These registrations are subject to varying terms and renewal options. However, not all of the trademarks or service marks have been registered in all of the countries in which we do business, and we are aware of persons using similar marks in certain countries in which we currently do not do business. Meanwhile, we monitor our trademarks and vigorously oppose the infringement of any of our marks. We do not hold any patents, and we hold copyright registrations for certain materials that are important to the operation of our business. We generally rely on common law protection for those copyrighted works which are not critical to the operation of our business. We also license some intellectual property from third parties for use in our business. Such licenses are not individually or in the aggregate material to our business.

Regulatory Matters

We are subject to various federal, state and local laws affecting the operation of our business, including various licensing, health, fire and safety requirements and standards. In most jurisdictions in which we operate, our child care centers are required by law to meet a variety of operational requirements, including minimum qualifications and background checks for our teachers and other center personnel. State and local regulations may also impact the design and furnishing of our centers.

Internationally, we are subject to national and local laws and regulations that often are similar to those affecting us in the United States, including laws and regulations concerning various licensing, health, fire and safety requirements and standards. We believe that our centers comply in all material respects with all applicable laws and regulations in these countries.

Health and Safety

The safety and well-being of children and our employees is paramount for us. We employ a variety of security measures at our child care and early education centers, which typically include secure electronic access systems as well as sign-in and sign-out procedures for children, among other site-specific security measures. In addition, our trained teachers and open center designs help ensure the health and safety of children. Our child care and early education centers are designed to minimize the risk of injury to children by incorporating such features as child-sized amenities, rounded corners on furniture and fixtures, age-appropriate toys and equipment and cushioned fall zones

surrounding play structures.

Each center is further guided by a policies and procedures manual and a center management guide that address protocols for safe and appropriate care of children and center administration. These guidelines establish center protocols in areas including the safe handling of medications, managing child illness or health emergencies and a variety of other critical aspects of care to ensure that centers meet or exceed all mandated licensing standards. The center management guide is reviewed and updated continuously by a team of internal experts, and center personnel are trained on center practices using this tool. Our proprietary We Care system supports proper supervision of children and documents the transitions of children to and from the care of teachers and parents or from one classroom to another during the day.

Environmental

Our operations, including the selection and development of the properties that we lease and any construction or improvements that we make at those locations, are subject to a variety of federal, state and local laws and regulations, including environmental, zoning and land use requirements. In addition, we have a practice of conducting site evaluations on each freestanding or newly constructed or renovated property that we own or lease. Although we have no known material environmental liabilities, environmental laws may require owners or operators of contaminated property to remediate that property, regardless of fault.

Employees

As of December 31, 2014, we had approximately 25,400 employees (including part-time and substitute teachers), of whom approximately 1,400 were employed at our corporate, divisional and regional offices, and the remainders of whom were employed at our child care and early education centers. Child care and early education center employees include teachers and support personnel. The total number of employees includes approximately 6,700 employees working outside of the United States. We conduct annual surveys to assess employee satisfaction and can adjust programs, benefits offerings, trainings, communications and other support to meet employee needs and enhance retention. We have a long track record of being named a “Best Place to Work” in the United States and more recently in the United Kingdom, Ireland and the Netherlands based largely upon employee responses to surveys. We believe our relationships with our employees are good.

Facilities

Our child care and early education centers are primarily operated at work-site locations and vary in design and capacity in accordance with employer sponsor needs and state and local regulatory requirements. Our North American child care and early education centers typically have an average capacity of 127 children. Our locations in Europe and India have an average capacity of 78 children. As of December 31, 2014, our child care and early education centers had a total licensed capacity of approximately 101,000 children, with the smallest center having a capacity of 12 children and the largest having a capacity of approximately 570 children.

We believe that attractive, spacious and child-friendly facilities with warm, nurturing and welcoming atmospheres are an important element in fostering a high-quality learning environment for children. Our centers are designed to be open and bright and to maximize supervision visibility. We devote considerable resources to equipping our centers with child-sized amenities, indoor and outdoor play areas comprised of age-appropriate materials and design, family hospitality areas and computer centers. Commercial kitchens are typically only present in those centers where regulations require that hot meals be prepared on site.

Available Information

We make available, free of charge, on our corporate website www.brighthorizons.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Information filed with the SEC is also available at www.sec.gov. References to these websites do not constitute incorporation by reference of the information contained therein and should not be considered part of this document.

Item 1A. Risk Factors

Risks Related to Our Business and Industry

Changes in the demand for child care and other dependent care services, which may be negatively affected by economic conditions, may affect our operating results.

Our business strategy depends on employers recognizing the value in providing employees with child care and other dependent care services as an employee benefit. The number of employers that view such services as cost-effective or beneficial to their work forces may not continue to grow or may diminish. In addition, demographic trends, including the number of two working parent or working single parent families in the work force, may not continue to lead to increased demand for our services. Such changes could materially and adversely affect our business and operating

results.

Even among employers that recognize the value of our services, demand may be adversely affected by general economic conditions. For example, during the recent recession, we believe sustained uncertainty in U.S. and global economic conditions and persistently high unemployment domestically resulted in reduced enrollment levels at our mature P&L centers, and enrollment remains below pre-recession levels, and in certain locations has not begun to recover. Should the economy experience additional or prolonged weakness, employer clients may reduce or eliminate their sponsorship of work and family

services, and prospective clients may not commit resources to such services. In addition, a reduction in the size of an employer's workforce could negatively impact the demand for our services and result in reduced enrollment or failure of our employer clients to renew their contracts. A deterioration of general economic conditions may adversely impact the need for our services because out-of-work parents may diminish or discontinue the use of child care services, or be unwilling to pay tuition for high-quality services. Additionally, we may not be able to increase tuition at a rate consistent with increases in our operating costs. If demand for our services were to decrease, it could disrupt our operations and have a material adverse effect on our business and operating results.

Our business depends largely on our ability to hire and retain qualified teachers.

State laws require our teachers and other staff members to meet certain educational and other minimum requirements, and we often require that teachers and staff at our centers have additional qualifications. We are also required by state laws to maintain certain prescribed minimum adult-to-child ratios. If we are unable to hire and retain qualified teachers at a center, we could be required to reduce enrollment or be prevented from accepting additional enrollment in order to comply with such mandated ratios. In certain markets, we may experience difficulty in attracting, hiring and retaining qualified teachers, which may require us to offer increased salaries and enhanced benefits in these more competitive markets. This could result in increased costs at centers located in these markets. Difficulties in hiring and retaining qualified personnel may also affect our ability to meet growth objectives in certain geographies and to take advantage of additional enrollment opportunities at our child care and early education centers in these markets.

Our substantial indebtedness could adversely affect our financial condition.

We have a significant amount of indebtedness. As of December 31, 2014, we had total indebtedness of $939.2 million, excluding approximately $1.1 million of undrawn letters of credit. Our high level of debt could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements and increasing our cost of borrowing;
- requiring a substantial portion of our cash flow to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flow available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- exposing us to the risk of increased interest rates as certain of our borrowings are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete; and
- placing us at a disadvantage compared to other, less leveraged competitors or competitors with comparable debt at more favorable interest rates.

We and our subsidiaries may be able to incur significant additional indebtedness in the future. Although the agreement governing our senior secured credit facilities contains restrictions on the incurrence of additional indebtedness, those restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with those restrictions could be substantial. We may also seek to amend or refinance one or more of our debt instruments to permit us to finance our growth strategy or improve the terms of our indebtedness.

In addition, the borrowings under our senior secured credit facilities bear interest at variable rates. If market interest rates increase, variable rate debt will create higher debt service requirements, which could adversely affect our cash flow. Assuming all amounts under our senior secured credit facilities are fully drawn, a 100 basis point change in interest rates would result in a $10.4 million change in annual interest expense on our indebtedness under our senior secured credit facilities (subject to our base rate and LIBOR floors, as applicable). While we may in the future enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

The terms of our indebtedness restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The credit agreement governing our senior secured credit facilities contains a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to incur certain liens, make investments and acquisitions, incur or guarantee additional indebtedness, pay dividends or make other distributions in respect of, or repurchase or redeem, capital stock, or enter into certain other types of contractual arrangements affecting our

subsidiaries or indebtedness. In addition, the restrictive covenants in the credit agreement governing our senior secured credit facilities require us to maintain specified financial ratios and satisfy other financial condition tests, and we expect that the agreements governing any new senior secured credit facilities will contain similar requirements to satisfy financial condition tests and, with respect to any new revolving credit facility,

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maintain specified financial ratios, subject to certain conditions. Our ability to meet those financial ratios and tests can be affected by events beyond our control.

A breach of the covenants under the credit agreement governing our senior secured credit facilities, or any replacement facility, could result in an event of default unless we obtain a waiver to avoid such default. If we are unable to obtain a waiver, such a default may allow the creditors to accelerate the related debt and may result in the acceleration of or default under any other debt to which a cross-acceleration or cross-default provision applies. In the event our lenders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness.

Acquisitions may disrupt our operations or expose us to additional risk.

Acquisitions are an integral part of our growth strategy. Acquisitions involve numerous risks, including potential difficulties in the integration of acquired operations, such as bringing new centers through the re-licensing or accreditation processes, successfully implementing our curriculum programs, not meeting financial objectives, increased costs, undisclosed liabilities not covered by insurance or by the terms of the acquisition, diversion of management's attention and resources in connection with an acquisition, loss of key employees of the acquired operation, failure of acquired operations to effectively and timely adopt our internal control processes and other policies, and write-offs or impairment charges relating to goodwill and other intangible assets. We may not have success in identifying, executing and integrating acquisitions in the future.

The success of our operations in international markets is highly dependent on the expertise of local management and operating staff, as well as the political, social, legal and economic operating conditions of each country in which we operate.

The success of our business depends on the actions of our employees. In international markets that are newer to our business, we are highly dependent on our current local management and operating staff to operate our centers in these markets in accordance with local law and best practices. If the local management or operating staff were to leave our employment, we would have to expend significant time and resources building up our management or operational expertise in these markets. Such a transition could adversely affect our reputation in these markets and could materially and adversely affect our business and operating results.

If the international markets in which we compete are affected by changes in political, social, legal, economic or other factors, our business and operating results may be materially and adversely affected. As of December 31, 2014, we had 233 centers located in five foreign countries; therefore, we are subject to inherent risks attributed to operating in a global economy. Our international operations may subject us to additional risks that differ in each country in which we operate, and such risks may negatively affect our results. The factors impacting the international markets in which we operate may include changes in laws and regulations affecting the operation of child care centers, the imposition of restrictions on currency conversion or the transfer of funds or increases in the taxes paid and other changes in applicable tax laws.

