GOLDMAN SACHS GROUP INC
Form 424B2
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GS Finance Corp.
$114,000
Autocallable GS Momentum Builder® Multi-Asset 5S ER Index-Linked Notes due 2026
guaranteed by
The Goldman Sachs Group, Inc.

The notes do not bear interest. Unless your notes are automatically called on any annual call observation date, the amount that you will be paid on your notes on the stated maturity date (May 11, 2026) will be based on the performance of the GS Momentum Builder® Multi-Asset 5S ER Index as measured from the trade date (April 25, 2019) to and including the determination date (April 27, 2026). The index measures the extent to which the performance of the selected underlying assets (up to 14 ETFs and a money market position in 3-month USD LIBOR, which provide exposure to broad-based equities, fixed income, emerging markets, alternatives, commodities, inflation, and cash equivalent asset classes) outperform the sum of the return on 3-month USD LIBOR plus 0.65% per annum (accruing daily). LIBOR is being modified, see page PS-30.

If the final index level (the closing level of the index on the determination date) is greater than the initial index level of 102.63, the return on your notes will be the index return (the percentage increase or decrease in the final index level from the initial index level). Because the index measures the performance of the selected underlying assets less the sum of the return on 3-month USD LIBOR plus 0.65% per annum (accruing daily), on any day such assets must outperform the return on 3-month USD LIBOR plus 0.65% per annum for the index level to increase.

Your notes will be called if the closing level of the index on any call observation date is greater than or equal to the applicable call level (specified on page PS-12), resulting in a payment on the corresponding call payment date (the tenth business day after the call observation date) equal to the face amount of your notes plus the product of $1,000 times the applicable call return (specified on page PS-12).

The index rebalances on each index business day from among the 15 underlying assets. The daily weight used to rebalance each underlying asset on any index business day equals the average of the target weights for each underlying asset determined on such day and each of the prior 21 index business days. Target weights are determined by calculating for each day the combination of underlying assets with the highest return during three return look-back periods (9, 6 and 3 months), subject to a (a) limit of 5% on portfolio realized volatility over the related volatility look-back period (6, 3 and 1 months for the 9, 6 and 3 month return look-back periods, respectively) and (b) maximum weight for each underlying asset and each asset class. This results in a portfolio for each of the three return look-back periods for each day. The target weight of each underlying asset will equal the average of the weights, if any, of such underlying asset in the three portfolios. As a result of this rebalancing, the index may include as few as 3 ETFs (and the money market position) and may never include some of the underlying assets or asset classes.

After the index is rebalanced on an index business day, the realized volatility for the prior month is calculated. Realized volatility is the degree of variation in the daily closing prices or levels of the aggregate of the underlying assets over the applicable volatility look-back period. If the realized volatility exceeds 6%, the index will be rebalanced again for that day by ratably reallocating a portion of the exposure to the ETFs in the index to the money market position sufficient to reduce the prior month realized volatility to 6%. As a result of such rebalancing, the index may not include any ETFs and may allocate its entire exposure to the money market position, the return on which will always be less than the sum of the return on 3-month USD LIBOR plus 0.65% per annum. Historically, a significant portion of the index has been in the money market position.

If your notes are not called, at maturity, for each $1,000 face amount of your notes, you will receive an amount in cash equal to:

- if the index return is positive (the final index level is greater than the initial index level), the sum of (i) $1,000 plus (ii) the product of (a) $1,000 times (b) the index return; or

•if the index return is zero or negative (the final index level is equal to or less than the initial index level), $1,000.

You should read the disclosure herein to better understand the terms and risks of your investment, including the credit risk of GS Finance Corp. and The Goldman Sachs Group, Inc. See page PS-18.

The estimated value of your notes at the time the terms of your notes are set on the trade date is equal to approximately $918 per $1,000 face amount. For a discussion of the estimated value and the price at which Goldman Sachs & Co. LLC would initially buy or sell your notes, if it makes a market in the notes, see the following page.

Original issue date:	April 30, 2019	Original issue price:	100% of the face amount
Underwriting discount:	4.875% of the face amount*	Net proceeds to the issuer:	95.125% of the face amount

* This includes (i) a selling concession of 2.5% of the face amount that we have agreed to pay to the dealer, (ii) a fee of 1.6% of the face amount that we have agreed to pay to the dealer's affiliate in connection with certain services provided directly by such affiliate to the dealer and (iii) a fee of 0.375% of the face amount that we have agreed to pay to a third party in connection with certain marketing services.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense. The notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

Goldman Sachs & Co. LLC

Pricing Supplement No. 5,456 dated April 25, 2019.

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The issue price, underwriting discount and net proceeds listed above relate to the notes we sell initially. We may decide to sell additional notes after the date of this pricing supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above. The return (whether positive or negative) on your investment in notes will depend in part on the issue price you pay for such notes.

GS Finance Corp. may use this prospectus in the initial sale of the notes. In addition, Goldman Sachs & Co. LLC or any other affiliate of GS Finance Corp. may use this prospectus in a market-making transaction in a note after its initial sale. Unless GS Finance Corp. or its agent informs the purchaser otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.

Estimated Value of Your Notes

The estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by Goldman Sachs & Co. LLC (GS&Co.) and taking into account our credit spreads) is equal to approximately $918 per $1,000 face amount, which is less than the original issue price. The value of your notes at any time will reflect many factors and cannot be predicted; however, the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would initially buy or sell notes (if it makes a market, which it is not obligated to do) and the value that GS&Co. will initially use for account statements and otherwise is equal to approximately the estimated value of your notes at the time of pricing, plus an additional amount (initially equal to $82 per $1,000 face amount).

Prior to May 11, 2020, the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market, which it is not obligated to do) will equal approximately the sum of (a) the then-current estimated value of your notes (as determined by reference to GS&Co.'s pricing models) plus (b) any remaining additional amount (the additional amount will decline to zero on a straight-line basis from the time of pricing through May 10, 2020). On and after May 11, 2020, the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market) will equal approximately the then-current estimated value of your notes determined by reference to such pricing models.

About Your Prospectus

The notes are part of the Medium-Term Notes, Series E program of GS Finance Corp. and are fully and unconditionally guaranteed by The Goldman Sachs Group, Inc. This prospectus includes this pricing supplement and the accompanying documents listed below. This pricing supplement constitutes a supplement to the documents listed below, does not set forth all the terms of your notes and therefore should be read in conjunction with such documents:

- MOBU 5S ER index supplement no. 3 dated April 24, 2019
- Prospectus supplement dated July 10, 2017
- Prospectus dated July 10, 2017

The information in this pricing supplement supersedes any conflicting information in the documents listed above. In addition, some of the terms or features described in the listed documents may not apply to your notes.

We refer to the notes we are offering by this pricing supplement as the "offered notes" or the "notes". Each of the offered notes has the terms described below. Please note that in this pricing supplement, references to "GS Finance Corp.", "we", "our" and "us" mean only GS Finance Corp. and do not include its subsidiaries or affiliates, references to "The Goldman Sachs Group, Inc.", our parent company, mean only The Goldman Sachs Group, Inc. and do not include its subsidiaries or affiliates and references to "Goldman Sachs" mean The Goldman Sachs Group, Inc. together with its consolidated subsidiaries and affiliates, including us. The notes will be issued under the senior debt indenture, dated as of October 10, 2008, as supplemented by the First Supplemental Indenture, dated as of February 20, 2015, each among us, as issuer, The Goldman Sachs Group, Inc., as guarantor, and The Bank of New York Mellon, as trustee. This indenture, as so supplemented and as further supplemented thereafter, is referred to as the "GSFC 2008 indenture" in the accompanying prospectus supplement. The notes will be issued in book-entry form and represented by a master global note.

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The following is a list of the eligible underlying assets for the index, including the related asset classes, asset class minimum and maximum weights and underlying asset minimum and maximum weights. The index is more fully described beginning on page PS-31 herein.

ASSET CLASS	ASSET CLASS MINIMUM WEIGHT	ASSET CLASS MAXIMUM WEIGHT	ELIGIBLE UNDERLYING ASSET*	TICKER	UNDERLYING ASSET MINIMUM WEIGHT	UNDERLYING ASSET MAXIMUM WEIGHT
Broad-Based Equities	0%	50%	SPDR® S&P 500® ETF Trust	SPY	0%	20%
			iShares® MSCI EAFE ETF	EFA	0%	20%
			iShares® MSCI Japan ETF	EWJ	0%	10%
Fixed Income	0%	50%	iShares® 20+ Year Treasury Bond ETF	TLT	0%	20%
			iShares® iBoxx $ Investment Grade Corporate Bond ETF	LQD	0%	20%
			iShares® iBoxx $ High Yield Corporate Bond ETF	HYG	0%	20%
			iShares® 7-10 Year Treasury Bond ETF	IEF	0%	20%
Emerging Markets	0%	20%	iShares® MSCI Emerging Markets ETF	EEM	0%	20%
Alternatives	0%	25%	iShares® U.S. Real Estate ETF	IYR	0%	20%
			iShares® Preferred and Income Securities ETF	PFF	0%	10%
			iShares® Nasdaq Biotechnology ETF	IBB	0%	10%
Commodities	0%	25%	SPDR® S&P® Oil & Gas Exploration & Production ETF	XOP	0%	20%
			SPDR® Gold Trust	GLD	0%	20%
Inflation	0%	10%	iShares® TIPS Bond ETF	TIP	0%	10%
Cash Equivalent	0%	50%**	Money Market Position	N/A	0%	50%**

* The value of a share of an eligible ETF may reflect transaction costs and fees incurred or imposed by the investment advisor of the eligible ETF as well as the costs to the ETF to buy and sell its assets. These costs and fees are not included in the calculation of the index underlying the eligible ETF. For more fee information relating to an eligible ETF, see "The Eligible Underlying Assets" in the accompanying index supplement.

