

BRIGHT HORIZONS FAMILY SOLUTIONS INC.
Form 10-Q
May 06, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number: 001-35780

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

Delaware (State or other jurisdiction of incorporation)	80-0188269 (I.R.S. Employer Identification Number)
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200 Talcott Avenue South Watertown, MA (Address of principal executive offices)	02472 (Zip code)
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Registrant's telephone number, including area code: (617) 673-8000

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of April 22, 2016, the Company had 59,684,774 shares of common stock, \$0.001 par value, outstanding.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.

FORM 10-Q

For the quarterly period ended March 31, 2016

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PART I. FINANCIAL INFORMATION

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Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$40,152	\$ 11,539
Accounts receivable—net	84,312	97,295
Prepaid expenses and other current assets	35,195	43,879
Total current assets	159,659	152,713
Fixed assets—net	424,986	429,736
Goodwill	1,147,236	1,147,809
Other intangibles—net	382,111	389,331
Other assets	29,999	30,952
Total assets	\$2,143,991	\$ 2,150,541
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$9,550	\$ 9,550
Borrowings on revolving line of credit	—	24,000
Accounts payable and accrued expenses	118,677	114,776
Deferred revenue	146,739	137,283
Other current liabilities	26,715	19,734
Total current liabilities	301,681	305,343
Long-term debt—net	903,215	905,661
Deferred rent and related obligations	50,525	50,039
Other long-term liabilities	43,875	44,182
Deferred revenue	5,341	4,608
Deferred income taxes	111,286	113,100
Total liabilities	1,415,923	1,422,933
Stockholders' equity:		
Preferred stock, \$0.001 par value; 25,000,000 shares authorized and no shares issued or outstanding at March 31, 2016 and December 31, 2015	—	—
Common stock, \$0.001 par value; 475,000,000 shares authorized; 59,714,161 and 60,008,136 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	60	60
Additional paid-in capital	964,071	983,398
Accumulated other comprehensive loss	(44,210)	(39,270)
Accumulated deficit	(191,853)	(216,580)
Total stockholders' equity	728,068	727,608
Total liabilities and stockholders' equity	\$2,143,991	\$ 2,150,541
See notes to condensed consolidated financial statements.		

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share data)

(Unaudited)

	Three months ended	
	March 31,	
	2016	2015
Revenue	\$ 385,322	\$ 350,440
Cost of services	289,546	263,832
Gross profit	95,776	86,608
Selling, general and administrative expenses	40,031	36,845
Amortization of intangible assets	7,148	6,922
Income from operations	48,597	42,841
Interest income	19	38
Interest expense	(10,703)	(10,069)
Income before income taxes	37,913	32,810
Income tax expense	(13,186)	(10,278)
Net income	\$ 24,727	\$ 22,532
Earnings per common share:		
Common stock—basic	\$0.41	\$0.36
Common stock—diluted	\$0.40	\$0.35
Weighted average number of common shares outstanding:		
Common stock—basic	59,832,168	61,682,964
Common stock—diluted	61,300,409	63,189,367
See notes to condensed consolidated financial statements.		

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three months ended March 31,	
	2016	2015
Net income	\$24,727	\$22,532
Other comprehensive income (loss):		
Foreign currency translation adjustments	(4,940)	(16,883)
Total other comprehensive loss	(4,940)	(16,883)
Comprehensive income	\$19,787	\$5,649

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended	
	March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$24,727	\$22,532
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,525	19,386
Amortization of original issue discount and deferred financing costs	943	848
(Gain) loss on foreign currency transactions	(122)	185
Non-cash revenue and other	(29)	(80)
(Gain) loss on disposal of fixed assets	(166)	114
Stock-based compensation	2,597	2,300
Deferred rent	425	967
Deferred income taxes	(1,766)	4,395
Changes in assets and liabilities:		
Accounts receivable	12,905	8,180
Prepaid expenses and other current assets	8,601	(4,267)
Accounts payable and accrued expenses	5,238	(6,912)
Deferred revenue	10,183	(241)
Accrued rent and related obligations	291	(200)
Other assets	901	(808)
Other current and long-term liabilities	544	863
Net cash provided by operating activities	85,797	47,262
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets, net	(10,637)	(16,911)
Payments for acquisitions, net of cash acquired	(2,933)	(1,072)
Net cash used in investing activities	(13,570)	(17,983)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving line of credit	65,600	—
Repayments under revolving line of credit	(89,600)	—
Principal payments of long-term debt	(2,388)	(2,388)
Payments for debt issuance costs	(1,002)	—
Purchase of treasury stock	(23,385)	(738)
Proceeds from issuance of common stock upon exercise of options	1,682	4,210
Proceeds from issuance of restricted stock	3,351	3,864
Tax benefit from stock-based compensation	1,920	3,072
Net cash (used in) provided by financing activities	(43,822)	8,020
Effect of exchange rates on cash and cash equivalents	208	(1,524)
Net increase in cash and cash equivalents	28,613	35,775
Cash and cash equivalents—beginning of period	11,539	87,886
Cash and cash equivalents—end of period	\$40,152	\$123,661
NON-CASH TRANSACTION:		
Fixed asset purchases recorded in accounts payable and accrued expenses	\$3,000	\$2,000