In addition, instability in European financial markets or other events could cause fluctuations in exchange rates that may affect our revenues. Most of our revenues, costs and debts are denominated in U.S. dollars. However, revenues and costs from our operations outside of the United States are denominated in the currency of the country in which the center is located, and these currencies could become less valuable as a result of exchange rate fluctuations. The current economic challenges in Europe and related European financial restructuring efforts may cause the value of the European currencies, including the British pound and the Euro, to further deteriorate. The potential dissolution of the Euro, or market perceptions concerning this and related issues, could adversely affect the value of our Euro- and British pound-denominated assets. Unfavorable currency fluctuations as a result of this and other market forces could result in a reduction in our revenues and net earnings, which in turn could materially and adversely affect our business and operating results.

Because our success depends substantially on the value of our brands and reputation as a provider of choice, adverse publicity could impact the demand for our services.

Adverse publicity concerning reported incidents or allegations of physical or sexual abuse or other harm to a child at any child care center, whether or not directly relating to or involving Bright Horizons, could result in decreased enrollment at our child care centers, termination of existing corporate relationships or inability to attract new corporate

relationships, or increased insurance costs, all of which could adversely affect our operations. Brand value and our reputation can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in substantial litigation. These incidents may arise from events that are beyond our ability to control and may damage our brands and reputation, such as instances of physical or sexual abuse or actions taken (or not taken) by one or more center managers or teachers relating to the health, safety or welfare of children in our care. In addition, from time to time, customers and others make claims and take legal action against us. Whether or not customer claims or legal action related to our performance have merit, they may adversely affect our reputation and the demand for our services. Demand for our services could diminish significantly if any such incidents or other matters erode consumer confidence in us or our services, which would likely result in lower sales, and could materially and adversely affect our business and operating results. Any reputational damage could have a material

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adverse effect on our brand value and our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Our business activities subject us to litigation risks that may lead to significant reputational damage, money damages and other remedies and increase our litigation expense.

Because of the nature of our business, we may be subject to claims and litigation alleging negligence, inadequate supervision or other grounds for liability arising from injuries or other harm to the people we serve, primarily children. We may also be subject to employee claims based on, among other things, discrimination, harassment or wrongful termination. In addition, claimants may seek damages from us for physical or sexual abuse, and other acts allegedly committed by our employees or agents. We face the risk that additional lawsuits may be filed which could result in damages and other costs that our insurance may be inadequate to cover. In addition to diverting our management resources, such allegations may result in publicity that may materially and adversely affect us and our brands, regardless of whether such allegations are valid. Any such claim or the publicity resulting from it may have a material adverse effect on our business, reputation, results of operations and financial condition including, without limitation, adverse effects caused by increased cost or decreased availability of insurance and decreased demand for our services from employer sponsors and families.

Our international operations may be subject to additional risks related to litigation, including difficulties enforcing contractual obligations governed by foreign law due to differing interpretations of rights and obligations, limitations on the availability of insurance coverage and limits, compliance with multiple and potentially conflicting laws, new and potentially untested laws and judicial systems and reduced or diminished protection of intellectual property. A substantial judgment against us or one of our subsidiaries could materially and adversely affect our business and operating results.

Our continued profitability depends on our ability to pass on our increased costs to our customers.

Hiring and retaining key employees and qualified personnel, including teachers, is critical to our business. Because we are primarily a services business, inflationary factors such as wage and benefits cost increases result in significant increases in the costs of running our business. In addition, increased competition for teachers in certain markets could result in significant increases in the costs of running our business. Any employee organizing efforts could also increase our payroll and benefits expenses. Our success depends on our ability to continue to pass along these costs to our customers. In the event that we cannot increase the cost of our services to cover these higher wage and benefit costs without reducing customer demand for our services, our revenues could be adversely affected, which could have a material adverse effect on our financial condition and results of operations, as well as our growth.

Changes in our relationships with employer sponsors may affect our operating results.

We derive a significant portion of our business from child care and early education centers associated with employer sponsors for whom we provide these services at single or multiple sites pursuant to contractual arrangements. Our contracts with employers for full service center-based care typically have terms of three to ten years, and our contracts related to back-up dependent care typically have terms of one to three years. While we have a history of consistent contract renewals, we may not experience a similar renewal rate in the future. The termination or non-renewal of a significant number of contracts or the termination of a multiple-site client relationship could have a material adverse effect on our business, results of operations, financial condition or cash flows.

We are subject to additional risks in light of the material weakness that we have identified and if the Company fails to maintain an effective system of internal control over financial reporting and effective disclosure controls and procedures, we may not be able to accurately report financial results or prevent fraud.

As further described in Item 9A of this Form 10-K, management has concluded that, because of a material weakness in internal control over financial reporting related to information technology general controls, our internal control over financial reporting and our disclosure controls and procedures were not effective as of December 31, 2014. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements would not be prevented or detected on a timely basis. If we fail to remediate this material weakness in our internal control, or after having remediated such material weakness, thereafter fail to maintain the adequacy of our internal control over financial reporting or our disclosure controls and procedures, we could be subjected to regulatory scrutiny, civil or

criminal penalties or shareholder litigation, the defense of any of which could cause the diversion of management's attention and resources, we could incur significant legal and other expenses, and we could be required to pay damages to settle such actions if any such actions were not resolved in our favor. Moreover, we may be the subject of negative publicity focusing on this material weakness and we may be subject to negative reactions from shareholders and others with whom we do business. In addition, continued or future failure to maintain adequate internal control over financial reporting could result in financial statements that do not accurately reflect our financial condition or results of operations. As of the date of filing of this Annual Report, we have not fully remediated the identified material weakness. We may not be able to remediate the material weakness in a timely manner and our management may be required to

devote significant time and expense to remediate the material weakness. Furthermore, there can be no assurance that we will not conclude in the future that this weakness continues to exist or that we will not identify any significant deficiencies or other material weaknesses that will impair our ability to report our financial condition and results of operations accurately or on a timely basis.

Significant increases in the costs of insurance or of insurance claims or our deductibles may negatively affect our profitability.

We currently maintain the following major types of commercial insurance policies: workers' compensation, commercial general liability (including coverage for sexual and physical abuse), professional liability, automobile liability, excess and "umbrella" liability, commercial property coverage, student accident coverage, employment practices liability, commercial crime coverage, fiduciary liability, privacy breach/Internet liability and directors' and officers' liability. These policies are subject to various limitations, exclusions and deductibles. To date, we have been able to obtain insurance in amounts we believe to be appropriate. Such insurance, particularly coverage for sexual and physical abuse, may not continue to be readily available to us in the form or amounts we have been able to obtain in the past, or our insurance premiums could materially increase in the future as a consequence of conditions in the insurance business or in the child care industry.

Changes in laws and regulations could impact the way we conduct business.

Our child care and early education centers are subject to numerous national, state and local regulations and licensing requirements. Although these regulations vary greatly from jurisdiction to jurisdiction, government agencies generally review, among other issues, the adequacy of buildings and equipment, licensed capacity, the ratio of adults to children, educational qualifications and training of staff, record keeping, dietary program, daily curriculum, hiring practices and compliance with health and safety standards. Failure of a child care or early education center to comply with applicable regulations and requirements could subject it to governmental sanctions, which can include fines, corrective orders, placement on probation or, in more serious cases, suspension or revocation of one or more of our child care centers' licenses to operate, and require significant expenditures to bring those centers into compliance. Although we expect to pay employees at rates above the minimum wage, increases in the statutory minimum wage rates could result in a corresponding increase in the wages we pay to our employees.

Our operating results are subject to seasonal fluctuations.

Our revenue and results of operations fluctuate with the seasonal demands for child care and the other services we provide. Revenue in our child care centers that have mature operating levels typically declines during the third quarter due to decreased enrollments over the summer months as families withdraw children for vacations and older children transition into elementary schools. In addition, use of our back-up services tends to be higher when school is not in session and during holiday periods, which can increase the operating costs of the program and impact results of operations. We may be unable to adjust our expenses on a short-term basis to minimize the effect of these fluctuations in revenue. Our quarterly results of operations may also fluctuate based upon the number and timing of child care center openings and/or closings, acquisitions, the performance of new and existing child care and early education centers, the contractual arrangements under which child care centers are operated, the change in the mix of such contractual arrangements, competitive factors and general economic conditions. The inability of existing child care centers to maintain their current enrollment levels and profitability, the failure of newly opened child care centers to contribute to profitability and the failure to maintain and grow our other services could result in additional fluctuations in our future operating results on a quarterly or annual basis.

We depend on key management and key employees to manage our business.

Our success depends on the efforts, abilities and continued services of our executive officers and other key employees. We believe future success will depend upon our ability to continue to attract, motivate and retain highly-skilled managerial, sales and marketing, divisional, regional and child care and early education center director personnel.

Significant competition in our industry could adversely affect our results of operations.

We compete for enrollment and sponsorship of our child care and early education centers in a highly-fragmented market. For enrollment, we compete with family child care (operated out of the caregiver's home) and center-based child care (such as residential and work-site child care centers, full- and part-time nursery schools, private and public elementary schools and church-affiliated and other not-for-profit providers). In addition, substitutes for organized

child care, such as relatives and nannies caring for children, can represent lower cost alternatives to our services. For sponsorship, we compete primarily with large community-based child care companies with divisions focused on employer sponsorship and with regional child care providers who target employer sponsorship. We believe that our ability to compete successfully depends on a number of factors, including quality of care, site convenience and cost. We often face a price disadvantage to our competition, which may have access to greater financial resources, greater name recognition or lower operating or compliance costs. In addition, certain competitors may be able to operate with little or no rental expense and sometimes do not comply or are not required to comply

with the same health, safety and operational regulations with which we comply. Therefore, we may be unable to continue to compete successfully against current and future competitors.

The growth of our business may be adversely affected if we do not execute our growth strategies successfully.

Our ability to grow in the future will depend upon a number of factors, including the ability to develop and expand new and existing client relationships, to continue to provide and expand the high-quality services we offer and to hire and train qualified personnel. Achieving and sustaining growth increases requires the successful execution of our growth strategies, which may require the implementation of enhancements to operational and financial systems, expanded sales and marketing capacity and additional or new organizational resources. We may be unable to manage our expanding operations effectively, or we may be unable to maintain or accelerate our growth.

Governmental universal child care benefit programs could reduce the demand for our services.

National, state or local child care benefit programs comprised primarily of subsidies in the form of tax credits or other direct government financial aid provide us opportunities for expansion in additional markets. However, a universal benefit with governmentally mandated or provided child care could reduce the demand for early care services at our existing child care and early education centers due to the availability of lower cost care alternatives or could place downward pressure on the tuition and fees we charge, which could adversely affect our revenues and results of operations.

Breaches in data security could adversely affect our financial condition and operating results.

For various operational needs, we receive certain personal information including credit card information and personal information for the children and families that we serve. While we have policies and practices that protect our data, a compromise of our systems that results in unauthorized persons obtaining personal information could adversely affect our reputation and our operations, results of operations, financial condition or cash flows, and could result in litigation against us or in the imposition of penalties. In addition, a security breach could require us to expend significant additional resources related to the security of our information systems and could result in a disruption to our operations.