** With respect to the money market position, the related asset class maximum weight and underlying asset maximum weight limitations do not apply after the first rebalancing on each index business day and, therefore, the index may allocate its entire exposure to the money market position.

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Autocallable GS Momentum Builder® Multi-Asset 5S ER Index-Linked Notes due 2026

The below is only a brief summary of the terms of your notes. You should read the detailed description thereof in "Terms and Conditions" on page PS-10 and in "Specific Terms of Your Notes" in the accompanying prospectus supplement and accompanying prospectus.

INVESTMENT THESIS

For investors who:

- seek the opportunity to achieve a return at maturity based on the performance of an index that attempts to track the positive price momentum in certain eligible underlying assets by varying exposure to those eligible underlying assets, subject to limitations on volatility and a minimum and maximum weight for each underlying asset and each asset class.
- understand that the eligible underlying assets provide exposure to broad-based equities, fixed income, emerging markets, alternatives, commodities, inflation, and cash equivalent asset classes.
- seek to have their principal returned after a period of approximately 84 months.
- believe the index will increase during the period from the trade date to the determination date, but are willing to accept that the term of the notes will be reduced if the notes are automatically called on a call observation date (in which case the return on the notes will be limited to the applicable call return).
- are willing, if the notes are not automatically called, to receive only their principal back at maturity if the index return is less than or equal to zero.

As a result of the rebalancing among the 15 underlying assets, the index may include as few as four underlying assets (as few as three ETFs) and may not include some of the underlying assets or assets classes during the entire term of your notes. As a result of any rebalancing into the money market position to reduce the prior month realized volatility to 6%, the index may not include any ETFs and may allocate its entire exposure to the money market position, the return on which will always be less than the sum of the return on 3-month USD LIBOR plus 0.65% per annum (accruing daily). Historically, a significant portion of the index exposure has been to the money market position.

PAYOUT DESCRIPTION

Your notes will be called if the closing level of the index on any call observation date is greater than or equal to the applicable call level, resulting in a payment on the corresponding call payment date equal to the face amount of your notes plus the product of $1,000 times the applicable call return.

If your notes are not called, at maturity, for each $1,000 face amount of your notes, you will receive an amount in cash equal to:

- if the index return is positive (the final index level is greater than the initial index level), the sum of (i) $1,000 plus (ii) the product of (a) $1,000 times (b) the index return; or
- if the index return is zero or negative (the final index level is equal to or less than the initial index level), $1,000.

THE INDEX

The GS Momentum Builder® Multi-Asset 5S ER Index (the index) measures the extent to which the performance of the exchange-traded funds and a money market position (together with the ETFs, the underlying assets) included in the index outperform the sum of the return on the notional interest rate, which is a rate equal to 3-month USD LIBOR, plus 0.65% per annum (accruing daily). The money market position reflects the notional returns accruing to a hypothetical investor from an investment in a money market account denominated in U.S. dollars that accrues interest at the notional interest rate. The index rebalances on each index business day from among 15 underlying assets that have been categorized in the following asset classes: broad-based equities; fixed income; emerging markets; alternatives; commodities; inflation; and cash equivalent. The index attempts to track the positive price momentum in the underlying assets, subject to limitations on volatility and a minimum and maximum weight for each underlying asset and each asset class, each as described below.

Features of the index include:

- daily rebalancing from among the 15 eligible underlying assets on each index business day (in this context, a base index rebalancing day) by calculating, for each day in the weight averaging period related to that base index rebalancing day, the combination of underlying assets that would have provided the highest historical return during three return look-back periods (nine months, six months and three months), subject to:
  - a limit of 5% on the degree of variation in the daily closing prices or closing level, as applicable, of the aggregate of such underlying assets over the related realized volatility look-back periods (the prior six months, three months and one month for the nine-month, six-month and three-month return look-back periods, respectively); and
  - a minimum and maximum weight for each underlying asset and each asset class; and
- the potential for daily total return index rebalancing into the money market position, based on whether the realized volatility of the underlying assets comprising the index exceeds the volatility cap of 6% for the applicable volatility cap period (the prior one month).

Analyzing realized volatility over three volatility look-back periods results in three potential portfolios of underlying assets (one for each return look-back period) for each day in the applicable weight averaging period. The weight of each underlying asset for a given day in a weight averaging period (the "target weight") will equal the average of the weights of such underlying asset in the three potential portfolios while the weight of each underlying asset for the daily base index rebalancing will equal the average of such target weights. This daily rebalancing is referred to as the base index rebalancing and the resulting portfolio of index underlying assets comprise the base index effective after the close of business on a given day. The weight averaging period for any base index rebalancing day will be the period from (but excluding) the 22nd index business day on which no index market disruption event occurs or is continuing with respect to any underlying asset prior to such day to (and including) such day.

The value of the index is calculated in U.S. dollars on each index business day by reference to the performance of the total return index value net of the sum of the return on the notional interest rate in effect at that time plus 0.65% per annum (accruing daily). Any cash dividend paid on an index ETF is deemed to be reinvested in such index ETF and subject to subsequent changes in the value of the index ETF. In addition, any interest accrued on the money market position is similarly deemed to be reinvested on a daily basis in such money market position and subject to subsequent changes in the notional interest rate. The total return index value on each index business day is calculated by reference to the weighted performance of:

- the base index, which is the weighted combination of underlying assets that comprise the index at the applicable time as a result of daily base index rebalancing; and
- any additional exposure to the money market position resulting from any daily total return index rebalancing.

The underlying assets that comprise the base index as the result of daily base index rebalancing may include a combination of ETFs and the money market position, or solely ETFs. A daily total return index rebalancing will occur effective after the close of business on a given day if the realized volatility of the base index exceeds the volatility cap of 6% for the volatility cap period applicable to such index business day. As a result of a daily total return index rebalancing, the index will have exposure to the money market position even if the base index has no such exposure

resulting from its daily base index rebalancing.

For the purpose of the index:

- an “eligible underlying asset” is one of the ETFs or the money market position that is eligible for inclusion in the index on an index business day;
- an “eligible ETF” is one of the ETFs that is eligible for inclusion in the index on an index business day (when we refer to an “ETF” we mean an exchange-traded fund, which for purposes of this pricing supplement includes the following exchange traded products: SPDR® S&P 500® ETF Trust and SPDR® Gold Trust);
- an “index underlying asset” is an eligible underlying asset with a non-zero weighting on any index business day;
- an “index ETF” is an ETF that is an eligible ETF with a non-zero weighting on any index business day; and
- an “index business day” is a day on which the New York Stock Exchange is open for its regular trading session.

TERMS

Issuer	GS Finance Corp.
Guarantor	The Goldman Sachs Group, Inc.
Index	GS Momentum Builder® Multi-Asset 5S ER Index (current Bloomberg symbol: “GSMBMA5S Index”), as published by the index sponsor (including any index calculation agent acting on the index sponsor’s behalf); see “The Index” on page PS-31. Additional information about the index, including the index methodology, which may be amended from time to time, is available at the following website: solactive.com/indices/. We are not incorporating by reference the website or any material it includes in this pricing supplement
Face Amount	$114,000 in the aggregate; each note will have a face amount of $1,000
Trade Date	April 25, 2019

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Settlement Date	April 30, 2019
Determination Date	April 27, 2026
Stated Maturity Date	May 11, 2026
Initial Index Level	102.63
Final Index Level	The closing level of the index on the determination date
Closing Level of the Index	With respect to any trading day, the official closing level of the index or any successor index published by the index sponsor on such trading day
Index Return	The quotient of (i) the final index level minus the initial index level divided by (ii) the initial index level, expressed as a percentage
Automatic Call Feature	If, as measured on any call observation date, the closing level of the index is greater than or equal to the applicable call level, your notes will be automatically called; if your notes are automatically called on any call observation date, on the corresponding call payment date you will receive an amount in cash equal to the sum of (i) $1,000 plus (ii) the product of (a) $1,000 times (b) the applicable call return.
Cash Settlement Amount	If your notes are not called, for each $1,000 face amount of notes, we will pay you on the stated maturity date an amount in cash equal to: • if the index return is positive (the final index level is greater than the initial index level), the sum of (i) $1,000 plus (ii) the product of (a) $1,000 times (b) the index return; or • if the index return is zero or negative (the final index level is equal to or less than the initial index level), $1,000.
Call Observation Dates	The dates specified as such in the table below.

