

BRIGHT HORIZONS FAMILY SOLUTIONS INC.

Form 10-Q

August 09, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013.

OR

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

For the transition period from _____ to _____

Commission file number: 001-35780

BRIGHT HORIZONS FAMILY SOLUTIONS INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller Reporting Company
Indicate by check mark whether the Registrant is a shell company (as defined in rule 12b-2 of the Exchange Act) YES NO

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

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FORM 10-Q

June 30, 2013

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 62,999	\$ 34,109
Accounts receivable net	56,664	62,714
Prepaid expenses and other current assets	42,237	27,827
Current deferred income taxes	11,310	11,367
Total current assets	173,210	136,017
Fixed assets net	366,802	340,376
Goodwill	1,047,049	997,344
Other intangibles net	434,398	432,580
Deferred income taxes	125	132
Other assets	11,167	9,659
Total assets	\$ 2,032,751	\$ 1,916,108
LIABILITIES, NONCONTROLLING INTEREST AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	\$ 7,900	\$ 2,036
Accounts payable and accrued expenses	111,066	97,207
Deferred revenue and parent deposits	108,905	90,563
Other current liabilities	17,474	12,087
Total current liabilities	245,345	201,893
Long-term debt	758,766	904,607
Accrued rent and related obligations	33,950	24,944
Other long-term liabilities	17,934	23,717
Deferred revenue	4,551	3,727
Deferred income taxes	151,820	148,880
Total liabilities	1,212,366	1,307,768
Commitments and contingencies (Note 10)		
Redeemable non-controlling interest	7,894	8,126
Common stock, Class L, \$0.001 par value; 1,500,000 shares authorized, none in 2013 and 1,327,115 shares in 2012 issued and outstanding		854,101
Stockholders equity (deficit):		
Preferred stock, \$0.001 par value; 25,000,000 shares authorized in 2013; none issued and outstanding in 2013		
Common stock, \$0.001 par value; 475,000,000 shares in 2013 and 14,500,000 shares in 2012 authorized; 64,815,992 shares in 2013 and 6,062,653 shares in 2012 issued and outstanding	65	6
Additional paid-in capital	1,254,413	150,088
Accumulated other comprehensive loss	(20,658)	(8,816)

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Accumulated deficit	(421,329)	(395,165)
Total stockholders' equity (deficit)	812,491	(253,887)
Total liabilities, non-controlling interest, common stock and stockholders' equity	\$ 2,032,751	\$ 1,916,108

See notes to condensed consolidated financial statements.

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

See notes to condensed consolidated financial statements.

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

See notes to condensed consolidated financial statements.

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(In thousands, except share data)

(Unaudited)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid In	Other	Deficit	Stockholders
			Capital	Comprehensive		Equity
				Loss		(Deficit)
Balance at December 31, 2012	6,062,653	\$ 6	\$ 150,088	\$ (8,816)	\$ (395,165)	\$ (253,887)
Conversion of Class L common stock	46,708,466	47	854,054			854,101
Initial public offering	11,615,000	12	234,932			234,944
Exercise of stock options	429,873		4,668			4,668
Stock-based compensation			8,305			8,305
Tax benefit from stock option exercises			2,366			2,366
Translation adjustments, net of (\$122) attributable to non-controlling interest				(11,842)		(11,842)
Net loss attributable to Bright Horizons Family Solutions Inc.					(26,164)	(26,164)
Balance at June 30, 2013	64,815,992	\$ 65	\$ 1,254,413	\$ (20,658)	\$ (421,329)	\$ 812,491

See notes to condensed consolidated financial statements.