Our tax rate is dependent upon a number of factors, a change in any of which could impact our future tax rates and net income.

As a global company, our future tax rates may be adversely affected by a number of factors, including changes in tax laws or the interpretation of such tax laws in the various jurisdictions in which we operate; changes in the estimated realization of our net deferred tax assets; the jurisdictions in which profits are determined to be earned and taxed; the repatriation of non-U.S. earnings for which we have not previously provided taxes; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses that are not deductible for tax purposes, including impairment of goodwill in connection with acquisitions; changes in available tax credits; and the resolution of issues arising from tax audits with various tax authorities. Losses for which no tax benefits can be recorded could materially impact our tax rate and its volatility from one quarter to another. Any significant change in our jurisdictional earnings mix or in the tax laws in those jurisdictions could impact our future tax rates and net income in those periods.

A regional or global health pandemic or other catastrophic event could severely disrupt our business.

A health pandemic is a disease that spreads rapidly and widely by infection and affects many individuals in an area or population at the same time. A regional or global health pandemic, depending upon its duration and severity, could severely affect our business. Enrollment in our child care centers could experience sharp declines as families might avoid taking their children out in public in the event of a health pandemic, and local, regional or national governments might limit or ban public interactions to halt or delay the spread of diseases causing business disruptions and the temporary closure of our centers. Additionally, a health pandemic could also impair our ability to hire and retain an adequate level of staff. A health pandemic may have a disproportionate impact on our business compared to other companies that depend less on the performance of services by employees.

Other unforeseen events, including war, terrorism and other international, regional or local instability or conflicts (including labor issues), embargos, natural disasters such as earthquakes, tsunamis, hurricanes, or other adverse weather and climate conditions, whether occurring in the United States or abroad, could disrupt our operations or result in political or economic instability. Enrollment in our child care centers could experience sharp declines as families might avoid taking their children out in public as a result of one or more of these events.

Risks Related to Our Common Stock

We are no longer a “controlled company” within the meaning of the New York Stock Exchange listing rules. However, we may continue to rely on exemptions from certain corporate governance requirements during the one year transition period.

As of December 10, 2014, our Sponsor no longer controls a majority of the voting power of our outstanding common stock. As a result, we are no longer a "controlled company" under the New York Stock Exchange ("NYSE") rules.

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Consequently, under the NYSE corporate governance rules, we will be required to comply with certain corporate governance requirements including:

- the requirement that a majority of the board of directors consist of independent directors;
- the requirement that we have a nominating and corporate governance committee with a written charter addressing the committee's purpose and responsibilities;
- the requirement that the nominating and corporate governance committee have at least one independent director as of the date we are no longer a "controlled company", a majority of independent directors as of 90 days of the date we are no longer a "controlled company", and be composed entirely of independent directors within 1 year of the date we are no longer a "controlled company."
- the requirement that we have a compensation committee with a written charter addressing the committee's purpose and responsibilities;
- the requirement that the compensation committee have at least one independent director as of the date we are no longer a "controlled company", a majority of independent directors as of 90 days of the date we are no longer a "controlled company", and be composed entirely of independent directors within 1 year of the date we are no longer a "controlled company"; and
- the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees.

During the transition periods, we intend to continue to utilize the available exemptions from certain corporate governance requirements as permitted by the NYSE rules. Accordingly, during the transition periods, you will not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance standards.

Further, certain provisions of our certificate of incorporation and bylaws were automatically triggered when our Sponsor's beneficial ownership became less than 50% of our outstanding shares, including the need for super majority approval to amend, alter, change or repeal specified provisions of our certificate of incorporation and bylaws, a prohibition on the ability of our stockholders to act by written consent and certain limitations on the ability of our stockholders to call a special meeting.

Our stock price could be extremely volatile, and, as a result, you may not be able to resell your shares at or above the price you paid for them.

Since our initial public offering in January 2013, the price of our common stock, as reported on the New York Stock Exchange, has ranged from a low of $27.50 on January 25, 2013 to a high of $50.13 on February 5, 2015. In addition, the stock market in general has been highly volatile. As a result, the market price of our common stock is likely to be similarly volatile, and investors in our common stock may experience a decrease, which could be substantial, in the value of their stock, including decreases unrelated to our operating performance or prospects, and could lose part or all of their investment. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including those described elsewhere herein and others such as:

- variations in our operating performance and the performance of our competitors;
- actual or anticipated fluctuations in our quarterly or annual operating results;
- publication of research reports by securities analysts about us or our competitors or our industry;
- our failure or the failure of our competitors to meet analysts' projections or guidance that we or our competitors may give to the market;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;the passage of legislation or other regulatory developments affecting us or our industry;
- speculation in the press or investment community;
- changes in accounting principles;
- terrorist acts, acts of war or periods of widespread civil unrest;

- natural disasters and other calamities; and
- changes in general market and economic conditions.

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In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

There may be sales of a substantial amount of our common stock by our current stockholders, and these sales could cause the price of our common stock to fall.

As of February 11, 2015, there were 61,651,158 shares of common stock outstanding. Approximately 43.1% of our outstanding common stock is beneficially owned by investment funds affiliated with the Sponsor and members of our management and employees.

Sales of substantial amounts of our common stock in the public market, or the perception that such sales will occur, could adversely affect the market price of our common stock and make it difficult for us to raise funds through securities offerings in the future.

In addition, certain holders of shares of our common stock may require us to register their shares for resale under the federal securities laws, and holders of additional shares of our common stock would be entitled to have their shares included in any such registration statement, all subject to reduction upon the request of the underwriter of the offering, if any. Registration of those shares would allow the holders to immediately resell their shares in the public market. Any such sales or anticipation thereof could cause the market price of our common stock to decline.

In addition, we have registered shares of common stock that are reserved for issuance under our 2012 Omnibus Long-Term Incentive Plan.

Provisions in our charter documents and Delaware law may deter takeover efforts that could be beneficial to stockholder value.

In addition to the Sponsor's beneficial ownership of a substantial percentage of our common stock, our certificate of incorporation and by-laws and Delaware law contain provisions that could make it harder for a third party to acquire us, even if doing so might be beneficial to our stockholders. These provisions include a classified board of directors and limitations on actions by our stockholders. In addition, our board of directors has the right to issue preferred stock without stockholder approval that could be used to dilute a potential hostile acquiror. Our certificate of incorporation also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock other than the Sponsor. As a result, you may lose your ability to sell your stock for a price in excess of the prevailing market price due to these protective measures, and efforts by stockholders to change the direction or management of the company may be unsuccessful.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our certificate of incorporation provides that, subject to limited exceptions, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law, our certificate of incorporation or our by-laws, or (iv) any other action asserting a claim against us that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

The Sponsor continues to have significant influence over us, including control over decisions that require the approval of stockholders, which could limit your ability to influence the outcome of key transactions, including a change of control.

As of February 11, 2015, investment funds affiliated with the Sponsor beneficially owned 42.2% of our outstanding common stock. For as long as the Sponsor continues to control a substantial percentage of the voting power of our common stock, it will be able to direct the election of all of the members of our board of directors and could also have some influence over our business and affairs, including any determinations with respect to mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional common stock or other equity securities, the repurchase or redemption of common stock and the payment of dividends.

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Additionally, the Sponsor is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. The Sponsor may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

Because we have no current plans to pay cash dividends on our common stock for the foreseeable future, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.

We may retain future earnings, if any, for future operations, expansion and debt repayment and have no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur, including our senior credit facilities. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease approximately 86,000 square feet of office space for our corporate headquarters in Watertown, Massachusetts under an operating lease that expires in 2020, with two ten-year renewal options. We also lease approximately 32,800 square feet for our contact center in Broomfield, Colorado, as well as spaces for regional administrative offices including locations in Rushden and London in the United Kingdom, and Amsterdam, in the Netherlands.

As of December 31, 2014, we operated 884 child care and early education centers in 42 U.S. states and the District of Columbia, Puerto Rico, the United Kingdom, Canada, Ireland, the Netherlands and India, of which 75 were owned, with the remaining centers being operated under leases or operating agreements. The leases typically have initial terms ranging from 10 to 15 years with various expiration dates, often with renewal options. Certain owned properties are subject to mortgages under the terms of our senior credit agreement governing our senior credit facilities. The following table summarizes the locations of our child care and early education centers as of December 31, 2014:

Location	Number of Centers
United States:	
Alabama	3
Alaska	1
Arizona	12
California	70
Colorado	18
Connecticut	20
Delaware	6
District of Columbia	19
Florida	33
Georgia	24
Illinois	47
Indiana	9
Iowa	8
Kentucky	8
Louisiana	3
Maine	1
Maryland	13
Massachusetts	62
Michigan	13

Minnesota	8
Mississippi	1

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Location	Number of Centers
Missouri	6
Montana	3
Nebraska	4
Nevada	6
New Hampshire	3
New Jersey	50
New Mexico	1
New York	47
North Carolina	20
Ohio	7
Oklahoma	3
Oregon	1
Pennsylvania	18
Puerto Rico	1
Rhode Island	1
South Carolina	4
South Dakota	1
Tennessee	7
Texas	33
Utah	2
Virginia	21
Washington	24
Wisconsin	9
Total United States	651
Canada	2
Ireland	6
United Kingdom	197
Netherlands	27
India	1
Total number of centers	884

We believe that our properties are generally in good condition, are adequate for our operations, and meet or exceed the regulatory requirements for health, safety and child care licensing established by the governments where they are located.

Item 3. 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 position, 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 4. Mine Safety Disclosures

None.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Principal Market

Our common stock has been listed on the New York Stock Exchange under the symbol “BFAM” since January 25, 2013. Prior to that time, there was no public market for our common stock. The following tables set forth the high and low sales prices of our common stock for each of the fiscal quarters ended March 31, June 30, September 30 and December 31 for the past two fiscal years as reported on the New York Stock Exchange.

	High	Low
2014:		
First quarter	$40.05	$35.65
Second quarter	$44.16	$36.98
Third quarter	$43.78	$39.66
Fourth quarter	$47.30	$40.60

	High	Low
2013:		
First quarter (1)	$36.26	$27.50
Second quarter	$38.39	$30.35
Third quarter	$37.40	$32.88
Fourth quarter	$37.99	$32.78

(1) Represents the period from January 25, 2013, the date on which our common stock first began to trade on the New York Stock Exchange after pricing our initial public offering, through March 31, 2013, the end of our first quarter.

As of February 11, 2015, there were 23 holders of record of our common stock.

Dividend Policy

There were no cash dividends paid on any of our classes of equity during the past two fiscal years. Our board of directors does not currently intend to pay regular dividends on our common stock. However, we expect to reevaluate our dividend policy on a regular basis and may, subject to compliance with the covenants contained in our senior secured credit facilities and other considerations, determine to pay dividends in the future.

