Planet Fitness, Inc.
Form 10-Q
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________to ______________

Commission file number: 001-37534

PLANET FITNESS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	38-3942097
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

26 Fox Run Road, Newington, NH 03801

(Address of Principal Executive Offices and Zip Code)

(603) 750-0001

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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. (Check one):

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

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

As of October 26, 2016 there were 50,049,305 shares of the Registrant's Class A Common Stock, par value $0.0001 per share, outstanding and 48,530,085 shares of the Registrant's Class B Common Stock, par value $0.0001 per share, outstanding.

PLANET FITNESS, INC.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, as well as information included in oral statements or other written statements made or to be made by us, contain statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, and other future conditions. Forward-looking statements can be identified by words such as “anticipate,” “believe,” “envision,” “estimate,” “expect,” “intend,” “may,” “plan, “predict,” “project,” “target,” “potential,” “will,” “would,” “could,” “should,” “continue,” “ongoing,” “contemplate” and other expressions, although not all forward-looking statements contain these identifying words. Examples of forward-looking statements include, among others, statements we make regarding:

- future financial position;
- business strategy;
- budgets, projected costs and plans;
- future industry growth;
- financing sources;
- the impact of litigation, government inquiries and investigations; and
- all other statements regarding our intent, plans, beliefs or expectations or those of our directors or officers.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. Important factors that could cause actual results and events to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our dependence on the operational and financial results of, and our relationships with, our franchisees and the success of their new and existing stores;
- risks relating to damage to our brand and reputation;
- our ability to successfully implement our growth strategy;
- technical, operational and regulatory risks related to our third-party providers’ systems and our own information systems;
- our and our franchisees’ ability to attract and retain members;
- the high level of competition in the health club industry generally;
- our reliance on a limited number of vendors, suppliers and other third-party service providers;
- the substantial indebtedness of our subsidiary, Planet Fitness Holdings, LLC;
- risks relating to our corporate structure and tax receivable agreements; and
- the other factors identified under the heading “Risk Factors” in our annual report on Form 10-K for the fiscal year ended December 31, 2015 filed with the Securities and Exchange Commission.

The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Report. We undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future developments or otherwise.

PART I-FINANCIAL INFORMATION

ITEM 1. Financial Statements

Planet Fitness, Inc. and subsidiaries

Condensed consolidated balance sheets

(Unaudited)

(Amounts in thousands, except per share amounts)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 65,954	$ 31,430
Accounts receivable, net of allowance for bad debts of $673 and $629 at September 30, 2016 and December 31, 2015, respectively	14,435	19,079
Due from related parties	97	4,940
Inventory	759	4,557
Restricted assets – national advertising fund	2,455	1,962
Other current assets	19,420	10,977
Total current assets	103,120	72,945
Property and equipment, net of accumulated depreciation of $28,435 as of September 30, 2016 and $23,525 as of December 31, 2015	56,577	56,139
Intangible assets, net	258,799	273,619
Goodwill	176,981	176,981
Deferred income taxes	255,729	117,358
Other assets, net	1,132	2,135
Total assets	$ 852,338	$ 699,177
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Current maturities of long-term debt	$ 5,100	$ 5,100
Accounts payable	14,415	23,950
Accrued expenses	10,207	13,667
Due to related parties	3,966	—
Equipment deposits	3,978	5,587
Restricted liabilities - national advertising fund	2,455	—
Deferred revenue, current	17,084	14,717
Payable to related parties pursuant to tax benefit arrangements, current	8,916	3,019
Other current liabilities	222	212
Total current liabilities	66,343	66,252
Long-term debt, net of current maturities	477,067	479,779
Deferred rent, net of current portion	4,878	4,554