Call Observation Date	Call Level (Expressed as a Percentage of the Initial Index Level)	Call Return
April 27, 2020	102.35%	8.25%
April 26, 2021	104.7%	16.5%
April 25, 2022	107.05%	24.75%
April 25, 2023	109.4%	33%
April 25, 2024	111.75%	41.25%
April 25, 2025	114.1%	49.5%

Call Payment Dates	The tenth business day after each call observation date
Call Level	With respect to any call observation date, the applicable call level specified in the table set forth under “Call Observation Dates” above; as shown in such table, the call level increases the longer the notes are outstanding
Call Return	With respect to any call payment date, the applicable call return specified in the table set forth under “Call Observation Dates” above; as shown in such table, the call return increases the longer the notes are outstanding
CUSIP/ISIN	40056FAD7 / US40056FAD78

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HYPOTHETICAL EXAMPLES

The following examples are provided for purposes of illustration only. These examples should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that various hypothetical closing levels of the index on a call observation date could have on the related call payment date assuming all other variables remain constant. While there are six potential call payment dates with respect to your notes, the examples below only illustrate the amount you will receive, if any, on the first and second call payment date. These examples assume a $1,000 face amount of a note. The actual performance of the index over the life of your notes, particularly on each of the call observation dates, may bear little relation to the hypothetical examples shown below or on page PS-13 or to the historical levels of the index shown elsewhere in this pricing supplement. You should also refer to the historical index performance information and hypothetical performance data beginning on page PS-43 of this pricing supplement.

If, for example, your notes are automatically called on the first call observation date (i.e., on the first call observation date the closing level of the index is greater than or equal to 102.35% of the initial index level), the amount in cash that we would deliver for each $1,000 face amount of your notes on the applicable call payment date would be the sum of $1,000 plus the product of the applicable call return times $1,000. Therefore, for example, if the closing level of the index on the first call observation date were determined to be 120% of the initial index level, your notes would be automatically called and the amount in cash that we would deliver on your notes on the corresponding call payment date would be 108.25% of the face amount of your notes or $1,082.5 for each $1,000 face amount of your notes. Even if the closing level of the index on a call observation date exceeds the applicable call level, causing the notes to be automatically called, the amount in cash payable on the call payment date will be limited due to the applicable call return.

If, for example, the notes are not automatically called on the first call observation date and are called on the second call observation date (i.e., on the first call observation date the closing level of the index is less than 102.35% of the initial index level and on the second call observation date the closing level of the index is greater than or equal to 104.7% of the initial index level), the amount in cash that we would deliver for each $1,000 face amount of your notes on the applicable call payment date would be the sum of $1,000 plus the product of the applicable call return times $1,000. Therefore, for example, if the closing level of the index on the second call observation date were determined to be 140% of the initial index level, your notes would be automatically called and the amount in cash that we would deliver on your notes on the corresponding call payment date would be 116.5% of the face amount of your notes or $1,165 for each $1,000 face amount of your notes. Even if the closing level of the index on a call observation date exceeds the applicable call level, causing the notes to be automatically called, the amount in cash payable on the call payment date will be limited due to the applicable call return.

The following table is provided for purposes of illustration only. It should not be taken as an indication or prediction of future investment results and is intended merely to illustrate the impact that various hypothetical closing levels of the index on the determination date could have on the cash settlement amount assuming all other variables remain constant. The actual performance of the index over the life of your notes, particularly on the determination date, as well as the amount payable on the stated maturity date, may bear little relation to the hypothetical examples shown below or on page PS-13 or to the historical levels of the index shown elsewhere in this pricing supplement. You should also refer to the historical index performance information and hypothetical performance data beginning on page PS-43 of this pricing supplement.

The Notes Have Not Been Automatically Called

Hypothetical Final Index Level (as a Percentage of the Initial Index Level)	Hypothetical Cash Settlement Amount (as a Percentage of Face Amount)

175.00%	175.00%
150.00%	150.00%
125.00%	125.00%
110.00%	110.00%
100.00%	100.00%
90.00%	100.00%
75.00%	100.00%
50.00%	100.00%
25.00%	100.00%
0.00%	100.00%

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Historical Information and Hypothetical Data

The following chart and table provide a comparison between the index (using historical information and hypothetical data, as explained below) and certain asset classes (in each case, represented by a benchmark ETF or a benchmark index, which are distinct from the asset classes in which the 15 underlying assets have been categorized for purposes of this index) from August 29, 2008 to April 25, 2019. Benchmark ETF data and benchmark index data is based on the historical levels of the benchmark ETFs and benchmark indices, respectively. The historical index information from May 16, 2016 (the index launch date) to April 25, 2019 reflects the actual performance of the index. (In the chart, this historical index information can be found to the right of the vertical solid line marker.) The hypothetical index data from August 29, 2008 to May 15, 2016 is based on the historical levels of the eligible underlying assets, using the same methodology that is used to calculate the index. Please note that the hypothetical index data is presented from August 29, 2008 to minimize assumptions about the level of the iShares® Preferred and Income Securities ETF prior to November 29, 2007, which is the first date on which such ETF had a continuously published level. As a result, the following chart and table do not reflect the entirety of the global financial crisis, which had a severe and negative effect on certain of the benchmark ETFs, benchmark indices and eligible underlying assets and would have had a severe and negative effect on the index. Please also note that the benchmark ETFs and benchmark indices that are used to represent asset classes for purposes of the following table and chart may not be eligible underlying assets for purposes of the index and in some cases differ from the eligible underlying assets that are used to represent asset classes with the same or similar titles for purposes of the index. You should not take the historical index information, hypothetical index data or historical benchmark ETF and benchmark index data as an indication of the future performance of the index.

Performance Since August 2008

As of 4/25/2019	GS Momentum Builder® Multi Asset 5S ER Index (GSMBMA5S)	US Bonds (AGG)	Global Equities (MSCI ACWI Excess Return Index)	Commodities (S&P GSCI Excess Return Index)	US Real Estate (IYR)
Effective Performance (1 Month)	0.06%	-0.27%	3.68%	4.05%	0.14%
Effective Performance (6 Month)	1.29%	3.91%	8.29%	-4.83%	9.63%
Annualized* Performance (since August 2008)	4.21%	3.16%	5.86%	-10.94%	6.79%
Annualized* Realized Volatility (since August 2008)**	5.09%	4.83%	16.65%	22.48%	30.75%
Return over Risk (since August 2008)***	0.83	0.65	0.35	-0.49	0.22
Maximum Peak-to-Trough Drawdown****	-11.49%	-12.96%	-48.43%	-78.65%	-65.74%

*Calculated on a per annum percentage basis.
**Calculated on the same basis as realized volatility used in calculating the index.
***Calculated by dividing the annualized performance by the annualized realized volatility since August 29, 2008.
****The largest percentage decline experienced in the relevant measure from a previously occurring maximum level.

RISKS

Please read the section entitled “Additional Risk Factors Specific to Your Notes” beginning on page PS-18 of this pricing supplement as well as the risks and considerations described in the accompanying prospectus, the accompanying prospectus supplement and the accompanying index supplement.

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TERMS AND CONDITIONS

(Terms From Pricing Supplement No. 5,456 Incorporated Into Master Note No. 2)

These terms and conditions relate to pricing supplement no. 5,456 dated April 25, 2019 of GS Finance Corp. and The Goldman Sachs Group, Inc. with respect to the issuance by GS Finance Corp. of its Autocallable GS Momentum Builder® Multi-Asset 5S ER Index-Linked Notes due 2026 and the guarantee thereof by The Goldman Sachs Group, Inc.

The provisions below are hereby incorporated into master note no. 2, dated August 22, 2018. References herein to "this note" shall be deemed to refer to "this security" in such master note no. 2, dated August 22, 2018. Certain defined terms may not be capitalized in these terms and conditions even if they are capitalized in master note no. 2, dated August 22, 2018. Defined terms that are not defined in these terms and conditions shall have the meanings indicated in such master note no. 2, dated August 22, 2018, unless the context otherwise requires.

CUSIP / ISIN: 40056FAD7 / US40056FAD78

Company (Issuer): GS Finance Corp.

Guarantor: The Goldman Sachs Group, Inc.

Index: GS Momentum Builder® Multi-Asset 5S ER Index (current Bloomberg symbol: "GSMBMA5S Index"), or any successor index, as it may be modified, replaced or adjusted from time to time as provided herein

Face amount: $114,000 in the aggregate on the original issue date; the aggregate face amount may be increased if the company, at its sole option, decides to sell an additional amount on a date subsequent to the trade date.

Authorized denominations: $1,000 or any integral multiple of $1,000 in excess thereof

Principal amount: Subject to redemption by the company as provided under "— Company's redemption right (automatic call feature)" below, on the stated maturity date, the company will pay, for each $1,000 of the outstanding face amount, an amount in cash equal to the cash settlement amount

Cash settlement amount:

- if the index return is positive, the sum of (i) $1,000 plus (ii) the product of (a) $1,000 times (b) the index return; or
- if the index return is zero or negative, $1,000.