Issuer Purchases of Equity Securities

The following table sets forth information regarding purchases of our common stock during the three months ended December 31, 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)
October 1, 2014 to October 31, 2014	276,088	$41.83	276,088	$206,218
November 1, 2014 to November 30, 2014	26,743	$43.00	26,743	$205,068
December 1, 2014 to December 31, 2014	4,500,000	$44.81	4,500,000	$3,423
	4,802,831		4,802,831	

(1) On March 28, 2014, our Board of Directors authorized the potential repurchase of up to $225.0 million of our common stock. Under this authorization, the Company has repurchased a total of 480,470 shares through open market purchases and 4.5 million shares in a single block trade, including 4.8 million shares repurchased in the three months ended December 31, 2014. The repurchase program has no expiration date. $3.4 million remains outstanding under such authorization, however we do not

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expect to make any additional repurchases under this authorization. All repurchased shares have been retired as of December 31, 2014. On February 4, 2015, the Board of Directors of the Company approved a $250.0 million repurchase program of its common stock. The repurchase program has no expiration date and replaces the prior authorization.

Equity Benefit Plans

The following table provides information as of December 31, 2014 with respect to shares of our common stock that may be issued under existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available For Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,418,208	$20.14	3,401,910
Equity compensation plans not approved by security holders	—	—	—
Total	4,418,208	$20.14	3,401,910

Performance Graph

The following graph compares the total return to stockholders on our common stock from January 25, 2013, the date our stock became listed on the New York Stock Exchange, through December 31, 2014, relative to the total return of the following:

- the New York Stock Exchange Composite Index; and
- a peer group that we selected in good faith, consisting of seven other companies in the contracted outsourced / business services sector: The Advisory Board Company, The Corporate Executive Board Company, Healthways, IHS Inc., Iron Mountain Inc., Towers Watson and Wageworks (the “Peer Group”).

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The graph assumes that $100 was invested in our common stock, and in the index and peer group noted above, and that all dividends, if any, were reinvested. No dividends have been declared or paid on our common stock since January 25, 2013. The stock price performance shown in the graph is not necessarily indicative of future performance.

	January 25, 2013	December 31, 2013	December 31, 2014
Bright Horizons Family Solutions Inc.	$100.00	$129.73	$166.00
NYSE Composite Index	$100.00	$119.71	$127.92
Peer Group	$100.00	$136.30	$140.42

Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data, and should be read in conjunction with “Management’s discussion and analysis of financial condition and results of operations” and the consolidated financial statements and the related notes thereto appearing elsewhere in this Annual Report on Form 10-K. The selected historical financial data has been derived from our audited consolidated financial statements. Historical results are not necessarily indicative of the results to be expected for future periods.

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	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except share data)				
Consolidated Statement of Operations Data:					
Revenue	$1,352,999	$1,218,776	$1,070,938	$973,701	$878,159
Cost of services	1,039,397	937,840	825,168	766,500	698,264
Gross profit	313,602	280,936	245,770	207,201	179,895
Selling, general and administrative expenses	137,683	141,827	123,373	92,938	83,601
Amortization of intangible assets	28,999	30,075	26,933	27,427	27,631
Income from operations	146,920	109,034	95,464	86,836	68,663
Gains from foreign currency transactions	—	—	—	835	—
Loss on extinguishment of debt (1)	—	(63,682)	—	—	—
Interest income	103	85	152	824	28
Interest expense	(34,709)	(40,626)	(83,864)	(82,908)	(88,999)
Net interest expense and other	(34,606)	(104,223)	(83,712)	(81,249)	(88,971)
Income (loss) before income taxes	112,314	4,811	11,752	5,587	(20,308)
Income tax (expense) benefit	(40,279)	7,533	(3,243)	(825)	10,314
Net income (loss)	72,035	12,344	8,509	4,762	(9,994)
Net (loss) income attributable to non-controlling interest	—	(279)	347	3	—
Net income (loss) attributable to Bright Horizons Family Solutions Inc.	$72,035	$12,623	$8,162	$4,759	$(9,994)
Accretion of Class L preference	—	—	79,211	71,568	64,712
Accretion of Class L preference for vested options	—	—	5,436	1,274	1,251
Net income (loss) available to common shareholders	$72,035	$12,623	$(76,485)	$(68,083)	$(75,957)
Allocation of net income (loss) to common shareholders:					
Class L—basic and diluted	$—	$—	$79,211	$71,568	$64,712
Common stock—basic	$71,755	$12,623	$(76,485)	$(68,083)	$(75,957)
Common stock—diluted	$71,761	$12,623	$(76,485)	$(68,083)	$(75,957)
Earnings (loss) per share:					
Class L—basic and diluted	$—	$—	$59.73	$54.33	$49.21
Common stock—basic	$1.09	$0.20	$(12.62)	$(11.32)	$(12.64)
Common stock—diluted	$1.07	$0.20	$(12.62)	$(11.32)	$(12.64)
Weighted average shares outstanding: (2)					
Class L—basic and diluted	—	—	1,326,206	1,317,273	1,315,153
Common stock—basic	65,612,572	62,659,264	6,058,512	6,016,733	6,006,960
Common stock—diluted	67,244,172	64,509,036	6,058,512	6,016,733	6,006,960
Consolidated Balance Sheet Data (at period end):					
Total cash and cash equivalents	$87,886	$29,585	$34,109	$30,448	$15,438
Total assets	2,141,076	2,102,670	1,916,108	1,771,164	1,721,692
Total liabilities, excluding debt	468,940	449,310	401,125	389,986	362,034
Total debt, including current maturities	921,177	764,223	906,643	799,257	795,458
Total redeemable non-controlling interest	—	—	8,126	15,527	—
Class L common stock	—	—	854,101	772,422	699,533

Total stockholders’ equity (deficit)	750,959	889,137	(253,887)	(206,028)	(135,333)

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(1) The Company recognized a loss on the extinguishment of debt in the year ended December 31, 2013 in relation to its debt refinancing on January 30, 2013.

(2) On January 11, 2013, we effected a 1–for–1.9704 reverse split of our Class A common stock. All previously reported Class A per share and Class A share amounts in the table above and in the consolidated financial statements included elsewhere herein have been retroactively adjusted to reflect the reverse stock split. In addition, we converted each share of our Class L common stock into 35.1955 shares of Class A common stock, and, immediately following the conversion of our Class L common stock, reclassified the Class A common stock into common stock, which was recorded in the first quarter of 2013. These two events are collectively referred to herein as the "Reclassification."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the audited consolidated financial statements and related notes appearing elsewhere in this annual report on Form 10-K. This discussion contains forward-looking statements and involves numerous risks and uncertainties. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and generally contain words such as "believes," expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates," "anticipates" or similar expressions. Our forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from those projected or implied by the forward-looking statement. Forward-looking statements are based on current expectations and assumptions and currently available data and are neither predictions nor guarantees of future events or performance. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. See "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" for a discussion of factors that could cause our actual results to differ from those expressed or implied by forward-looking statements.

Overview

We are a leading provider of high-quality child care and early education as well as other services that are designed to help employers and families better address the challenges of work and life. We provide services primarily under multi-year contracts with employers who offer child care and other dependent care solutions as part of their employee benefits packages to improve their employee engagement, productivity, recruitment and retention. As of December 31, 2014, we had more than 900 client relationships with employers across a diverse array of industries, including more than 140 Fortune 500 companies and more than 80 of Working Mother magazine's 2014 "100 Best Companies for Working Mothers."

At December 31, 2014, we operated 884 child care and early education centers, consisting of 653 centers in North America and 231 centers in Europe and India. We have the capacity to serve approximately 101,000 children in 42 states, the District of Columbia, the United Kingdom, Puerto Rico, Canada, Ireland, the Netherlands and India. We seek to cluster centers in geographic areas to enhance operating efficiencies and to create a leading market presence. Our North American child care and early education centers have an average capacity of 127 children per location, while the centers in Europe and India have an average capacity of 78 children per location.

We operate centers for a diverse group of clients. At December 31, 2014, we managed child care centers on behalf of single employers in the following industries and also manage lease/consortium locations in approximately the following proportions:

Classification	Percentage of Centers North America	Europe
Single employer locations:		
Consumer	7.5 %	2.5 %
Financial Services	10.0	2.5
Government	7.5	5.0
Higher Education	7.5	5.0
Healthcare and Pharmaceuticals	20.0	5.0
Industrial/Manufacturing	2.5	2.5
Professional Services and Other	7.5	—

Technology	5.0	2.5
	67.5	25.0
Lease/consortium locations	32.5	75.0
	100.0 %	100.0 %

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Segments

Our primary reporting segments are full service center-based care services and back-up dependent care services. Full service center-based care includes child care and early education, preschool and elementary education. Back-up dependent care includes center-based back-up child care, in-home well child care, in home mildly ill child care and in home adult/elder care. Our remaining business services are included in the other educational advisory services segment, which includes our college preparation and admissions advisory services as well as tuition reimbursement administration and educational advising services.

Center Models

We operate our centers under two principal business models, which we refer to as profit & loss (“P&L”) and cost-plus. Approximately 75% of our centers operate under the P&L model. Under this model, we retain the financial risk for the child care and early education centers and are therefore subject to variability in financial performance due to fluctuation in enrollment levels. The P&L model is further classified into two subcategories: (i) the sponsor model and (ii) the lease/consortium model. Under the sponsor model, we provide child care and early education services on a priority enrollment basis for employees of an employer sponsor, and the employer sponsor generally funds the development of the facility, pre-opening and start-up capital equipment, and maintenance costs. Our operating contracts typically have initial terms ranging from three to ten years. Under the lease/consortium model, the child care center is typically located in an office building or office park in a property that we lease, and we provide these services to the employees of multiple employers. We typically negotiate initial lease terms of 10 to 15 years for these centers, often with renewal options.

When we open a new P&L center, it generally takes two to three years for the center to ramp up to a steady state level of enrollment, as a center will typically enroll younger children at the outset and children age into the older (preschool) classrooms over time. We refer to centers that have been open for three years or less as “ramping centers.” A center will typically achieve breakeven operating performance between 12 to 24 months and will typically achieve a steady state level of enrollment that supports our average center operating profit by the end of three years, although the period needed to reach a steady state level of enrollment may be longer or shorter. Centers that have been open more than three years are referred to as “mature centers.”

Approximately 25% of our centers operate under the cost-plus business model. Under this model, we receive a management fee from the employer sponsor and an additional operating subsidy from the employer to supplement tuition paid by parents of children in the center. Under this model, the employer sponsor typically funds the development of the facility, pre-opening and start-up capital equipment, and maintenance costs, and the center is profitable from the outset. Our cost-plus contracts typically have initial terms ranging from three to five years. For additional information about the way we operate our centers, see “Business—Our Operations.”