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

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Cash and cash equivalents beginning of period	34,109	30,448
Cash and cash equivalents end of period	\$ 62,999	\$ 62,764

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash payments of interest	\$ 18,268	\$ 16,802
Cash payments of taxes	\$ 6,404	\$ 3,035

See notes to condensed consolidated financial statements.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

The Company operates its child care and early education centers under various types of arrangements, which generally can be classified into two categories: (i) the management or cost plus (Cost Plus) model, where Bright Horizons manages a work-site child care and early education center under a cost-plus arrangement with an employer sponsor, and (ii) the profit and loss (P&L) model, where the Company assumes the financial risk of the child care and early education center's operations. The P&L model may be operated under either (a) the sponsored model, where Bright Horizons provides child care and early educational services on a priority enrollment basis for employees of an employer sponsor, or (b) the lease/consortium model, where the Company provides priority child care and early education to the employees of multiple employers located within a real estate developer's property or the community at large. Under each model type the Company retains responsibility for all aspects of operating the child care and early education center, including the hiring and paying of employees, contracting with vendors, purchasing supplies, and collecting tuition and related accounts receivable.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The functional currency of the Company's foreign subsidiaries is their local currency. The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. The cumulative translation effect for subsidiaries using a functional currency other than the U.S. dollar is included in accumulated other comprehensive income or loss as a separate component of stockholders' equity.

Initial Public Offering On January 30, 2013, the Company completed an initial public offering (the Offering) and, after the exercise of the overallotment option on February 21, 2013, issued a total of 11.6 million shares of common stock in exchange for \$233.3 million, net of offering costs including \$1.6 million expensed in 2012 through the statement of operations. The Company used the proceeds of the Offering, as well as certain amounts from the 2013 refinancing discussed in Note 3, to repay the principal and accumulated interest under its senior notes outstanding on January 30, 2013.

On June 19, 2013, certain of the Company's shareholders completed the sale of 9.8 million shares of the Company's stock in a secondary offering (Secondary). The Company did not receive any of the proceeds from the sale of shares in the Secondary. The Company incurred \$0.6 million in offering costs related to the Secondary, which are included in selling, general and administrative expenses.

Basis of Presentation The accompanying unaudited consolidated balance sheet as of June 30, 2013 and the consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows for the interim periods ended June 30, 2013 and 2012 have been prepared by the Company, in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required for complete financial statements by generally accepted accounting principles and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Management's Opinion In the opinion of the Company's management, the Company's unaudited consolidated balance sheet as of June 30, 2013 and the results of its consolidated operations and consolidated cash flows for the interim periods ended June 30, 2013 and 2012, reflect all adjustments (consisting only of normal and recurring adjustments) necessary to present fairly the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

Business Combinations Business combinations are accounted for at fair value. Acquisition costs are expensed as incurred and recorded in selling, general and administrative expenses; restructuring costs associated with a business combination are expensed subsequent to the

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acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date affect income tax expense. The accounting for business combinations requires estimates and judgment as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets acquired and liabilities assumed. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled

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by management, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets.

The Company adjusted the balance sheet amounts at December 31, 2012, where appropriate, to account for the measurement period adjustments related to the Huntyard Limited purchase price allocation discussed in Note 8 below.

2. GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

	Weighted average amortization period	Cost	Accumulated amortization	Net carrying amount
June 30, 2013:				
Definite-lived intangibles:				
Contractual rights and customer relationships	14.5 years	\$ 384,635	\$ (137,780)	\$ 246,855
Trade names	7.8 years	5,290	(1,055)	4,235
Non-compete agreements	5 years	54	(36)	18
		\$ 389,979	\$ (138,871)	\$ 251,108
Indefinite-lived intangibles:				
Trade names	N/A	183,290		183,290
		\$ 573,269	\$ (138,871)	\$ 434,398
December 31, 2012:				
Definite-lived intangibles:				
Contractual rights and customer relationships	14.9 years	\$ 370,527	\$ (124,048)	\$ 246,479
Trade names	9.1 years	3,147	(883)	2,264

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Non-compete agreements	5 years	54	(33)	21
		\$ 373,728	\$ (124,964)	\$ 248,764
Indefinite-lived intangibles:				
Trade names	N/A	183,816		183,816
		\$ 557,544	\$ (124,964)	\$ 432,580

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

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

3. BORROWING ARRANGEMENTS

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

	June 30, 2013	December 31, 2012
Term loans	\$ 786,050	