Initial index level: 102.63

Final index level: the closing level of the index on the determination date, subject to adjustment as provided in "— Consequences of a non-trading day" and "— Discontinuance or modification of the index" below

Index return: the quotient of (i) the final index level minus the initial index level divided by (ii) the initial index level, expressed as a positive or negative percentage

Company's redemption right (automatic call feature): If a redemption event occurs, then the outstanding face amount will be automatically redeemed in whole and the company will pay an amount in cash on the following call payment date for each $1,000 of the outstanding face amount equal to the sum of (i) $1,000 plus (ii) the product of $1,000 times the applicable call return specified under "Call observation dates" below.

Redemption event: a redemption event will occur if, as measured on any call observation date, the closing level of the index is greater than or equal to the applicable call level set forth below under "— Call observation dates"

Call level: with respect to any call observation date, the applicable call level specified in the table set forth under "Call observation dates" below; as shown in such table, the call level increases the longer the notes are outstanding

Call return: with respect to any call payment date, the applicable call return specified in the table set forth under "Call observation dates" below; as shown in such table, the call return increases the longer the notes are outstanding

Call payment dates: the tenth business day after each call observation date. If a call observation date is postponed as described under "— Call observation dates" below, such postponement of the call observation date will not postpone the related call payment date.

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Call observation dates: the dates specified as such in the table below, commencing April 2020 and ending April 2025, unless the note calculation agent determines that such day is not a trading day. In that event, the applicable call observation date will be the first following trading day. In no event, however, will the applicable call observation date be postponed more than five scheduled trading days. If a call observation date is postponed to the last possible day for that period, but that day is not a trading day, that day will nevertheless be the applicable call observation date.

Call Observation Date	Call Level (Expressed as a Percentage of the Initial Index Level)	Call Return
April 27, 2020	102.35%	8.25%
April 26, 2021	104.7%	16.5%
April 25, 2022	107.05%	24.75%
April 25, 2023	109.4%	33%
April 25, 2024	111.75%	41.25%
April 25, 2025	114.1%	49.5%

Trade date: April 25, 2019

Original issue date: April 30, 2019

Determination date: April 27, 2026, unless the note calculation agent determines that such day is not a trading day. In that event, the determination date will be the first following trading day. In no event, however, will the determination date be postponed by more than five scheduled trading days. If the determination date is postponed to the last possible day, but such day is not a trading day, that day will nevertheless be the determination date.

Stated maturity date: May 11, 2026, unless that day is not a business day, in which case the stated maturity date will be the next following business day. If the determination date is postponed as described under "— Determination date" above, such postponement of the determination date will not postpone the stated maturity date.

Closing level of the index: the official closing level of the index or any successor index published by the index sponsor (including any index calculation agent acting on the index sponsor's behalf) on any trading day for the index

Level of the index: at any time on any trading day, the official level of the index or any successor index published by the index sponsor (including any index calculation agent acting on the index sponsor's behalf) at such time on such trading day

Business day: each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City generally are authorized or obligated by law, regulation or executive order to close

Trading day: a day on which the index is calculated and published by the index sponsor (including any index calculation agent acting on the index sponsor's behalf). For the avoidance of doubt, if the index calculation agent determines that an index market disruption event occurs or is continuing on any day, such day will not be a trading day. A day is a scheduled trading day with respect to the index if, as of the trade date, the index is expected to be calculated and published by the index sponsor (including any index calculation agent acting on the index sponsor's behalf) on such day.

Index calculation agent: Solactive AG or any replacement index calculation agent

Index sponsor: at any time, the person or entity, including any successor sponsor, that determines and publishes the index as then in effect (current index sponsor: Goldman Sachs & Co. LLC ("GS&Co.")).

Successor index: any substitute index approved by the note calculation agent as a successor index as provided under "— Discontinuance or modification of the index" below

Index ETFs: with respect to the index, at any time, the exchange traded funds that comprise the index as then in effect, after giving effect to any additions, deletions or substitutions.

Consequences of a non-trading day: If a day that would otherwise be the applicable originally scheduled call observation date or the originally scheduled determination date, as applicable, is not a trading day, then such call observation date or the determination date, as applicable, will be postponed as described under "— Call observation dates" or "— Determination date" above.

If the note calculation agent determines that the closing level of the index is not available on the last possible applicable call observation date or the final index level is not available on the last possible determination date because of a non-trading day or for any other reason (other than as described under "— Discontinuance or modification of the

index" below), then the note calculation agent will nevertheless determine the level of the index based on its assessment, made in its sole discretion, of the level of the index on that day.

Discontinuance or modification of the index: If the index sponsor discontinues publication of the index and the index sponsor or anyone else publishes a substitute index that the note calculation agent determines is comparable to the

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index, or if the note calculation agent designates a substitute index, then the note calculation agent will determine the cash settlement amount payable on the stated maturity date or the amount payable on a call payment date, as applicable, by reference to the substitute index. We refer to any substitute index approved by the note calculation agent as a successor index.

If the note calculation agent determines that the publication of the index is discontinued and there is no successor index, the note calculation agent will determine the amount payable on the applicable call payment date or on the stated maturity date, as applicable, by a computation methodology that the note calculation agent determines will as closely as reasonably possible replicate the index.

If the note calculation agent determines that the index or the method of calculating the index is changed at any time in any respect — including any split or reverse split and any addition, deletion or substitution and any reweighting or rebalancing of the index or of the index ETFs and whether the change is made by the index sponsor under its existing policies or following a modification of those policies, is due to the publication of a successor index, is due to events affecting one or more of the index ETFs or its sponsor or is due to any other reason — and is not otherwise reflected in the level of the index by the index sponsor pursuant to the then-current index methodology of the index, then the note calculation agent will be permitted (but not required) to make such adjustments in the index or the method of its calculation as it believes are appropriate to ensure that the level of the index used to determine the amount payable on a call payment date or the stated maturity date, as applicable, is equitable.

All determinations and adjustments to be made by the note calculation agent with respect to the index may be made by the note calculation agent in its sole discretion. The note calculation agent is not obligated to make any such adjustments.

Note calculation agent (calculation agent): GS&Co.

Default amount: If an event of default occurs and the maturity of your notes is accelerated, the company will pay the default amount in respect of the principal of your notes at the maturity, instead of the amount payable on the stated maturity date as described earlier. The default amount for your notes on any day (except as provided in the last sentence under "— Default quotation period" below) will be an amount, in the specified currency for the face amount of your notes, equal to the cost of having a qualified financial institution, of the kind and selected as described below, expressly assume all of our payment and other obligations with respect to your notes as of that day and as if no default or acceleration had occurred, or to undertake other obligations providing substantially equivalent economic value to you with respect to your notes. That cost will equal:

- the lowest amount that a qualified financial institution would charge to effect this assumption or undertaking, plus
- the reasonable expenses, including reasonable attorneys' fees, incurred by the holder of your notes in preparing any documentation necessary for this assumption or undertaking.

During the default quotation period for your notes, which is described below, the holder of the notes and/or the company may request a qualified financial institution to provide a quotation of the amount it would charge to effect this assumption or undertaking. If either party obtains a quotation, it must notify the other party in writing of the quotation. The amount referred to in the first bullet point above will equal the lowest — or, if there is only one, the only — quotation obtained, and as to which notice is so given, during the default quotation period. With respect to any quotation, however, the party not obtaining the quotation may object, on reasonable and significant grounds, to the assumption or undertaking by the qualified financial institution providing the quotation and notify the other party in writing of those grounds within two business days after the last day of the default quotation period, in which case that quotation will be disregarded in determining the default amount.

Default quotation period: The default quotation period is the period beginning on the day the default amount first becomes due and ending on the third business day after that day, unless:

- no quotation of the kind referred to above is obtained, or
- every quotation of that kind obtained is objected to within five business days after the day the default amount first becomes due.

If either of these two events occurs, the default quotation period will continue until the third business day after the first business day on which prompt notice of a quotation is given as described above. If that quotation is objected to as described above within five business days after that first business day, however, the default quotation period will continue as described in the prior sentence and this sentence.

In any event, if the default quotation period and the subsequent two business day objection period have not ended before the determination date, then the default amount will equal the principal amount of your notes.

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Qualified financial institutions: For the purpose of determining the default amount at any time, a qualified financial institution must be a financial institution organized under the laws of any jurisdiction in the United States of America, Europe or Japan, which at that time has outstanding debt obligations with a stated maturity of one year or less from the date of issue and that is, or whose securities are, rated either:

- A-1 or higher by Standard & Poor’s Ratings Services or any successor, or any other comparable rating then used by that rating agency, or
- P-1 or higher by Moody’s Investors Service, Inc. or any successor, or any other comparable rating then used by that rating agency.

Overdue principal rate: the effective Federal Funds rate

Defeasance: not applicable

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HYPOTHETICAL EXAMPLES

The following examples are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that the various hypothetical closing levels of the index on a call observation date and on the determination date could have on the amount of cash payable on a call payment date or on the stated maturity date, as the case may be, assuming all other variables remain constant.