Performance and Growth Factors

We believe that 2014 was a successful year for the Company. We grew our income from operations by 34.7%, from $109.0 million to $146.9 million and increased net income from $12.3 million in 2013 to $72.0 million in 2014. In addition, we ended 2014 with the capacity to serve 101,000 children and families in our full service and back-up child care centers, and we added 33 child care and early education centers and closed 29 centers, resulting in a net increase of 4 centers for the year. We expect to add approximately 20-25 net new centers in 2015.

Our year-over-year improvement in operating income can be attributed to enrollment gains in ramping and mature centers, disciplined pricing strategies aimed at covering anticipated cost increases with tuition increases, contributions from new mature child care centers added through acquisitions or transitions of management, and expanded back-up dependent care and educational advisory services.

General economic conditions and the business climate in which individual clients operate remain some of the largest variables in terms of our future performance. These variables impact client capital and operating spending budgets, industry specific sales leads and the overall sales cycle, enrollment levels, as well as labor markets and wage rates as competition for human capital fluctuates.

Our ability to increase operating income will depend upon our ability to sustain the following characteristics of our business:

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maintenance and incremental growth of enrollment in our mature and ramping centers, and cost management in response to changes in enrollment in our centers,

- effective pricing strategies, including typical annual tuition increases of 3% to 4%, consistent with typical annual increases in personnel costs, including wages and benefits,
- additional growth in expanded service offerings to clients,

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- successful integration of acquisitions and transitions of management of centers, and
- successful management and improvement of underperforming centers.

Cost Factors

Our most significant expense is cost of services. Cost of services consists of direct expenses associated with the operation of our centers, direct expenses to provide back-up dependent care services (including fees to back-up dependent care providers) and direct expenses to provide educational advisory services. Direct expenses consist primarily of staff salaries, taxes and benefits, food costs, program supplies and materials, parent marketing and facilities costs, including occupancy costs and depreciation. Personnel costs are the largest component of a center's operating costs, and, on a weighted average basis, comprise approximately 70% of a center's operating expenses. We are typically responsible for additional costs in a P&L model center as compared to a cost-plus model center. As a result, personnel costs in centers operating under the P&L model will typically represent a smaller proportion of overall costs when compared to the centers operating under the cost-plus model.

We are highly leveraged. As of December 31, 2014, our consolidated total debt was $921.2 million and, historically, a large portion of our cash flows from operations has been used to make interest payments on our indebtedness. In connection with the refinancing of our debt in January 2013, we reduced our annual interest payments from $34.9 million in 2013 to $32.5 million in 2014, and we expect our interest payments to approximate $37.0 million in 2015, including interest on the incremental term loans we borrowed in December 2014.

Seasonality

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.

The following table sets forth statement of operations data as a percentage of revenue for the three years ended December 31, 2014, (in thousands, except percentages).

	Years Ended December 31,					
	2014		2013		2012	
Revenue	$1,352,999	100.0 %	$1,218,776	100.0 %	$1,070,938	100.0 %
Cost of services (1)	1,039,397	76.8 %	937,840	76.9 %	825,168	77.1 %
Gross profit	313,602	23.2 %	280,936	23.1 %	245,770	22.9 %
Selling, general and administrative expenses (2)	137,683	10.2 %	141,827	11.6 %	123,373	11.5 %
Amortization of intangible assets	28,999	2.1 %	30,075	2.5 %	26,933	2.5 %
Income from operations	146,920	10.9 %	109,034	9.0 %	95,464	8.9 %
Loss on extinguishment of debt	—	— %	(63,682)	(5.2)%	—	— %
Net interest expense and other	(34,606)	(2.6)%	(40,541)	(3.4)%	(83,712)	(7.8)%
Income before tax	112,314	8.3 %	4,811	0.4 %	11,752	1.1 %
Income tax (expense) benefit	(40,279)	(3.0)%	7,533	0.6 %	(3,243)	(0.3)%
Net income	$72,035	5.3 %	$12,344	1.0 %	$8,509	0.8 %
Adjusted EBITDA (3)	$238,081	17.6 %	$208,541	17.1 %	$180,851	16.9 %
Adjusted income from operations (3)	$149,620	11.1 %	$126,850	10.4 %	$112,482	10.5 %

Adjusted net income (3)	$97,238	7.2	%	$78,260	6.4	%	$37,807	3.5	%

(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.

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Direct expenses consist primarily of salaries, taxes and benefits for personnel, food costs, program supplies and materials, parent marketing and facilities costs, which include occupancy costs and depreciation.

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

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

Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

Revenue. Revenue increased $134.2 million, or 11%, to $1.4 billion for the year ended December 31, 2014 from $1.2 billion for 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 educational advisory services, and typical annual tuition increases of 3% to 4%. Revenue generated by full service center-based care services for the year ended December 31, 2014 increased by $106.8 million, or 10%, when compared to the prior year. 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 $44.7 million of incremental revenue in the year ended December 31, 2014.

Revenue generated by back-up dependent care services in the year ended December 31, 2014 increased by $18.4 million, or 13%, when compared to the prior year. Additionally, revenue generated by other educational advisory services in the year ended December 31, 2014 increased by $9.0 million, or 37%, when compared to the prior year.

Cost of Services. Cost of services increased $101.6 million, or 11%, to $1.0 billion for the year ended December 31, 2014 when compared to the prior year. Cost of services in the full service center-based care services segment increased $89.7 million, or 11%, to $931.1 million in 2014. In 2014 and 2013, personnel costs typically represent approximately 70% of total cost of services for this segment, and personnel costs increased 9% as a result of a 14% increase in overall enrollment, routine wage and benefit cost increases, and labor costs associated with centers we have added since December 31, 2013 that are in the ramping stage. In addition, program supplies, materials, food and facilities costs, which comprise approximately 30% of total cost of services for this segment, increased 16% in connection with the enrollment growth and the incremental occupancy costs associated with centers that have been added since December 31, 2013. Cost of services in the back-up dependent care segment increased $8.0 million, or 10%, to $90.9 million for the year ended December 31, 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 $3.9 million, or 29%, to $17.4 million for the year ended December 31, 2014 due to personnel and technology costs related to the incremental sales of these services.

Gross Profit. Gross profit increased $32.7 million, or 12%, to $313.6 million for the year ended December 31, 2014 when compared to the prior year, and was 23% as a percentage of revenue for the year ended December 31, 2014, which is consistent with the prior year. 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 dependent care services revenue with proportionately lower direct costs, 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 $4.1 million, or 3%, to $137.7 million for the year ended December 31, 2014 compared to $141.8 million for the prior year, and as a percentage of revenue decreased to 10% from 12% in the prior year. Results for the year ended December 31, 2014, included $2.7 million of costs associated with secondary offerings of common shares and costs associated with amending our credit agreement. Results for the year ended December 31, 2013, included a $7.5 million fee for the termination of the management agreement with Bain Capital Partners LLC ("Sponsor termination fee"), a $5.0 million stock-based compensation charge for certain stock options that vested upon completion of the Offering ("performance-based stock compensation charge"), $1.3 million of costs associated with secondary offerings of common shares and $4.0 million of acquisition related costs. After taking these respective charges into account, SGA increased over the comparable period due primarily to continued investments in technology and marketing, incremental overhead associated with the operations of the

acquired businesses, an increase in compensation costs, including annual wage increases and stock-based compensation costs, as well as routine increases in SGA costs compared to the prior year.

Amortization of Intangible Assets. Amortization expense on intangible assets totaled $29.0 million for the year ended December 31, 2014, compared to $30.1 million for the prior year. We do not expect any significant change in amortization expense in 2015.

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Income from Operations. Income from operations increased by $37.9 million, or 35%, to $146.9 million for the year ended December 31, 2014 when compared to 2013. Income from operations was 11% of revenue for the year ended December 31, 2014, compared to 9% in the prior year.

- In the full service center-based care segment, income from operations increased $25.0 million for the year ended December 31, 2014, compared to the same period in the prior year. Results for the year ended December 31, 2014 included a proportionate charge of $2.4 million for the costs associated with the completion of secondary offerings of our common shares and costs associated with amending our credit agreement. Results for the year ended December 31, 2013 included a proportionate charge of $15.1 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 $12.3 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 December 31, 2013, partially offset by incremental overhead from acquired centers during the integration period.
- Income from operations for the back-up dependent care segment increased $9.6 million for the year ended December 31, 2014, compared to the same period in the prior year. Results for the year ended December 31, 2014 included a proportionate charge of $0.3 million for the costs associated with the completion of secondary offerings of our common shares and costs associated with amending our credit agreement. Results for the year ended December 31, 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 $8.0 million in 2014 due to the expanding revenue base.
- Income from operations in the other educational advisory services segment increased $3.3 million for the year ended December 31, 2014, compared to the same period in 2013. Results for the year ended December 31, 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 $2.5 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 $34.6 million for the year ended December 31, 2014 from $40.5 million in 2013 due to the debt refinancing completed on January 30, 2013, which reduced the rate at which interest is payable, and also reduced total borrowings outstanding.

Income Tax Expense. We recorded an income tax expense of $40.3 million during the year ended December 31, 2014, compared to an income tax benefit of $7.5 million during the prior year. The difference between the effective income tax and the statutory rate for 2014 was due primarily to the recognition of unrecognized tax benefits of approximately $1.5 million due to the completion of tax examinations and a lapse of the statute of limitations in certain jurisdictions in the fourth quarter of 2014 and differences resulting from filing tax returns. The difference between the effective income tax and the statutory rate for 2013 was due primarily to the recognition of unrecognized tax benefits of approximately $5.3 million upon completion of a tax enquiry in the United Kingdom in the second quarter of 2013 and lapse of the statute of limitations in certain jurisdictions in the fourth quarter of 2013, recognition of tax credit due to law change, and decrease in the applicable tax rate in the United Kingdom.

Adjusted EBITDA and Adjusted Income from Operations. Adjusted EBITDA and adjusted income from operations increased $29.5 million, or 14%, and $22.8 million, or 18%, respectively, for the year ended December 31, 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 $19.0 million, or 24%, for the year ended December 31, 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.