Deferred revenue, net of current portion	8,472	12,016
Deferred tax liabilities	1,275	—
Payable to related parties pursuant to tax benefit arrangements, net of current portion	265,156	137,172
Other liabilities	489	484
Total noncurrent liabilities	757,337	634,005
Commitments and contingencies (note 11)		
Stockholders' equity (deficit):		
Class A common stock, $.0001 par value - 300,000 shares authorized, 49,914 shares issued and outstanding as of September 30, 2016 and 36,598 shares issued and outstanding as of December 31, 2015	5	4
Class B common stock, $.0001 par value - 100,000 shares authorized, 48,665 shares issued and outstanding as of September 30, 2016, and 62,112 shares issued and outstanding as of December 31, 2015	5	6
Accumulated other comprehensive loss	(1,123)	(1,710)
Additional paid in capital	14,825	352
Retained earnings (accumulated deficit)	(4,248)	(14,032)
Total stockholders' equity (deficit) attributable to Planet Fitness Inc.	9,464	(15,380)
Non-controlling interests	19,194	14,300
Total stockholders' equity (deficit)	28,658	(1,080)
Total liabilities and stockholders' equity (deficit)	$ 852,338	$ 699,177

See accompanying notes to condensed consolidated financial statements.

Planet Fitness, Inc. and subsidiaries

Condensed consolidated statements of operations

(Unaudited)

(Amounts in thousands, except per share amounts)

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue:				
Franchise	$23,046	$16,148	$70,042	$51,806
Commission income	4,179	3,646	14,338	11,624
Corporate-owned stores	26,675	25,153	78,756	73,674
Equipment	33,107	23,870	98,686	87,588
Total revenue	87,007	68,817	261,822	224,692
Operating costs and expenses:				
Cost of revenue	25,925	18,858	77,365	70,104
Store operations	15,181	14,305	45,673	43,354
Selling, general and administrative	12,244	17,348	36,470	43,840
Depreciation and amortization	7,745	7,976	23,127	24,160
Other gain	(241)	(9)	(406)	(76)
Total operating costs and expenses	60,854	58,478	182,229	181,382
Income from operations	26,153	10,339	79,593	43,310
Other expense, net:				
Interest expense, net	(6,291)	(6,556)	(18,819)	(17,872)
Other income (expense)	(204)	(1,815)	30	(2,627)
Total other expense, net	(6,495)	(8,371)	(18,789)	(20,499)
Income before income taxes	19,658	1,968	60,804	22,811
Provision for income taxes	4,795	1,230	11,504	1,921
Net income	14,863	738	49,300	20,890
Less net income attributable to non-controlling interests	11,438	4,631	38,374	4,857
Net income (loss) attributable to Planet Fitness, Inc.	$3,425	$(3,893)	$10,926	$16,033
Net income per share of Class A common stock(1):				
Basic	$0.08	$0.05	$0.28	$0.05
Diluted	$0.08	$0.04	$0.28	$0.04
Weighted-average shares of Class A common stock outstanding(1):				
Basic	44,669	35,661	39,394	35,661
Diluted	44,686	98,710	39,397	98,710

(1) For the three and nine months ended September 30, 2015, represents earnings per share of Class A common stock and weighted-average shares of Class A common stock outstanding for the period from August 6, 2015 through

September 30, 2015, the period following the recapitalization transactions and IPO (see Note 9).

See accompanying notes to condensed consolidated financial statements.

Planet Fitness, Inc. and subsidiaries

Condensed consolidated statements of comprehensive income

(Unaudited)

(Amounts in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net income including non-controlling interests	$14,863	$738	$49,300	$20,890
Other comprehensive income (loss), net:				
Unrealized gain (loss) on interest rate caps, net of tax	193	(557)	(469)	(1,497)
Foreign currency translation adjustments	11	198	(84)	245
Total other comprehensive income (loss), net	204	(359)	(553)	(1,252)
Total comprehensive income including non-controlling interests	15,067	379	48,747	19,638
Less: total comprehensive income attributable to non-controlling interests	11,572	4,423	37,964	4,649
Total comprehensive income (loss) attributable to Planet Fitness, Inc.	$3,495	$(4,044)	$10,783	$14,989

See accompanying notes to condensed consolidated financial statements.