The examples below are based on a range of index levels that are entirely hypothetical; no one can predict what the index level will be on any day throughout the life of your notes, and no one can predict what the closing level of the index will be on any call observation date or what the final index level will be on the determination date. The index has been highly volatile in the past — meaning that the index level has changed considerably in relatively short periods — and its performance cannot be predicted for any future period.

The information in the following examples assumes that the offered notes are purchased on the original issue date at the face amount and held to a call payment date or the stated maturity date, as the case may be. If you sell your notes in a secondary market prior to the stated maturity date, your return will depend upon the market value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the examples below such as the volatility of the index, the creditworthiness of GS Finance Corp., as issuer, and the creditworthiness of The Goldman Sachs Group, Inc., as guarantor. In addition, the estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by GS&Co.) is less than the original issue price of your notes. For more information on the estimated value of your notes, see "Additional Risk Factors Specific to Your Notes — The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (as Determined By Reference to Pricing Models Used By GS&Co.) Is Less Than the Original Issue Price Of Your Notes" on page PS-18 of this pricing supplement. The information in the examples also reflects the key terms and assumptions in the box below.

Key Terms and Assumptions	
Face amount	$1,000
No non-trading day occurs on any originally scheduled call observation date or the originally scheduled determination date	
No change in or affecting any of the eligible underlying assets or the method by which the index sponsor calculates the index	
Notes purchased on original issue date and held to a call payment date or the stated maturity date	

For these reasons, the actual performance of the index over the life of your notes, particularly on each call observation date and the determination date, as well as the amount payable at maturity, may bear little relation to the hypothetical examples shown below or to the historical index performance information or hypothetical performance data shown elsewhere in this pricing supplement. For information about the historical index performance levels and hypothetical

performance data of the index during recent periods, see “The Index —Daily Closing Levels of the Index” on page PS-43. Before investing in the offered notes, you should consult publicly available information to determine the level of the index between the date of this pricing supplement and the date of your purchase of the offered notes.

Any rate of return you may earn on an investment in the notes may be lower than that which you could earn on a comparable investment in the index underlying assets.

Also, the hypothetical examples shown below do not take into account the effects of applicable taxes. Because of the U.S. tax treatment applicable to your notes, tax liabilities could affect the after-tax rate of return on your notes to a comparatively greater extent than the after-tax return on the index ETFs.

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Hypothetical Amount In Cash Payable on a Call Payment Date

The following examples reflect hypothetical amounts that you could receive on the applicable call payment dates. While there are six potential call payment dates with respect to your notes, the examples below only illustrate the amount you will receive, if any, on the first and second call payment date.

If, for example, your notes are automatically called on the first call observation date (i.e., on the first call observation date the closing level of the index is greater than or equal to 102.35% of the initial index level), the amount in cash that we would deliver for each $1,000 face amount of your notes on the applicable call payment date would be the sum of $1,000 plus the product of the applicable call return times $1,000. Therefore, for example, if the closing level of the index on the first call observation date were determined to be 120% of the initial index level, your notes would be automatically called and the amount in cash that we would deliver on your notes on the corresponding call payment date would be 108.25% of the face amount of your notes or $1,082.5 for each $1,000 face amount of your notes. Even if the closing level of the index on a call observation date exceeds the applicable call level, causing the notes to be automatically called, the amount in cash payable on the call payment date will be limited due to the applicable call return.

If, for example, the notes are not automatically called on the first call observation date and are automatically called on the second call observation date (i.e., on the first call observation date the closing level of the index is less than 102.35% of the initial index level and on the second call observation date the closing level of the index is greater than or equal to 104.7% of the initial index level), the amount in cash that we would deliver for each $1,000 face amount of your notes on the applicable call payment date would be the sum of $1,000 plus the product of the applicable call return times $1,000. Therefore, for example, if the closing level of the index on the second call observation date were determined to be 140% of the initial index level, your notes would be automatically called and the amount in cash that we would deliver on your notes on the corresponding call payment date would be 116.5% of the face amount of your notes or $1,165 for each $1,000 face amount of your notes. Even if the closing level of the index on a call observation date exceeds the applicable call level, causing the notes to be automatically called, the amount in cash payable on the call payment date will be limited due to the applicable call return.

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Hypothetical Cash Settlement Amount at Maturity

If the notes are not automatically called on any call observation date (i.e., on each call observation date the closing level of the index is less than the applicable call level), the cash settlement amount we would deliver for each $1,000 face amount of your notes on the stated maturity date will depend on the performance of the index on the determination date, as shown in the table below. The table below shows the hypothetical cash settlement amounts that we would deliver on the stated maturity date in exchange for each $1,000 face amount of the notes if the final index level (expressed as a percentage of the initial index level) were any of the hypothetical levels shown in the left column.

The levels in the left column of the table below represent hypothetical final index levels and are expressed as percentages of the initial index level. The amounts in the right column represent the hypothetical cash settlement amounts, based on the corresponding hypothetical final index level (expressed as a percentage of the initial index level), and are expressed as percentages of the face amount of a note (rounded to the nearest one-hundredth of a percent). Thus, a hypothetical cash settlement amount of 100.00% means that the value of the cash payment that we would deliver for each $1,000 of the outstanding face amount of the offered notes on the stated maturity date would equal 100.00% of the face amount of a note, based on the corresponding hypothetical final index level (expressed as a percentage of the initial index level) and the assumptions noted above.

The Notes Have Not Been Automatically Called

Hypothetical Final Index Level (as Percentage of Initial Index Level)	Hypothetical Cash Settlement Amount (as Percentage of Face Amount)
175.00%	175.00%
150.00%	150.00%
125.00%	125.00%
110.00%	110.00%
100.00%	100.00%
90.00%	100.00%
75.00%	100.00%
50.00%	100.00%
25.00%	100.00%
0.00%	100.00%

If, for example, the notes have not been automatically called on a call observation date and the final index level were determined to be 25.00% of the initial index level, the cash settlement amount that we would deliver on your notes at maturity would be 100.00% of the face amount of your notes, as shown in the table above. As a result, if you purchased your notes on the original issue date and held them to the stated maturity date, you would receive no return on your investment.

The following chart also shows a graphical illustration of the hypothetical cash settlement amounts (expressed as a percentage of the face amount of your notes) that we would pay on your notes on the stated maturity date, if the final index level (expressed as a percentage of the initial index level) were any of the hypothetical levels shown on the horizontal axis. The chart shows that any hypothetical final index level (expressed as a percentage of the initial index level) of less than 100.00% (the section left of the 100.00% marker on the horizontal axis) would result in a hypothetical cash settlement amount of 100.00% of the face amount of your notes.

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The amounts shown above are entirely hypothetical; they are based on closing levels of the index that may not be achieved on a call observation date or the determination date, as the case may be, and on assumptions that may prove to be erroneous. The actual market value of your notes on a call payment date, the stated maturity date or at any other time, including any time you may wish to sell your notes, may bear little relation to the hypothetical amounts shown above, and these amounts should not be viewed as an indication of the financial return on an investment in the offered notes. The hypothetical amounts on notes held to a call payment date or the stated maturity date, as the case may be, in the examples above assume you purchased your notes at their face amount and have not been adjusted to reflect the actual issue price you pay for your notes. The return on your investment (whether positive or negative) in your notes will be affected by the amount you pay for your notes. If you purchase your notes for a price other than the face amount, the return on your investment will differ from, and may be significantly lower than, the hypothetical returns suggested by the above examples. Please read "Additional Risk Factors Specific to Your Notes — The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors" on page PS-21.

Payments on the notes are economically equivalent to the amounts that would be paid on a combination of other instruments. For example, payments on the notes are economically equivalent to a combination of a zero coupon bond bought by the holder and one or more options entered into between the holder and us (with one or more implicit option premiums paid over time). The discussion in this paragraph does not modify or affect the terms of the notes or the U.S. federal income tax treatment of the notes, as described elsewhere in this pricing supplement.

We cannot predict the actual closing levels of the index on each of the call observation dates or final index level on the determination date or what the market value of your notes will be on any particular trading day, nor can we predict the relationship between the index level and the market value of your notes at any time prior to the stated maturity date. The actual amount in cash that you will receive and the rate of return on the offered notes will depend on whether or not the notes are called, the actual closing level of the index on each call observation date and the actual final index level on the determination date, each as determined by the note calculation agent as described above. Moreover, the assumptions on which the hypothetical examples are based may turn out to be inaccurate. Consequently, the amount in cash to be paid in respect of your notes on a call payment date or the stated maturity date, as the case may be, may be very different from the information reflected in the examples above.

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ADDITIONAL RISK FACTORS SPECIFIC TO YOUR NOTES

An investment in your notes is subject to the risks described below, as well as the risks and considerations described in the accompanying index supplement, the accompanying prospectus supplement and the accompanying prospectus. You should carefully review these risks and considerations as well as the terms of the notes described herein and in the accompanying index supplement, the accompanying prospectus supplement and the accompanying prospectus. Your notes are a riskier investment than ordinary debt securities. Also, your notes are not equivalent to investing directly in any eligible underlying asset or the assets held by any eligible ETF or in notes that bear interest at the notional interest rate. You should carefully consider whether the offered notes are suited to your particular circumstances.