Year Ended December 31, 2013 Compared to the December 31, 2012

Revenue. Revenue increased $147.8 million, or 14%, to $1.2 billion for the year ended December 31, 2013 from $1.07 billion for the prior year. Revenue growth is primarily attributable to contributions from new and ramping child care and early education centers, expanded sales of our back-up dependent care services and typical annual tuition increases of 3% to 4%. Revenue generated by full service center-based care services in the year ended December 31, 2013 increased by $127.6 million,

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or 14%, when compared to the prior year. Our acquisitions of Kidsunlimited and Casterbridge Early Care and Education contributed approximately $86.9 million of incremental revenue in the year ended December 31, 2013. Revenue generated by back-up dependent care services in the year ended December 31, 2013 increased by $14.4 million, or 11%, when compared to the prior year. Additionally, revenue generated by other educational advisory services in the year ended December 31, 2013 increased by $5.8 million, or 31%, when compared to the prior year.
Cost of Services. Cost of services increased $112.7 million, or 14%, to $937.8 million for the year ended December 31, 2013 when compared to the prior year. Cost of services in the full service center-based care services segment increased $100.8 million, or 14%, to $841.3 million in 2013. Personnel costs increased 11% as a result of a 14% increase in overall enrollment and routine wage increases. In addition, program supplies, materials, food and facilities costs increased 21% in connection with the enrollment growth and the incremental occupancy costs associated with centers that have been added since December 31, 2012. Cost of services in the back-up dependent care segment increased $8.0 million, or 11%, to $82.9 million for the year ended December 31, 2013, primarily for personnel costs and for increased care provider fees associated with the higher levels of back-up services provided. Cost of services in the other educational advisory services segment increased by $3.9 million, or 40%, to $13.6 million for the year ended December 31, 2013, due to personnel and technology costs related to the incremental sales of these services.
Gross Profit. Gross profit increased $35.2 million, or 14%, to $280.9 million for the year ended December 31, 2013 when compared to the prior year, and as a percentage of revenue, was 23% for the year ended December 31, 2013, which is consistent with the prior year. The increase in gross profit is primarily due to contributions from acquired centers, increased enrollment in our mature and ramping P&L centers and expanded back-up services revenue with proportionately lower direct cost partially offset by training and integration costs of the 2013 acquisitions as well as costs associated with additional lease model centers in 2013.
Selling, General and Administrative Expenses. SGA increased $18.5 million, or 15%, to $141.8 million for the year ended December 31, 2013 compared to $123.4 million for the prior year, and as a percentage of revenue remained consistent at 12% compared to the prior year. Results for the year ended December 31, 2013 included a $7.5 million fee for the Sponsor termination fee, a $5.0 million performance based stock compensation charge, $1.3 million of costs associated with secondary offerings of common shares and $4.0 million of acquisition related costs. Results for the year ended December 31, 2012 included $15.2 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options and $1.8 million of expenses associated with the Offering and refinancing. In addition to these items, SGA increased over the comparable period due primarily to continued investments in technology and marketing, incremental overhead related to the operations of the acquired businesses, an increase in compensation costs, including annual wage increases and stock-based compensation costs, as well as routine increases in SGA costs compared to the prior year.
Amortization of Intangible Assets. Amortization expense on intangible assets totaled $30.1 million for the year ended December 31, 2013, compared to $26.9 million for the prior year due to acquisitions in 2012 and 2013. We do not expect any significant change in amortization expense in 2014.
Income from Operations. Income from operations increased by $13.6 million, or 14%, to $109.0 million for the year ended December 31, 2013 when compared to 2012. Income from operations was 9% of revenue for the year ended December 31, 2013, which is consistent with the prior year.

- In the full service center-based care segment, income from operations increased $7.1 million for the year ended December 31, 2013. Results for the year ended December 31, 2013 included a proportionate charge for the Sponsor termination fee, the performance-based stock compensation charge, costs associated with the secondary offerings of common shares and acquisition related costs, which aggregated to $15.1 million. Results for the year ended December 31, 2012 included $12.6 million of incremental compensation costs associated with the modification of the previously existing awards and the issuance of immediately vested options as well as costs related to the Offering. In addition to these items, income from operations increased over the comparable period of 2012 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 in 2013 partially offset by incremental overhead from acquired centers during the integration period.
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Income from operations for the back-up dependent care segment increased $5.9 million in the year ended December 31, 2013. Results for the year ended December 31, 2013 included an aggregate proportionate charge of $1.9 million for the Sponsor termination fee and the performance-based stock compensation charge. Results for the year ended December 31, 2012 included $3.1 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options as well as costs related to the Offering.

- Income from operations in the other educational advisory services segment increased $0.6 million for the year ended December 31, 2013 compared to the same period in 2012. Results for the year ended December 31, 2013 included an aggregate proportionate charge of $0.8 million for the Sponsor termination fee and the performance-based stock

compensation charge. Results for the year ended December 31, 2012 included $1.3 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options as well as costs related to the Offering.

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.

On January 30, 2013, we completed a refinancing of our existing debt with $890.0 million senior secured credit facilities which included a $790.0 million senior secured term loan facility and a $100.0 million revolving credit facility. We used the net proceeds of our initial public offering and certain proceeds from the issuance of the $790.0 million secured term loan to redeem our senior notes in full for $213.3 million. We used the remainder of the $790.0 million secured term loan to repay all of the existing indebtedness under the senior subordinated notes as well as existing indebtedness outstanding under the term loans. Accordingly, we recognized a loss on extinguishment of debt of $63.7 million including redemption premiums on the senior notes, the senior subordinated notes and the Series C term loans, and the write-off of deferred financing costs associated with this indebtedness, in the first quarter of 2013.

Net Interest Expense and Other. Net interest expense and other decreased to $40.5 million for the year ended December 31, 2013 from $83.7 million in 2012 due to the debt refinancing completed on January 30, 2013, which reduced the rate at which interest is payable, and also reduced total borrowings outstanding.

Income Tax Expense. We recorded an income tax benefit of $7.5 million during the year ended December 31, 2013, compared to an income tax expense of $3.2 million during the prior year. The difference between the effective income tax and the statutory rate for 2013 was due primarily to the recognition of unrecognized tax benefits of approximately $5.3 million upon completion of a tax enquiry in the United Kingdom in the second quarter of 2013 and lapse of statute of limitations in certain jurisdictions in the fourth quarter of 2013, recognition of tax credit due to law change, and decrease in the applicable tax rate in the United Kingdom.

Adjusted EBITDA and Adjusted Income from Operations. Adjusted EBITDA and adjusted income from operations increased $27.7 million, or 15% and $14.4 million, or 13%, respectively, for the year ended December 31, 2013 over 2012 primarily as a result of the increase in gross profit due to additional contributions from full-service centers, including the impact of acquired centers as well as the growth in the back-up business, offset by increases in SGA spending.

Adjusted Net Income. Adjusted net income increased $40.5 million, or 107% for the year ended December 31, 2013 when compared to 2012 primarily due to the incremental gross profit described above, which was offset by increases in SGA spending to support the growth. Adjusted net income also increased due to the reduction in interest expense associated with the refinancing of our debt in January 2013.

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

	Years Ended December 31,		
	2014	2013	2012
Net income	$72,035	$12,344	$8,509
Interest expense, net	34,606	40,541	83,712
Income tax expense (benefit)	40,279	(7,533)	3,243
Depreciation	48,448	42,733	34,415
Amortization of intangible assets (a)	28,999	30,075	26,933
EBITDA	224,367	118,160	156,812
Additional adjustments:			
Loss on extinguishment of debt (b)	—	63,682	—
Deferred rent (c)	3,092	2,985	2,142
Stock compensation expense (d)	7,922	10,692	17,596
Sponsor management fee (e)	—	7,674	2,500
Expenses related to stock offerings and Credit Agreement amendment (g)	2,700	1,336	1,801
Acquisition-related costs (f)	—	4,012	—
Total adjustments	13,714	90,381	24,039
Adjusted EBITDA	$238,081	$208,541	$180,851
Income from operations	$146,920	$109,034	$95,464
Performance-based stock compensation expense (2013) and effect of option modification (2012) (d)	—	4,968	15,217
Sponsor termination fee (e)	—	7,500	—
Expenses related to stock offerings and Credit Agreement amendment (g)	2,700	1,336	1,801
Acquisition-related costs (f)	—	4,012	—
Adjusted income from operations	$149,620	$126,850	$112,482
Net income	$72,035	$12,344	$8,509
Income tax expense (benefit)	40,279	(7,533)	3,243
Income before tax	112,314	4,811	11,752
Stock compensation expense (d)	7,922	10,692	17,596
Sponsor management fee (e)	—	7,674	2,500
Amortization of intangible assets (a)	28,999	30,075	26,933
Expenses related to stock offerings and Credit Agreement amendment (g)	2,700	1,336	1,801
Acquisition-related costs (f)	—	4,012	—
Loss on extinguishment of debt (b)	—	63,682	—
Adjusted income before tax	151,935	122,282	60,582
Adjusted income tax expense (h)	(54,697)	(44,022)	(22,775)
Adjusted net income	$97,238	$78,260	$37,807

(a) Represents amortization of intangible assets, including approximately $20.0 million in 2014, 2013 and 2012 associated with intangible assets recorded in connection with our going private transaction in May 2008.

(b) 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.

(c) Represents rent in excess of cash paid for rent, recognized on a straight line basis over the lease life in accordance with ASC Topic 840, Leases.

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

(e) Represents fees paid to our Sponsor under a management agreement, including the Sponsor termination fee.

(f) Represents costs associated with the acquisition of businesses.

(g) Represents costs incurred in connection with secondary offerings of common stock in June 2013, March 2014, and December 31, 2014, costs incurred in connection with the initial public offering of common stock completed in January 2013, and costs in connection with the November 2014 amendment to the Credit Agreement.

(h) Represents income tax expense calculated on adjusted income before tax at the annual effective rate of approximately 36% for both of the years ended December 31, 2014 and 2013, and of approximately 38% for the year ended December 31, 2012.

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

- adjusted EBITDA, adjusted income from operations, and adjusted net income do not fully reflect the Company's cash expenditures, future requirements for capital expenditures or contractual commitments;
- adjusted EBITDA, adjusted income from operations, and adjusted net income do not reflect changes in, or cash requirements for, the Company's working capital needs;
- adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future; and,
- adjusted EBITDA, adjusted income from operations and adjusted net income do not reflect any cash requirements for such replacements.

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

Non-GAAP Earnings per Share

On January 30, 2013, the Company completed an initial public offering ("the Offering") and, after the exercise of the underwriters' 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 years ended December 31, 2013 and 2012 give effect to the conversion of all weighted average outstanding shares of Class L common stock at the conversion factor of 35.1955 common shares for each Class L share, as if the conversion was completed at the beginning of the each year.