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash payments of interest	\$9,794	\$9,334
Cash payments of taxes	\$3,806	\$11,503

See notes to condensed consolidated financial statements.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

Basis of Presentation—The accompanying unaudited condensed consolidated balance sheet as of March 31, 2016 and the condensed consolidated statements of income, comprehensive income and cash flows for the interim periods ended March 31, 2016 and 2015 have been prepared by the Company in accordance with accounting principles generally accepted in the U.S. for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required in accordance with generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of the Company’s management, the Company’s unaudited condensed consolidated balance sheet as of March 31, 2016 and the condensed consolidated statements of income, comprehensive income and cash flows for the interim periods ended March 31, 2016 and 2015, reflect all adjustments (consisting only of normal and recurring adjustments) necessary to present fairly the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

Stock Offerings—On January 30, 2013, the Company completed an initial public offering (the “Offering”) and, after the exercise of the overallotment option on February 21, 2013, issued a total of 11.6 million shares of common stock. Subsequent to the Offering, certain of the Company’s shareholders sold shares of the Company’s common stock in secondary offerings (“secondary offerings”) totaling 9.65 million, 15.9 million, and 9.8 million in the years ended December 31, 2015, 2014 and 2013, respectively. The Company did not receive proceeds from the sale of shares in the secondary offerings. The Company purchased 2.1 million and 4.5 million of the shares sold in the secondary offerings in 2015 and 2014, respectively, from investment funds affiliated with Bain Capital Partners, LLC at the same price per share paid by the underwriter to the selling shareholders.

As of March 31, 2016, investment funds affiliated with Bain Capital Partners, LLC held approximately 27.6% of our common stock.

New Accounting Pronouncements— In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09: Compensation - Stock Compensation (Topic 718):

Improvements to Employee Share-Based Payment Accounting. The amendments in this update simplify several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods with early adoption permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard amends the existing guidance and requires lessees to recognize on the balance sheet assets and liabilities for the rights and obligations created by those leases with lease terms longer than twelve months. This update is effective for annual and interim reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied using a modified retrospective approach. Early adoption is permitted. The Company is in the process of evaluating the impact this standard will have on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for revenue recognition. The FASB has subsequently issued various ASUs which amend or clarifies specific

areas of the guidance. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration included in the transaction price and allocating the transaction price to each separate performance obligation. This new guidance is effective for the Company beginning January 1, 2018 and can be adopted using either a full retrospective or modified approach. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

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In 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments and ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. These standards were effective January 1, 2016, which did not have an impact on the Company's consolidated financial statements.

2. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the year ended December 31, 2015 and the three months ended March 31, 2016 are as follows (in thousands):

	Full service center-based care	Back-up dependent care	Other educational advisory services	Total
Balance at January 1, 2015	\$ 913,043	\$ 158,894	\$ 23,801	\$ 1,095,738
Additions from acquisitions	62,838	—	—	62,838
Adjustments to prior year acquisitions	(15) —	—	(15)
Effect of foreign currency translation	(10,752) —	—	(10,752)
Balance at December 31, 2015	965,114	158,894	23,801	1,147,809
Additions from acquisitions	2,100	—	—	2,100
Adjustments to prior year acquisitions	(7) —	—	(7)
Effect of foreign currency translation	(2,666) —	—	(2,666)
Balance at March 31, 2016	\$ 964,541	\$ 158,894	\$ 23,801	\$ 1,147,236

The Company also has intangible assets, which consist of the following at March 31, 2016 and December 31, 2015 (in thousands):

	Weighted average amortization period	Cost	Accumulated amortization	Net carrying amount
March 31, 2016				
Definite-lived intangibles:				
Customer relationships	14 years	\$410,056	\$(213,889)	\$ 196,167
Trade names	8 years	5,964	(2,894)	3,070
Non-compete agreements	5 years	53	(49)	4
		416,073	(216,832)	199,241
Indefinite-lived intangibles:				
Trade names	N/A	182,870	—	182,870
		\$598,943	\$(216,832)	\$ 382,111

	Weighted average amortization period	Cost	Accumulated amortization	Net carrying amount
December 31, 2015				