Although we have classified the risks described below into two categories (general risks and risks related to the index), and the accompanying index supplement includes a third category of risks (risks related to the eligible ETFs), the order and document in which any category of risks appears is not intended to signify any decreasing (or increasing) significance of these risks. You should read all of the risks described below and in the accompanying index supplement, the accompanying prospectus supplement and the accompanying prospectus.

General Risks

The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (as Determined By Reference to Pricing Models Used By GS&Co.) Is Less Than the Original Issue Price Of Your Notes

The original issue price for your notes exceeds the estimated value of your notes as of the time the terms of your notes are set on the trade date, as determined by reference to GS&Co.'s pricing models and taking into account our credit spreads. Such estimated value on the trade date is set forth above under "Estimated Value of Your Notes"; after the trade date, the estimated value as determined by reference to these models will be affected by changes in market conditions, the creditworthiness of GS Finance Corp., as issuer, the creditworthiness of The Goldman Sachs Group, Inc., as guarantor, and other relevant factors. The price at which GS&Co. would initially buy or sell your notes (if GS&Co. makes a market, which it is not obligated to do), and the value that GS&Co. will initially use for account statements and otherwise, also exceeds the estimated value of your notes as determined by reference to these models. As agreed by GS&Co. and the distribution participants, this excess (i.e., the additional amount described under "Estimated Value of Your Notes") will decline to zero on a straight line basis over the period from the date hereof through the applicable date set forth above under "Estimated Value of Your Notes". Thereafter, if GS&Co. buys or sells your notes it will do so at prices that reflect the estimated value determined by reference to such pricing models at that time. The price at which GS&Co. will buy or sell your notes at any time also will reflect its then current bid and ask spread for similar sized trades of structured notes.

In estimating the value of your notes as of the time the terms of your notes are set on the trade date, as disclosed above under "Estimated Value of Your Notes", GS&Co.'s pricing models consider certain variables, including principally our credit spreads, interest rates (forecasted, current and historical rates), volatility, price-sensitivity analysis and the time to maturity of the notes. These pricing models are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, the actual value you would receive if you sold your notes in the secondary market, if any, to others may differ, perhaps materially, from the estimated value of your notes determined by reference to our models due to, among other things, any differences in pricing models or assumptions used by others. See "— The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors" below.

The difference between the estimated value of your notes as of the time the terms of your notes are set on the trade date and the original issue price is a result of certain factors, including principally the underwriting discount and commissions, the expenses incurred in creating, documenting and marketing the notes, and an estimate of the difference between the amounts we pay to GS&Co. and the amounts GS&Co. pays to us in connection with your notes. We pay to GS&Co. amounts based on what we would pay to holders of a non-structured note with a similar maturity. In return for such payment, GS&Co. pays to us the amounts we owe under your notes.

In addition to the factors discussed above, the value and quoted price of your notes at any time will reflect many factors and cannot be predicted. If GS&Co. makes a market in the notes, the price quoted by GS&Co. would reflect any changes in market conditions and other relevant factors, including any deterioration in our creditworthiness or perceived creditworthiness or the creditworthiness or perceived creditworthiness of The Goldman Sachs Group, Inc.

These changes may adversely affect the value of your notes, including the price you may receive for your notes in any market making transaction. To the extent that GS&Co. makes a market in the notes, the quoted price will reflect the estimated value determined by reference to GS&Co.'s pricing models at that time, plus or minus its then current bid and ask spread for similar sized trades of structured notes (and subject to the declining excess amount described above).

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Furthermore, if you sell your notes, you will likely be charged a commission for secondary market transactions, or the price will likely reflect a dealer discount. This commission or discount will further reduce the proceeds you would receive for your notes in a secondary market sale.

There is no assurance that GS&Co. or any other party will be willing to purchase your notes at any price and, in this regard, GS&Co. is not obligated to make a market in the notes. See "— Your Notes May Not Have an Active Trading Market" below.

The Notes Are Subject to the Credit Risk of the Issuer and the Guarantor

Although the return on the notes will be based on the performance of the index, the payment of any amount due on the notes is subject to the credit risk of GS Finance Corp., as issuer of the notes, and the credit risk of The Goldman Sachs Group, Inc., as guarantor of the notes. The notes are our unsecured obligations. Investors are dependent on our ability to pay all amounts due on the notes, and therefore investors are subject to our credit risk and to changes in the market's view of our creditworthiness. Similarly, investors are dependent on the ability of The Goldman Sachs Group, Inc., as guarantor of the notes, to pay all amounts due on the notes, and therefore are also subject to its credit risk and to changes in the market's view of its creditworthiness. See "Description of the Notes We May Offer — Information About Our Medium-Term Notes, Series E Program — How the Notes Rank Against Other Debt" on page S-4 of the accompanying prospectus supplement and "Description of Debt Securities We May Offer — Guarantee by The Goldman Sachs Group, Inc." on page 42 of the accompanying prospectus.

You May Receive Only the Face Amount of Your Notes at Maturity

If the index return is zero or negative on the determination date, the return on your notes will be limited to the face amount.

Even if the amount paid on your notes at maturity exceeds the face amount of your notes, the overall return you earn on your notes may be less than you would have earned by investing in a note with the same stated maturity that bears interest at the prevailing market rate.

Your Notes Do Not Bear Interest

You will not receive any interest payments on your notes. As a result, even if the cash settlement amount payable for your notes on the stated maturity date exceeds the face amount of your notes, the overall return you earn on your notes may be less than you would have earned by investing in a non-indexed debt security of comparable maturity that bears interest at a prevailing market rate.

The Amount In Cash That You Will Receive on a Call Payment Date or on the Stated Maturity Date is Not Linked to the Closing Level of the Index at Any Time Other Than on the Applicable Call Observation Date or the Determination Date, as the Case May Be

The amount in cash that you will receive on a call payment date, if any, will be paid only if the closing level of the index on the applicable call observation date is greater than or equal to the applicable call level. Therefore, the closing level of the index on dates other than the call observation dates will have no effect on any amount paid in respect of your notes on the call payment date. In addition, the cash settlement amount you will receive on the stated maturity date (if the notes were not previously automatically called) will be based on the closing level of the index on the determination date and, therefore, the closing level of the index on dates other than the determination date will have no effect on any cash settlement amount paid in respect of your notes on the stated maturity date. Therefore, for example, if the closing level of the index dropped precipitously on the determination date, the cash settlement amount for the notes may be significantly less than it otherwise would have been had the cash settlement amount been linked to the closing level of the index prior to such drop. Although the actual closing level of the index on the applicable call payment dates, the stated maturity date or at other times during the life of the notes may be higher than the closing level of the index on the call observation dates or the final index level on the determination date, you will not benefit from the closing level of the index at any time other than on the call observation dates or on the determination date.

The Amount You Will Receive on a Call Payment Date Will Be Limited

Regardless of the closing level of the index on each of the call observation dates, the amount in cash that you may receive on a call payment date is limited. Even if the closing level of the index on a call observation date exceeds the applicable call level, causing the notes to be automatically called, the amount in cash payable on the call payment date will be limited due to the applicable call return. If your notes are automatically called on a call observation date, the maximum payment you will receive for each $1,000 face amount of your notes will depend on the applicable call

return.

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Your Notes Are Subject to Automatic Redemption

	$	
Tranche B and Series C new term loans		430,474
Senior subordinated notes		300,000
Senior notes		197,810
Total	786,050	928,284
Deferred financing costs and original issue discount	(19,384)	(21,641)
Total debt	766,666	906,643
Less current maturities		

7,900 2,036

Long-term debt

$758,766 $904,607

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

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

- $100.0 million revolving credit facility with a maturity date in 2018, of which there were no borrowings outstanding at June 30, 2013.

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

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

The refinancing, which reduced the Company s overall weighted average interest rate from approximately 8.5% as of December 31, 2012 to 4.1% as of June 30, 2013, resulted in a loss on extinguishment of debt of $63.7 million, which included the redemption premiums and the write-off of existing deferred financing costs.

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

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

4. STOCKHOLDERS EQUITY

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

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

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

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

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

5. EARNINGS (LOSS) PER SHARE

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

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

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

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

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

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

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

6. STOCK-BASED COMPENSATION

The Company has the 2012 Omnibus Long-Term Incentive Plan, which became effective on January 24, 2013, and allows for the issuance of equity awards with respect to up to 5 million shares of common stock, which are fully reserved for. For the six months ended June 30, 2013, the Company granted options to purchase 406,772 shares of common stock at a weighted average price of $23.39 per share that vest over three to five years.

The weighted average fair value of options granted during the quarter was $9.70 per share. The fair value of each stock option to purchase common stock was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 40%; risk free interest rate of 1.24%; and expected life of options of 6.5 years.