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

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

	2014	2013	2012
	(In thousands, except share data)		
Diluted earnings per pro forma common share:			
Net income	$72,035	$12,344	$8,509
Pro forma weighted average number of common shares—diluted:			
Weighted average number of Class L shares over period in which Class L shares were outstanding (1)	—	1,327,115	1,326,206
Adjustment to weight Class L shares over respective period	—	(1,290,251)	—
Weighted average number of Class L shares over period	—	36,864	1,326,206
Class L conversion factor	—	35.1955	35.1955
Weighted average number of converted Class L common shares	—	1,297,479	46,676,483
Weighted average number of common shares	65,612,572	62,659,264	6,058,512
Pro forma weighted average number of common shares—basic	65,612,572	63,956,743	52,734,995
Incremental dilutive shares—stock options using treasury stock method	1,631,600	1,849,772	256,418
Pro forma weighted average number of common shares—diluted	67,244,172	65,806,515	52,991,413
Diluted earnings per pro forma common share	$1.07	$0.19	$0.16
Diluted adjusted earnings per pro forma common share:			
Adjusted net income	$97,238	$78,260	$37,807
Pro forma weighted average number of common shares—diluted	67,244,172	65,806,515	52,991,413
Diluted adjusted earnings per pro forma common share	$1.45	$1.19	$0.71

(1) The weighted average number of Class L shares in the actual Class L earnings per share calculation for the year ended December 31, 2013 represents the weighted average from the beginning of the period up through the date of conversion of the Class L shares into common shares. As such, the pro forma weighted average number of common shares includes an adjustment to the weighted average number of Class L shares outstanding to reflect the length of time the Class L shares were outstanding prior to conversion relative to the respective years. The converted Class L shares are already included in the weighted average number of common shares outstanding for the period after their conversion.

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 revolving credit facility. No amounts were outstanding at December 31, 2014 or 2013 under the revolving credit facility.

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We had a working capital deficit of $56.3 million and $89.9 million at December 31, 2014 and 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 to repurchase shares.

On January 30, 2013, we completed our initial public offering, raising $233.3 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 of our Offering and certain proceeds from the issuance of a $790.0 million senior secured term loan to redeem our senior notes in full for $213.3 million. We used the remainder of the $790.0 million senior secured term loan to refinance all of the remaining existing indebtedness under the senior credit facilities and the senior subordinated notes. The $790.0 million senior secured term loan has a maturity date in 2020 and is part of an $890.0 million senior credit facility, which includes a $100.0 million revolving credit facility due 2018.

On December 9, 2014, we entered into an Incremental Joinder which supplements and amends the credit agreement. The December 2014 amendment to the credit agreement provided for, among other things, new term loans in aggregate principal amount of $165.0 million, which were fully drawn by the Borrower on December 9, 2014. The proceeds of the loans were used for general corporate purposes, including to pay fees and expenses related to the transactions and to fund share repurchases by the Company.

On March 28, 2014, the Board of Directors of the Company approved a $225 million repurchase program of its common stock. During the year ended December 31, 2014, the Company repurchased and retired 5 million shares of common stock for $221.6 million. On February 4, 2015, the Board of Directors of the Company approved a $250 million repurchase program of its common stock. The repurchase program has no expiration date and replaces the prior authorization, of which $3.4 million remained outstanding.

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.

Cash Flows

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net cash provided by operating activities	$174,297	$159,679	$106,982
Net cash used in investing activities	$(78,001)	$(201,132)	$(180,890)
Net cash (used in) provided by financing activities	$(36,420)	$36,761	$77,205
Cash and cash equivalents (beginning of period)	$29,585	$34,109	$30,448
Cash and cash equivalents (end of period)	$87,886	$29,585	$34,109

Cash Provided by Operating Activities

Cash provided by operating activities was $174.3 million for the year ended December 31, 2014, compared to $159.7 million in 2013. Net income, adjusted for non-cash expenses, decreased by $3.8 million from 2013 to 2014 due primarily to incremental income taxes paid on higher taxable income when compared to the prior year. The impact of changes in working capital during 2014 was to increase operating cash flows by $23.4 million, principally due to the timing of payments for income taxes, payroll and other routine operating expenses when compared to the prior year.

Cash provided by operating activities was $159.7 million for the year ended December 31, 2013, compared to $107.0 million in 2012. Net income, adjusted for non-cash expenses, increased by $45.8 million from 2012 to 2013, due to continued increases in gross margins and the impact of new and acquired centers. The impact of changes in working capital during 2013 was to increase operating cash flows by $5.0 million, which reflected increases in deferred

revenue and deferred rent due to growth in the overall business. These increases were offset by an increase in accounts receivable due to expansion in the business and a decrease in income taxes payable due to the timing of payments. The impact of changes in working capital was minimal in 2012.

We expect to generate a similar level of cash from operations in 2015 as we generated in 2014.

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Cash Used in Investing Activities

Cash used in investing activities was $78.0 million for the year ended December 31, 2014 compared to $201.1 million for the same period in 2013. The Company acquired five centers in 2014 for $13.2 million compared to 114 centers for $129.8 million in the prior year, which is the primary driver to the reduction in cash used in investing activities. Cash used in investing activities in 2014 related primarily to fixed asset additions, including the addition of new child care centers, maintenance and refurbishments in our existing centers, and continued investments in technology and equipment. The investment in fixed asset additions in 2014 was relatively consistent with 2013.

Cash used in investing activities was $201.1 million for the year ended December 31, 2013 compared to $180.9 million for the same period in 2012. The increase in cash used in investing activities in 2013 related primarily to the acquisitions of 114 centers for $129.8 million compared to the acquisition of 27 centers for $111.8 million in the prior year, as well as fixed asset additions, including the addition of new child care centers, maintenance and refurbishments in our existing centers, and continued investments in technology and equipment. The investment in fixed asset additions in 2013 was relatively consistent with 2012.

We estimate that we will spend approximately $80 to $90 million in 2015 on fixed asset additions related to new child care centers, maintenance and refurbishments in our existing centers and continued investments in technology and equipment. As part of our growth strategy, we also expect to continue to make selective acquisitions, which may vary in size and which are less predictable in terms of the timing and amount of the capital requirements.

Cash Provided by (Used in) Financing Activities

Cash used in financing activities amounted to $36.4 million for the year ended December 31, 2014 compared to cash provided by financing activities of $36.8 million in 2013. The 2014 decrease in cash provided by financing activities related to stock repurchases of $221.6 million, offset by net proceeds of $161.8 million from the issuance of term loans, proceeds from the exercise of stock options of $17.4 million and proceeds from the issuance of restricted stock of $4.7 million.

Cash provided by financing activities amounted to $36.8 million for the year ended December 31, 2013 compared to $77.2 million in 2012. The decrease in the cash provided by financing activities was due primarily to our debt refinancing after the completion of our Offering in 2013 compared to incremental borrowings to complete and acquisition in 2012. In January 2013, we raised $233.3 million, net of directly attributable expenses and underwriting discounts and commission, in our initial public offering, and used the net proceeds along with certain proceeds from the issuance of a $790.0 million senior secured term loan to redeem our senior notes in full for $213.3 million. We used the remainder of the $790.0 million senior secured term loan to refinance all of the remaining existing indebtedness under the senior credit facilities and the senior subordinated notes. We also received proceeds of $11.0 million from the exercise of stock options and recorded a related tax benefit of $5.9 million in 2013. We also made debt repayments of $7.9 million in 2013 compared to $5.5 million in 2012.

Debt

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

	December 31, 2014	2013
Term loans	$939,200	$782,100
Deferred financing costs and original issue discount	(18,023)	(17,877)
Total debt	921,177	764,223
Less current maturities	9,550	7,900
Long-term debt	$911,627	$756,323

The $1.1 billion senior secured credit facilities include the following terms:

- $955.0 million secured term loan facility with a maturity date in 2020;
- $100.0 million revolving credit facility with a maturity date in 2018, of which there were no borrowings outstanding at December 31, 2014, and the entire amount was available for borrowings at that date.
- applicable margin percentages for the loan facilities range from 1.75% to 2.50% per annum for base rate loans and 2.75% to 3.50% per annum for LIBOR rate loans as defined in the credit agreement, provided that the base rate for the term loan may not be lower than 2.0% and LIBOR may not be lower than 1.0%.

Principal payments of $2.4 million are due quarterly with the remaining principal balance due on January 30, 2020.

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

In addition, the credit agreement governing the $1.1 billion senior secured credit facilities requires Bright Horizons Capital Corp., our direct subsidiary, to be a passive holding company, subject to certain exceptions. The revolving credit facility requires Bright Horizons Family Solutions LLC, the borrower, and its restricted subsidiaries to comply with a maximum senior secured first lien net leverage ratio financial maintenance covenant, to be tested only if, on the last day of each fiscal quarter, revolving loans and/or swingline loans in excess of a specified percentage of the revolving commitments on such date are outstanding under the revolving credit facility. The breach of this covenant is subject to certain equity cure rights.

The credit agreement governing the senior secured credit facilities contains certain customary affirmative covenants and events of default. We were in compliance with our financial covenants at December 31, 2014.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2014 (in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Long-term debt (1)	$9,550	$9,550	$9,550	$9,550	$9,550	$891,450	$939,200
Interest on long-term debt (2)	36,224	35,592	34,960	33,953	33,196	2,733	176,658
Operating leases	84,684	82,274	75,469	70,526	64,819	362,722	740,494
Total	$130,458	$127,416	$119,979	$114,029	$107,565	$1,256,905	$1,856,352

(1) Scheduled principal payments on our long-term debt.

(2) Interest on the outstanding principal balance of long-term debt calculated using the weighted average interest rate for the year ended December 31, 2014 of 3.9%, including commitment fees on the unused line of credit.

* We are unable to estimate the timing of potential future payments related to our accrual for uncertain tax positions in the amount of $0.7 million, exclusive of penalties and interest, at December 31, 2014.

Overdraft Facility

Our subsidiaries in the United Kingdom maintain an overdraft facility with a U.K. bank to support local short-term working capital requirements. The overdraft facility is repayable upon demand from the U.K. bank. The facility provides maximum borrowings of £0.3 million (approximately $0.4 million at December 31, 2014) and is secured by a cross guarantee by and among the Company's subsidiaries in the United Kingdom and a right of offset against all accounts maintained by the subsidiaries at the lending bank. The overdraft facility bears interest at the U.K. bank's base rate plus 2.15%. At December 31, 2014 and 2013, there were no amounts outstanding under the overdraft facility.

Our subsidiary in the Netherlands maintained a multi-purpose revolving credit facility with a Dutch bank to support working capital, letter of credit requirements, and the construction and fitting out of new child care centers. The facility was secured by a right of offset against all accounts we maintain at the lending bank and by an additional pledge of certain equipment. The €2.2 million facility was terminated in December 2014 and at December 31, 2013, there was €0.5 million (approximately $0.7 million) outstanding under the facility. The weighted average interest rate for the years ended December 31, 2014 and 2013 was 5.53% and 5.61%, respectively.

The Company has 23 letters of credit outstanding used to guarantee certain rent payments for up to $1.1 million. These letters of credit are guaranteed by cash deposits. No amounts have been drawn against these letters of credit.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States. Preparation of the consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could

differ from these estimates. The accounting policies we believe are critical in the preparation of our consolidated financial statements relate to revenue recognition and goodwill and other intangibles. Our significant accounting policies are more fully described under the heading “Organization and Significant Accounting Policies” in Note 1 to our consolidated financial statements contained elsewhere herein.