Planet Fitness, Inc. and subsidiaries

Condensed consolidated statements of cash flows

(Unaudited)

(Amounts in thousands)

	For the nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$49,300	$20,890
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,127	24,160
Amortization of deferred financing costs	1,114	1,070
Amortization of favorable leases and asset retirement obligations	297	380
Amortization of interest rate caps	459	—
Deferred tax expense (benefit)	11,062	(141)
Provision for bad debts	44	547
Gain on disposal of property and equipment	(347)	(76)
Equity-based compensation	1,373	4,647
Changes in operating assets and liabilities:		
Accounts receivable	4,898	8,830
Due to and due from related parties	8,494	4,532
Inventory	3,798	237
Other assets and other current assets	(1,635)	(563)
Accounts payable and accrued expenses	(10,172)	(11,745)
Other liabilities and other current liabilities	(30)	57
Income taxes	(7,543)	969
Payable to related parties pursuant to tax benefit arrangements	(6,007)	—
Equipment deposits	(1,609)	823
Deferred revenue	(1,264)	626
Deferred rent	379	1,330
Net cash provided by operating activities	75,738	56,573
Cash flows from investing activities:		
Additions to property and equipment	(9,266)	(13,830)
Proceeds from sale of property and equipment	402	76
Net cash used in investing activities	(8,864)	(13,754)
Cash flows from financing activities:		
Proceeds from issuance of Class A common stock sold in initial public offering, net of underwriting discounts and commissions	—	156,946
Use of proceeds from issuance of Class A common stock to purchase Holdings Units	—	(156,946)

Exercise of common stock options	79	—
Proceeds from issuance of long-term debt	—	120,000
Principal payments on capital lease obligations	(37)	(343)
Repayment of long-term debt	(3,825)	(3,525)
Payment of deferred financing and other debt-related costs	—	(1,698)
Premiums paid for interest rate caps	—	(880)
Repurchase and retirement of Class B common stock	(1,583)	—
Distributions to Continuing LLC Members	(27,071)	(171,101)
Net cash used in financing activities	(32,437)	(57,547)
Effects of exchange rate changes on cash and cash equivalents	87	(102)
Net increase (decrease) in cash and cash equivalents	34,524	(14,830)
Cash and cash equivalents, beginning of period	31,430	43,291
Cash and cash equivalents, end of period	$65,954	$28,461
Supplemental cash flow information:		
Net cash paid for income taxes	$8,121	$1,105
Cash paid for interest	$17,187	$17,063
Non-cash investing activities:		
Non-cash additions to property and equipment	$127	$709

See accompanying notes to condensed consolidated financial statements.

Planet Fitness, Inc. and subsidiaries

Condensed consolidated statement of changes in equity (deficit)

(Unaudited)

(Amounts in thousands)

	Class A common stock		Class B common stock		Accumulated other comprehensive loss	Additional paid-in capital	Accumulated deficit	Non-controlling interests	Total equity (deficit)
	Shares	Amount	Shares	Amount					
Balance at December 31, 2015	36,598	$ 4	62,112	$ 6	$ (1,710)	$ 352	$ (14,032)	$ 14,300	$ (1,080)
Net income	—	—	—	—	—	—	10,926	38,374	49,300
Equity-based compensation expense	—	—	—	—	—	1,373	—	—	1,373
Repurchase and retirement of Class B common stock	—	—	(141)	—	—	(441)	(1,142)	—	(1,583)
Exchanges of Class B common stock	13,306	1	(13,306)	(1)	730	5,269	—	(5,999)	—
Tax benefit arrangement liability and deferred taxes arising from secondary offerings	—	—	—	—	—	8,148	—	—	8,148
Exercise of stock options and vesting of restricted share units	10	—	—	—	—	124	—	—	124
Distributions paid to members of Pla-Fit Holdings	—	—	—	—	—	—	—	(27,071)	(27,071)
Other comprehensive loss	—	—	—	—	(143)	—	—	(410)	(553)

Balance at September 30, 2016	49,914	$ 5	48,665	$ 5	$ (1,123)	$ 14,825	$ (4,248)	$ 19,194	$ 28,658

See accompanying notes to condensed consolidated financial statements.

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Planet Fitness, Inc. and subsidiaries

Notes to Condensed Consolidated financial statements

(Unaudited)

(Amounts in thousands, except share and per share amounts)

(1) Business organization

Planet Fitness, Inc. (the "Company"), through its subsidiaries, is a franchisor and operator of fitness centers, with more than 8.7 million members and 1,242 owned and franchised locations (referred to as stores) in 47 states, the District of Columbia, Puerto Rico, Canada and the Dominican Republic as of September 30, 2016.

The Company serves as the reporting entity for its various subsidiaries that operate three distinct lines of business:

- Licensing and selling franchises under the Planet Fitness trade name.
- Owning and operating fitness centers under the Planet Fitness trade name.
- Selling fitness-related equipment to franchisee-owned stores.