The Company also had an incentive compensation plan (the 2008 Equity Incentive Plan) which, as amended in March 2012, was authorized to issue 150,000 shares of Class L common stock and 1.5 million shares of Class A common stock. As discussed in Note 4, the Company effected a 1 for 1.9704 reverse split of its Class A common stock and therefore all previously reported options to purchase Class A shares and Class A share exercise prices in the accompanying financial statements and related notes have been retroactively adjusted to reflect the reverse stock split. No additional options will be granted under the 2008 Equity Incentive Plan. However, all outstanding options continue to be governed by their existing terms.

In addition, on January 11, 2013, the Company converted each share of its Class L common stock into 35.1955 shares of Class A common stock, and, immediately following the conversion of its Class L common stock, reclassified those shares as well as

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all outstanding shares of Class A common stock into common stock. All outstanding options to purchase Class L common stock have been converted into options to acquire common stock using the 35.1955 conversion ratio with the exercise price adjusted similarly for the conversion ratio.

The Company recorded stock-based compensation expense of $8.3 million in selling, general and administrative expenses during the first half of 2013, which included approximately $5.0 million associated with options to purchase 1.3 million shares of common stock that had been issued under the 2008 Equity Incentive plan, which vested upon the effectiveness of the Offering on January 24, 2013.

At June 30, 2013, there was $8.6 million of total unrecognized compensation expense related to unvested share-based compensation arrangements granted under the plans, which is expected to be recognized over the remaining requisite service period.

7. INCOME TAXES

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

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

As of June 30, 2013, there were not any federal, state or foreign income tax audits in process. The Company is also subject to corporate income tax at its subsidiaries located in the United Kingdom, Netherlands, India, Canada, Ireland, and Puerto Rico. The tax returns for the Company s subsidiaries located in foreign jurisdictions are subject to examination for periods ranging from one to seven years.

8. ACQUISITIONS

2013 Acquisition of Kidsunlimited Group Limited

On April 10, 2013, the Company entered into a share purchase agreement with Lloyds Development Capital (Holdings) Limited and Kidsunlimited Group Limited pursuant to which it acquired 100% of kidsunlimited, an operator of 64 nurseries throughout the United Kingdom for an aggregate cash purchase price of $69.1 million, subject to certain adjustments. The purchase price was financed with available cash on hand. The Company has incurred acquisition costs of approximately $1.8 million through June 30, 2013, which are included in selling, general and administrative expenses.

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

Cash	$ 4,888
Accounts receivable	1,809
Prepaids and other assets	2,509
Fixed assets	13,901
Intangible assets, primarily customer relationships	17,442
Goodwill	55,349
Total assets acquired	95,898
Accounts payable and accrued expenses	(9,450)
Unfavorable leasehold interests	(1,759)
Deferred revenue and parent deposits	(12,853)
Deferred taxes	(2,735)

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

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

The Company recorded goodwill of $55.3 million, which will not be deductible for tax purposes. Goodwill related to this acquisition is reported within the full service center-based care segment.

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

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

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

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

2012 Acquisition of Huntyard Limited

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

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

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

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

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

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

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

9. COMPREHENSIVE (LOSS) INCOME

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

10. COMMITMENTS AND CONTINGENCIES

Leases

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

Litigation

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

Insurance and Regulatory

The Company self-insures a portion of its medical insurance plans and has a high deductible workers compensation plan. While management believes that the amounts accrued for these obligations are sufficient, any significant increase in the number of claims or costs associated with claims made under these plans could have a material adverse effect on the Company s financial position, results of operations or cash flows.

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

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The Company s financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and long-term debt. The fair value of the Company s financial instruments approximates their carrying value. As of June 30, 2013, the Company s long-term debt had a book value of $786.1 million and a fair value of $791.0 million using quoted market prices and a model that considers observable inputs (level two inputs).

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

12. SEGMENT INFORMATION

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

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

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

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

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

(1) For the six months ended June 30, 2013, income from operations includes expenses incurred in connection with the Offering, including a $7.5 million fee for the termination of the management agreement with Bain Capital Partners LLC, and $5.0 million for certain stock options that vested upon completion of the Offering, allocated on a proportionate basis to each segment ($9.8 million to full service center-based care, $1.9 million to back-up dependent care, and $0.8 million to other educational advisory services).

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

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13. TRANSACTIONS WITH RELATED PARTIES

The Company had a management agreement with Bain Capital Partners LLC (the Sponsor), which provided for annual payments of $2.5 million through May 2018. In connection with the Offering, the Company and the Sponsor terminated the management agreement in exchange for a $7.5 million payment from the Company to the Sponsor, which is included in selling, general and administrative expenses in the accompanying statement of operations for the six months ended June 30, 2013. As of June 30, 2013, investment funds affiliated with the Sponsor hold approximately 64.6% of our common stock.

14. SUBSEQUENT EVENTS

On July 22, 2013, the Company acquired the outstanding shares of Children s Choice Learning Centers, Inc., an operator of 49 employer-sponsored child care centers throughout the United States, for cash consideration of $53.0 million, subject to certain adjustments and inclusive of the value of net operating loss carryforwards. The purchase price was financed with available cash on hand and funds available under our revolving credit facility.

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

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

Forward-Looking Statements

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

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

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

Our ability to hire and retain qualified teachers;

Our substantial indebtedness could affect our financial condition;

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

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

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

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

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

Our ability to pass on our increased costs;

Changes in our relationships with employer sponsors;

- Our ability to obtain and maintain adequate insurance coverage at a reasonable cost;
- Changes in laws or regulations that govern our business;
- Our ability to withstand seasonal fluctuations in the demand for our services;
- Our ability to retain and attract key management and key employees;
- Significant competition within our industry;
- Our ability to implement our growth strategies successfully;
- Our susceptibility to the economic impact of governmental or universal child care programs in the countries in which we operate;
- Breaches in data security; and
- The impact of a regional or global health pandemic or other catastrophic event.

These factors should not be construed as exhaustive.

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

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

Introduction and Overview

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

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

Results of Operations

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

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

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

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

(1) Cost of services consists of direct expenses associated with the operation of child care centers, and direct expenses to provide back-up dependent care services, including fees to back-up care providers, and educational advisory services. Direct expenses consist primarily of salaries, taxes and benefits for personnel, food costs, program supplies and materials, parent marketing and facilities costs, which include occupancy costs and depreciation.

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

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

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

Revenue. Revenue increased $39.4 million, or 14.5%, to $310.8 million for the three months ended June 30, 2013 from $271.5 million for the same period in the prior year. Revenue growth is primarily attributable to contributions from new and ramping child care and early education centers, expanded sales of our back-up dependent care services and typical annual tuition increases of 3% to 4%. Revenue generated by full service center-based care services in the three months ended June 30, 2013 increased by $34.3 million, or 14.6%, when compared to the same period in 2012. Our acquisitions of Kidsunlimited, an operator of 64 centers in the United Kingdom on April 10, 2013, and Casterbridge Care and Education, an operator of 27 centers in the United Kingdom on May 23, 2012, contributed approximately $27.6 million of revenue in the three months ended June 30, 2013.

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

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

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

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

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

Amortization. Amortization expense on intangible assets totaled $7.6 million for the three months ended June 30, 2013, compared to $6.6 million for the three months ended June 30, 2012, due to the acquisitions previously described.

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

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

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

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

Interest Expense. Interest expense decreased to $8.9 million for the three months ended June 30, 2013 from $20.5 million for the same period in 2012 due to the debt refinancing completed on January 30, 2013, which reduced the borrowings outstanding as well as the rate at which interest is payable.

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

	Three months ended June 30,	
	2013	2012

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

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

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Adjusted EBITDA and Adjusted Income from Operations. Adjusted EBITDA and adjusted income from operations increased $8.8 million, or 18.4%, and $4.7 million, or 15.0%, respectively, for the three months ended June 30, 2013 over the comparable period in 2012 primarily as a result of the increase in gross profit due additional contributions from full-service centers, including the impact of acquired centers, as well as the growth in the back-up business, offset by increases in SGA spending.

Adjusted Net Income. Adjusted net income increased $11.5 million, or 99.2%, for the three months ended June 30, 2013 when compared to the comparable period in 2012 primarily due to the incremental gross profit described above, which was offset by increases in SGA spending to support the growth. Adjusted net income also increased due to the reduction in interest expense associated with the refinancing of our debt in January 2013.

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

Revenue. Revenue increased $61.4 million, or 11.6%, to $590.9 million for the six months ended June 30, 2013 from $529.6 million for the same period in the prior year. Revenue growth is primarily attributable to contributions from new and ramping child care and early education centers, expanded sales of our back-up dependent care services and typical annual tuition increases of 3% to 4%. Revenue generated by full service center-based care services in the six months ended June 30, 2013 increased by $52.5 million, or 11.4%, when compared to the same period in 2012. Our acquisitions of Kidsunlimited, an operator of 64 centers in the United Kingdom on April 10, 201,3 and Casterbridge Care and Education, an operator of 27 centers in the United Kingdom on May 23, 2012, contributed approximately $38.2 million of revenue in the six months ended June 30, 2013. Revenue generated by back-up dependent care services in the six months ended June 30, 2013 increased by $7.1 million, or 11.5%, when compared to the same period in 2012. Additionally, revenue generated by other educational advisory services in the six months ended June 30, 2013 increased by $1.7 million, or 20.6%, when compared to the same period in 2012.