Revenue Recognition—We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed and determinable and collectability is reasonably assured. We recognize revenue as services are performed.

Center-based care revenues consist primarily of tuition, which is comprised of amounts paid by parents, supplemented in some cases by payments from employer sponsors and, to a lesser extent, by payments from government agencies. Revenue may also include management fees, operating subsidies paid either in lieu of or to supplement parent tuition and fees for other services.

We enter into contracts with employer sponsors to manage and operate their child care centers and to provide back-up dependent care services and educational advisory services under various terms. Our contracts to operate child care and early education centers are generally three to ten years in length with varying renewal options. Our contracts for back-up dependent care arrangements and for educational advisory services are generally one to three years in length with varying renewal options.

We record deferred revenue for prepaid tuition and management fees and amounts received from consulting projects in advance of services being performed. We are also a party to certain agreements where the performance of services extends beyond an annual operating cycle. In these circumstances, we record a long-term obligation and recognize revenue over the period of the agreement as the services are rendered.

Goodwill and Intangible Assets—Goodwill represents the excess of cost over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Our intangible assets principally consist of various customer relationships and trade names. Identified intangible assets that have determinable useful lives are valued separately from goodwill and are amortized over the estimated period during which we derive a benefit. Intangible assets related to customer relationships include relationships with employer clients and relationships with parents. Customer relationships with parents are amortized using an accelerated method over their useful lives. All other intangible assets are amortized on a straight line basis over their useful lives.

In valuing the customer relationships and trade names, we utilize variations of the income approach, which relies on historical financial and qualitative information, as well as assumptions and estimates for projected financial information. We consider the income approach the most appropriate valuation technique because the inherent value of these assets is their ability to generate current and future income. Projected financial information is subject to risk if our estimates are incorrect. The most significant estimate relates to our projected revenues and profitability. If we do not meet the projected revenues and profitability used in the valuation calculations, then the intangible assets could be impaired. In determining the value of contractual rights and customer relationships, we reviewed historical customer attrition rates and determined a rate of approximately 30% per year for relationships with parents, and approximately 3.5% to 4.0% for employer client relationships. Our multi-year contracts with client customers typically result in low annual turnover, and our long-term relationships with clients make it difficult for competitors to displace us. The value of our customer relationships intangible assets could become impaired if future results differ significantly from any of the underlying assumptions, including a higher customer attrition rate. Customer relationships are considered to be finite-lived assets, with estimated lives ranging from four to seventeen years. Certain trade names acquired as part of our strategy to expand by completing strategic acquisitions are considered to be finite-lived assets, with estimated lives ranging from five to ten years. The estimated lives were determined by calculating the number of years necessary to obtain 95% of the value of the discounted cash flows of the respective intangible asset.

Goodwill and certain trade names are considered indefinite-lived assets. Our trade names identify us and differentiate us from competitors, and, therefore, competition does not limit the useful life of these assets. Additionally, we believe that our primary trade names will continue to generate sales for an indefinite period. Goodwill and intangible assets with indefinite lives are not subject to amortization but are tested annually for impairment or more frequently if there are indicators of impairment. We test goodwill for impairment by comparing the fair value of each reporting unit, determined by estimating the present value of expected future cash flows, to its carrying value. We have identified

three reporting segments: full service center-based care, back-up dependent care and other educational advisory services.
During the fourth quarter of fiscal 2014, we changed the annual goodwill impairment testing date from December 31 to October 1 of each year, which did not result in any delay, acceleration or avoidance of impairment. We believe this change is preferable because it more closely aligns the date of the annual goodwill impairment test with the timing of the Company's annual strategic planning process. This change was applied prospectively beginning on October 1, 2014; retrospective application to prior periods is impracticable as we are unable to objectively determine, without the use of hindsight, the assumptions that would have been used in those earlier periods to estimate fair value.

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As part of the annual goodwill impairment assessment, we estimated the fair value of each of our operating segments using the income approach. We forecasted future cash flows by operating segment for each of the next ten years and applied a long-term growth rate to the final year of forecasted cash flows. The cash flows were then discounted using our estimated discount rate. We compared the estimated fair value to the net book value of the operating segment to determine whether we need to perform step 2 of the analysis. The estimated fair value of the operating segment has exceeded the net book value and therefore, there has been no indication of goodwill impairment.

For certain trademarks that are included in our indefinite-lived intangible assets, we estimate the fair value first by estimating the total revenue attributable to each trademark and then by applying the royalty rate determined by an analysis of empirical, market-derived royalty rates for guideline intangible assets, consistent with the initial valuation, or 1% to 2%, and then comparing the estimated fair value of the trademarks with the carrying value of the trademarks. The forecasts of revenue and profitability growth for use in our long-range plan and the discount rate were the key assumptions in our intangible fair value analysis. We identified no impairments in the years ended December 31, 2014 and 2013. Impairment losses of $0.4 million were recorded in the year ended December 31, 2012 in relation to the carrying value of one indefinite-lived trademark.

Definite-lived intangible assets are reviewed for impairment when events or circumstances indicate that the carrying amount of the asset may not be recovered. Definite-lived intangible assets are considered to be impaired if the carrying amount of the asset exceeds the undiscounted future cash flows expected to be generated by the asset over its remaining useful life. If an asset is considered to be impaired, the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value and is charged to results of operations at that time. We identified no impairments in the years ended December 31, 2014, 2013 and 2012.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposures relate to foreign currency exchange rate risk and interest rate risk.

Foreign Currency Risk

Our exposure to fluctuations in foreign currency exchange rates is primarily the result of foreign subsidiaries domiciled in the United Kingdom, Ireland, the Netherlands, India and Canada. We have not used financial derivative instruments to hedge foreign currency exchange rate risks associated with our foreign subsidiaries.

The assets and liabilities of our British, Irish, Dutch, Indian and Canadian subsidiaries, whose functional currencies are the British pound, Euro, Indian rupee and Canadian dollar, respectively, are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. The cumulative translation effects for subsidiaries using a functional currency other than the U.S. dollar are included in accumulated other comprehensive loss as a separate component of stockholders' equity. We estimate that had the exchange rate in each country unfavorably changed by 10% relative to the U.S. dollar, our consolidated earnings before taxes would have decreased by approximately $1.0 million for 2014.

Interest Rate Risk

Interest rate exposure relates primarily to the effect of interest rate changes on borrowings outstanding under our revolving line of credit and term loans. No amounts were outstanding at December 31, 2014 under our revolving credit facility and no borrowings were made during the year. We had borrowings of $939.2 million and $782.1 million outstanding at December 31, 2014 and December 31, 2013, respectively, under our term loan facility, which were subject to a weighted average interest rate of 3.9% and 4.1%, respectively. Based on the outstanding borrowings under the senior credit facilities during 2014, we estimate that had the average interest rate on our borrowings increased by 100 basis points in 2014, our interest expense for the year would have increased by approximately $8.0 million in 2014. This estimate assumes the interest rate of each borrowing is raised by 100 basis points. The impact on future interest expense as a result of future changes in interest rates will depend largely on the gross amount of our borrowings at that time.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Bright Horizons Family Solutions Inc.
Watertown, Massachusetts

We have audited the accompanying consolidated balance sheets of Bright Horizons Family Solutions Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Bright Horizons Family Solutions Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2015 expressed an adverse opinion on the Company’s internal control over financial reporting because of a material weakness.

/s/ DELOITTE & TOUCHE LLP
Boston, Massachusetts
March 2, 2015

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	$87,886	$29,585
Accounts receivable—net	83,066	78,691
Prepaid expenses and other current assets	39,147	44,021
Current deferred income taxes	13,059	12,873
Total current assets	223,158	165,170
Fixed assets—net	398,947	390,894
Goodwill	1,095,738	1,096,283
Other intangibles—net	406,249	435,060
Deferred income taxes	580	236
Other assets	16,404	15,027
Total assets	$2,141,076	$2,102,670
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$9,550	$7,900
Accounts payable and accrued expenses	116,425	107,626
Deferred revenue	133,048	119,260
Other current liabilities	20,400	20,302
Total current liabilities	279,423	255,088
Long-term debt	911,627	756,323
Deferred rent and related obligations	43,105	37,467
Other long-term liabilities	23,401	19,006
Deferred revenue	5,525	5,761
Deferred income taxes	127,036	139,888
Total liabilities	1,390,117	1,213,533
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 25,000,000 shares authorized and no shares issued and outstanding at December 31, 2014 and 2013	—	—
Common stock, $0.001 par value; 475,000,000 shares authorized; 61,534,802 and 65,302,814 shares issued and outstanding at December 31, 2014 and 2013, respectively	62	65
Additional paid-in capital	1,083,091	1,270,198
Accumulated other comprehensive (loss) income	(21,687)	1,416
Accumulated deficit	(310,507)	(382,542)
Total stockholders' equity	750,959	889,137
Total liabilities and stockholders' equity	$2,141,076	$2,102,670

See notes to consolidated financial statements.

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

	Years ended December 31,		
	2014	2013	2012
Revenue	$1,352,999	$1,218,776	$1,070,938
Cost of services	1,039,397	937,840	825,168
Gross profit	313,602	280,936	245,770
Selling, general and administrative expenses	137,683	141,827	123,373
Amortization of intangible assets	28,999	30,075	26,933
Income from operations	146,920	109,034	95,464
Loss on extinguishment of debt	—	(63,682)	—
Interest income	103	85	152
Interest expense	(34,709)	(40,626)	(83,864)
Income before income taxes	112,314	4,811	11,752
Income tax (expense) benefit	(40,279)	7,533	(3,243)
Net income	72,035	12,344	8,509
Net (loss) income attributable to non-controlling interest	—	(279)	347
Net income attributable to Bright Horizons Family Solutions Inc.	$72,035	$12,623	$8,162
Accretion of Class L preference	—	—	79,211
Accretion of Class L preference for vested options	—	—	5,436
Net income (loss) available to common shareholders	$72,035	$12,623	$(76,485)
Allocation of net income (loss) to common shareholders:			
Class L—basic and diluted	$—	$—	$79,211
Common stock—basic	$71,755	$12,623	$(76,485)
Common stock—diluted	$71,761	$12,623	$(76,485)
Earnings (loss) per share:			
Class L—basic and diluted	$—	$—	$59.73
Common stock—basic	$1.09	$0.20	$(12.62)
Common stock—diluted	$1.07	$0.20	$(12.62)
Weighted average number of common shares outstanding:			
Class L—basic and diluted	—	—	1,326,206
Common stock—basic	65,612,572	62,659,264	6,058,512
Common stock—diluted	67,244,172	64,509,036	6,058,512

See notes to consolidated financial statements.

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

	Years ended December 31,		
	2014	2013	2012
Net income	$72,035	$12,344	$8,509
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(23,103)	10,589	5,591
Total other comprehensive (loss) income	(23,103)	10,589	5,591