The Company was formed as a Delaware corporation on March 16, 2015 for the purpose of facilitating an initial public offering (the "IPO") which was completed on August 11, 2015 and related transactions in order to carry on the business of Pla-Fit Holdings, LLC and its subsidiaries ("Pla-Fit Holdings"). As of August 5, 2015, in connection with the recapitalization transactions that occurred prior to the IPO, the Company became the sole managing member and holder of 100% of the voting power of Pla-Fit Holdings. Pla-Fit Holdings owns 100% of Planet Intermediate, LLC which has no operations but is the 100% owner of Planet Fitness Holdings, LLC, a franchisor and operator of fitness centers. With respect to the Company, Pla-Fit Holdings and Planet Intermediate, LLC, each entity owns nothing other than the respective entity below it in the corporate structure and each entity has no other material operations.

Subsequent to the IPO and the related recapitalization transactions, the Company is a holding company whose principal asset is a controlling equity interest in Pla-Fit Holdings. As the sole managing member of Pla-Fit Holdings, the Company operates and controls all of the business and affairs of Pla-Fit Holdings, and through Pla-Fit Holdings, conducts its business. As a result, the Company consolidates Pla-Fit Holdings' financial results and reports a non-controlling interest related to the portion of limited liability company units of Pla-Fit Holdings, LLC ("Holdings Units") not owned by the Company.

The recapitalization transactions are considered transactions between entities under common control. As a result, the financial statements for periods prior to the IPO and the recapitalization transactions are the financial statements of Pla-Fit Holdings as the predecessor to the Company for accounting and reporting purposes. Unless otherwise specified, "the Company" refers to both Planet Fitness, Inc. and Pla-Fit Holdings throughout the remainder of these notes.

In June 2016, the Company completed a secondary offering ("June Secondary Offering") of 11,500,000 shares of its Class A common stock at a price of $16.50 per share. All of the shares sold in the offering were offered by certain existing holders of Holdings Units ("Continuing LLC Owners") and certain holders of Class A common stock ("Direct TSG Investors"). The Company did not receive any proceeds from the sale of shares of Class A common stock offered by the Direct TSG Investors and the participating Continuing LLC Owners. The shares sold in the June Secondary Offering consisted of (i) 3,608,840 existing shares of Class A common stock held by the Direct TSG Investors and (ii) 7,891,160 newly-issued shares of Class A common stock issued in connection with the exercise of the exchange right by the Continuing LLC Owners that participated in the June Secondary Offering. Simultaneously, and in connection with the exchange, 7,891,160 shares of Class B common stock were surrendered by the Continuing LLC Owners that participated in the June Secondary Offering and canceled. Additionally, in connection with the exchange, Planet Fitness, Inc. received 7,891,160 Holdings Units, increasing its total ownership interest in Pla-Fit Holdings. Immediately preceding the June Secondary Offering, Planet Fitness, Inc. held 100% of the voting interest and 37.1% of the economic interest of Pla-Fit Holdings and the Continuing LLC Owners held the remaining 62.9% economic interest in Pla-Fit Holdings.

Planet Fitness, Inc. and subsidiaries

Notes to Condensed Consolidated financial statements

(Unaudited)

(Amounts in thousands, except share and per share amounts)

In September 2016, the Company completed a secondary offering (“September Secondary Offering”) of 8,000,000 shares of its Class A common stock at a price of $19.62 per share. All of the shares sold in the offering were offered by the Direct TSG Investors and participating Continuing LLC Owners. The Company did not receive any proceeds from the sale of shares of Class A common stock offered by the Direct TSG Investors and the Continuing LLC Owners that participating in the September Secondary Offering. The shares sold in the September Secondary Offering consisted of (i) 2,593,981 existing shares of Class A common stock held by the Direct TSG Investors and (ii) 5,406,019 newly-issued shares of Class A common stock issued in connection with the exercise of the exchange right by the Continuing LLC Owners that participated in the September Secondary offering. Simultaneously, and in connection with the exchange, 5,406,019 shares of Class B common stock were surrendered by the Continuing LLC Owners that participated in the September Secondary Offering and canceled. Additionally, in connection with the exchange, Planet Fitness, Inc received 5,406,019 Holdings Units, increasing its total ownership interest in Pla-Fit Holdings. Immediately preceding the September Secondary Offering, Planet Fitness, Inc. held 100% of the voting interest and 45.1% of the economic interest of Pla-Fit Holdings and the Continuing LLC Owners held the remaining 54.9% economic interest in Pla-Fit Holdings. Immediately following the completion of the September Secondary Offering and as of September 30, 2016, Planet Fitness, Inc. held 100% of the voting interest and 50.6% of the economic interest of Pla-Fit Holdings and the Continuing LLC Owners held the remaining 49.4% economic interest in Pla-Fit Holdings. As future exchanges of Holdings Units occur, Planet Fitness, Inc.’s economic interest in Pla-Fit Holdings will increase.