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

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

Selling, General and Administrative Expenses. SGA increased $8.8 million, or 13.1%, to $76.0 million for the six months ended June 30, 2013 compared to $67.2 million for the same period in the prior year, and as a percentage of revenue increased to 12.9% from 12.7% in the same period in the prior year. Results for the six months ended June 30, 2012 included $15.1 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options and $0.4 million of expenses associated with the offering. Results for the six months ended June 30, 2013 included a $7.5 million fee for the termination of the management agreement with Bain Capital Partners LLC (Sponsor termination fee), a $5.0 million stock-based compensation charge for certain stock options that vested upon completion of the Offering (performance-based stock compensation charge), $0.6 million of costs associated with the completion of a secondary offering of common shares and $1.8 million of acquisition related costs. Excluding the incremental impact of these items, SGA increased $9.4 million or 18.2% over the comparable period due primarily due to continued investments in technology and marketing, incremental overhead related to the operations of Kidsunlimited and Casterbridge, an increase in compensation costs, including annual wage increases and stock-based compensation costs, as well as routine increases in SGA costs compared to the prior year.

Amortization. Amortization expense on intangible assets totaled $14.4 million for the six months ended June 30, 2013, compared to $13.2 million for the six months ended June 30, 2012 due to acquisitions previously described.

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

In the full service center-based care segment, income from operations increased $5.0 million for the six months ended June 30, 2013. Results for the six months ended June 30, 2012 included $11.4 million of incremental compensation costs associated with the modification of the previously existing awards and the issuance of immediately vested options as well as costs related to the initial public offering. Results for the six months ended June 30, 2013 included an aggregate proportionate charge of $12.2 million for the Sponsor termination fee, the performance-based stock compensation charge, costs associated with the completion of a secondary offering of our common shares and acquisition related costs. Excluding the effect of these charges, income from operations increased $5.8 million in 2013 primarily due to the price increases and enrollment gains over the prior year as well as contributions from new centers that have been added since June 30, 2012, including acquired centers, offset by increases in allocated SGA costs.

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

Loss from operations in the other educational advisory services segment decreased $0.5 million for the six months ended June 30, 2013 compared to the same period in 2012. Results for the six months ended June 30, 2012 included $1.3 million of incremental compensation associated with the modification of the previously existing awards and the issuance of immediately vested options. Results for the six months ended June 30, 2013 included an aggregate proportionate charge of $0.8 million for the Sponsor termination fee and the performance-based stock compensation charge. Excluding the effect of these charges, income from operations remained relatively consistent.

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

Interest Expense. Interest expense decreased to $22.2 million for the six months ended June 30, 2013 from $40.4 million for the same period in 2012 due to the debt refinancing completed on January 30, 2013, which reduced the rate at which interest is payable, and the reduction of the borrowings outstanding as a result of the use of proceeds from the Offering.

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

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

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

Adjusted EBITDA and Adjusted Income from Operations Adjusted EBITDA and adjusted income from operations increased $15.7 million, or 17.5%, and $8.0 million, or 13.9, respectively, for the six months ended June 30, 2013 over the comparable period in 2012 primarily as a result of the increase in gross profit due to additional contributions from full-service centers, including the impact of acquired centers as well as the

growth in the back-up business, offset by increases in SGA spending.

Adjusted Net Income. Adjusted net income increased $18.7 million, or 93.3%, for the six months ended June 30, 2013 when compared to the comparable period in 2012 primarily due to the incremental gross profit described above, which was offset by increases in SGA spending to support the growth. Adjusted net income also increased due to the reduction in interest expense associated with the refinancing of our debt in January 2013.

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

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

(a) Represents amortization of intangible assets, including $10.1 million for the six months ended June 30, 2012 and 2013 associated with intangible assets recorded in connection with our going private transaction in May 2008.

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

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

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

(e) Represents redemption premiums and write off of unamortized debt issue costs and original issue discount associated with indebtedness that was repaid in connection with a refinancing.

(f) Represents costs incurred in connection with secondary offering of common stock completed in June 2013 and costs incurred in connection with initial public offering of common stock completed in January 2013, respectively.
(g) Represents costs associated with the acquisition of businesses.
(h) Represents income tax expense calculated on adjusted income before tax at the effective rate of 37.0% in 2013 and 38.3% in 2012.

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

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

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

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

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

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

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

Non-GAAP earnings (loss) per share

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

months ended June 30, 2013 and 2012 give effect to the conversion of all weighted average outstanding shares of Class L common stock at the conversion factor of 35.1955 common shares for each Class L share, as if the conversion was completed at the beginning of the each year.

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

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

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

(1) The weighted average number of Class L shares in the actual Class L earnings per share calculation for the three and six months June 30, 2013 represents the weighted average from the beginning of the period up through the date of conversion of the Class L shares into common shares. As such, the pro forma weighted average number of common shares includes an adjustment to the weighted average number of Class L shares outstanding to reflect the length of time the Class L shares were outstanding prior to conversion relative to the respective three and six month periods. The converted Class L shares are already included in the weighted average number of common shares outstanding for the period after their conversion.

(2) Represents the dilutive effect of stock options using the treasury stock method. For purposes of the diluted loss per pro forma common share for the six months ended June 30, 2013 and the three months ended June 30, 2012, there is no dilutive effect since there was a loss recorded during the period.

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Liquidity and Capital Resources

Our primary cash requirements are for the ongoing operations of our existing child care centers, back-up dependent care and other educational advisory services, the addition of new centers through development or acquisition and debt financing obligations. Our primary sources of liquidity have been cash flow from operations and borrowings available under our revolving credit facility, which was $75.0 million through January 30, 2013, and $100.0 million thereafter. No amounts were outstanding at June 30, 2013 and December 31, 2012 under the revolving credit facility.

We had a working capital deficit of $72.1 million at June 30, 2013 from $65.9 million December 31, 2012 primarily from using cash generated from operations to make long-term investments in fixed assets and acquisitions. We anticipate that we will continue to generate positive cash flows from operating activities and that the cash generated will be used principally to fund ongoing operations of our new and existing full service child care centers and expanded operations in the back-up dependent care and educational advisory segments, as well as to make scheduled principal and interest payments.

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

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

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

As part of our growth strategy, in addition to making capital expenditures we expect to continue to make selective acquisitions, which may vary in size and which are less predictable in terms of the timing of the capital requirements. Specifically, on April 10, 2013, we acquired 100% of the shares of Kidsunlimited, an operator of 64 nurseries throughout the United Kingdom, for an aggregate cash purchase price of $69.1 million, subject to certain adjustments. Additionally, on July 22, 2013, we acquired 100% of the shares of Children s Choice Learning Centers, an operator of 49 employer-sponsored child care centers across the United States, for an aggregate cash purchase price of $53.0 million, subject to certain adjustments.

Cash Flows

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

Cash Provided by Operating Activities

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

Cash Used in Investing Activities

Cash used in investing activities was $103.9 million for the six months ended June 30, 2013 compared to $135.9 million for the same period in 2012, and related specifically to the acquisition of Kidsunlimited, for a purchase price of $64.2 million, net of cash acquired, as well as fixed asset additions, including the addition of new child care centers, maintenance and refurbishments in our existing centers, and continued investments in technology, equipment and furnishings. Cash used in investing activities during the six months ended June 30, 2012 related to the acquisition of the 27 Casterbridge centers, which included 26 owned facilities, for $108.2 million, net of cash acquired, as well as fixed asset additions.

Cash Provided by Financing Activities

Cash provided by financing activities amounted to $35.3 million for the six months ended June 30, 2013 compared to $77.8 million for the same period in 2012. In January 2013, we completed our Offering, including the exercise of the over-allotment, which raised $234.9 million in 2013, net of directly attributable expenses and underwriting discounts and commission, and used the net proceeds along with certain proceeds from the issuance of a $790.0 million senior secured term loan to redeem our senior notes in full for $213.3 million. We used the remainder of the $790.0 million senior secured term loan to refinance all of the remaining existing indebtedness under the senior credit facilities and the senior subordinated notes. Cash provided from financing activities in during the six months ended June 30, 2012 resulted primarily from additional borrowings to finance a portion of the acquisition of the 27 Casterbridge centers in May 2012.

Debt

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

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

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

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

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

$100.0 million revolving credit facility with a maturity date in 2018; and,

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

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

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

- incur certain liens;
- make investments, loans, advances and acquisitions;
- incur additional indebtedness or guarantees;
- pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated indebtedness;
- engage in transactions with affiliates;
- sell assets, including capital stock of our subsidiaries;
- alter the business we conduct;
- enter into agreements restricting our subsidiaries ability to pay dividends; and
- consolidate or merge.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

As of June 30, 2013, the Company conducted an evaluation under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) regarding the effectiveness of the design and operation of the Company s disclosure controls and procedures as defined in Rule

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

(a) Exhibits:

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

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

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SIGNATURES

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

BRIGHT HORIZONS FAMILY SOLUTIONS INC.

Date: August 9, 2013

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