(2) Summary of significant accounting policies

(a) Basis of presentation and consolidation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, these interim financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented have been reflected. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements as of and for the three and nine months ended September 30, 2016 and 2015 are unaudited. The condensed consolidated balance sheet as of December 31, 2015 has been derived from the audited financial statements at that date but does not include all of the disclosures required by U.S. GAAP. These interim condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (the “Annual Report”) filed with the SEC on March 4, 2016. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year.

As discussed in Note 1, as a result of the recapitalization transactions, Planet Fitness, Inc. consolidates Pla-Fit Holdings and Pla-Fit Holdings is considered to be the predecessor to Planet Fitness, Inc. for accounting and reporting purposes. The Company also consolidates entities in which it has a controlling financial interest, the usual condition of which is ownership of a majority voting interest. The Company also considers for consolidation certain interests where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity ("VIE"), is required to be consolidated by its primary beneficiary. The primary beneficiary of a VIE is considered to possess the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the rights to receive benefits from the VIE that are significant to it. The principal entities in which the Company possesses a variable interest include franchise entities and certain other entities. The Company is not deemed to be the primary beneficiary for Planet Fitness franchise entities. Therefore, these entities are not consolidated.

The results of the Company have been consolidated with Matthew Michael Realty LLC ("MMR") and PF Melville LLC ("PF Melville") based on the determination that the Company is the primary beneficiary with respect to these VIEs. These entities are real estate holding companies that derive a majority of their financial support from the Company through lease agreements for corporate stores. See Note 3 for further information related to the Company's VIEs.

(b) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results. Significant areas where estimates and judgments are relied upon by management in the preparation of the consolidated financial statements include revenue recognition, valuation of assets and liabilities in connection with acquisitions, valuation of equity-based compensation awards, the evaluation

Planet Fitness, Inc. and subsidiaries

Notes to Condensed Consolidated financial statements

(Unaudited)

(Amounts in thousands, except share and per share amounts)

of the recoverability of goodwill and long-lived assets, including intangible assets, income taxes, including deferred tax assets and liabilities and reserves for unrecognized tax benefits, and the liability for the Company's tax benefit arrangements.

(c) Fair Value

ASC 820, Fair Value Measurements and Disclosures, establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1—Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The table below presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015:

	Total fair value at September 30, 2016	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Interest rate caps	$ 134	$ —	$ 134	$ —

	Total fair value at December 31, 2015	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)

Interest rate caps	$	1,147	$	—	$ 1,147	$	—

(d) Recent accounting pronouncements

The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, in September 2014. This guidance requires that an entity recognize revenue to depict the transfer of a promised good or service to its customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for such transfer. This guidance also specifies accounting for certain costs incurred by an entity to obtain or fulfill a contract with a customer and provides for enhancements to revenue specific disclosures intended to allow users of the financial statements to clearly understand the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 for public companies. In March 2016, the FASB issued ASU 2016-08, which further clarifies the implementation guidance on principal versus agent considerations contained in ASU 2014-09. This guidance is to be applied either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

The FASB issued ASU No. 2015-02, Income Statement—Consolidation, in February 2015. This guidance affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the guidance 1) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, 2) eliminates the presumption that a general partner should consolidate a limited partnership, 3) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and 4) provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The guidance is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company adopted ASU No. 2015-02 as of January 1, 2016, noting no material impact to the consolidated financial statements.

Planet Fitness, Inc. and subsidiaries

Notes to Condensed Consolidated financial statements

(Unaudited)

(Amounts in thousands, except share and per share amounts)

The FASB issued ASU No. 2015-05: Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, in April 2015. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the update specifies that the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. The update further specifies that the customer should account for a cloud computing arrangement as a service contract if the arrangement does not include a software license. The guidance is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company adopted ASU No. 2015-05 as of January 1, 2016 on a prospective basis, noting no material impact to the consolidated financial statements.

The FASB issued ASU No. 2016-02, Leases, in February 2016. This guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public companies. Early application of the amendments in this update is permitted for all entities. The Company is currently evaluating the effect that implementation of this guidance will have on its consolidated financial statements.

The FASB issued ASU No. 2016-09, Stock Compensation, in March 2016. This guidance is intended to simplify several aspects of the accounting for share-based payment award transactions. This guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within that year. The Company is currently evaluating the effect of the standard on its consolidated financial statements.

The FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, in August 2016. This guidance is intended to reduce diversity in practice of the classification of certain cash receipts and cash payments. This guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within that year. The Company is currently evaluating the effect of the standard on its consolidated financial statements.

(3) Variable interest entities

The carrying values of VIEs included in the consolidated financial statements as of September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
PF Melville	$ 3,984	$ —	$ 3,728	$ —

MMR		3,105		—		2,953		—
Total	$	7,089	$	—	$	6,681	$	—

The Company also has variable interests in certain franchisees mainly through the guarantee of certain debt and lease agreements as well as financing provided by the Company and by certain related parties to franchisees. The Company's maximum obligation, as a result of its guarantees of leases and debt, is approximately $1,459 and $1,871 as of September 30, 2016 and December 31, 2015, respectively.

The amount of the Company's maximum obligation represents a loss that the Company could incur from the variability in credit exposure without consideration of possible recoveries through insurance or other means. In addition, the amount bears no relation to the ultimate settlement anticipated to be incurred from the Company's involvement with these entities, which is estimated at $0.

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(Amounts in thousands, except share and per share amounts)

(4) Goodwill and intangible assets

A summary of goodwill and intangible assets at September 30, 2016 and December 31, 2015 is as follows:

September 30, 2016	Weighted average amortization period (years)	Gross carrying amount	Accumulated amortization	Net carrying Amount
Customer relationships	11.1	$171,782	(68,926)	$102,856
Noncompete agreements	5.0	14,500	(11,302)	3,198
Favorable leases	7.5	2,935	(1,549)	1,386
Order backlog	0.4	3,400	(3,400)	—
Reacquired franchise rights	5.8	8,950	(3,891)	5,059
		201,567	(89,068)	112,499
Indefinite-lived intangible:				
Trade and brand names	N/A	146,300	—	146,300
Total intangible assets		$347,867	$ (89,068)	$258,799
Goodwill		$176,981	$ —	$176,981

December 31, 2015	Weighted average amortization period (years)	Gross carrying amount	Accumulated amortization	Net carrying Amount
Customer relationships	11.1	$171,782	$ (57,741)	$114,041
Noncompete agreements	5.0	14,500	(9,127)	5,373
Favorable leases	7.5	2,935	(1,256)	1,679
Order backlog	0.4	3,400	(3,400)	—
Reacquired franchise rights	5.8	8,950	(2,724)	6,226
		201,567	(74,248)	127,319
Indefinite-lived intangible:				
Trade and brand names	N/A	146,300	—	146,300
Total intangible assets		$347,867	$ (74,248)	$273,619
Goodwill		$176,981	$ —	$176,981

The Company determined that no impairment charges were required during any periods presented.

Amortization expense related to the intangible assets totaled $4,940 and $5,404 for the three months ended September 30, 2016 and 2015, respectively and $14,820 and $16,181 for the nine months ended September 30, 2016 and 2015, respectively. Included within these total amortization expense amounts are $97 and $143 related to amortization of favorable and unfavorable leases for the three months ended September 30, 2016 and 2015, respectively and $292 and $380 for the nine months ended September 30, 2016 and 2015. Amortization of favorable and unfavorable leases is recorded within store operations as a component of rent expense in the consolidated statements of operations. The anticipated annual amortization expense to be recognized in future years as of September 30, 2016 is as follows:

	Amount
Remainder of 2016	$4,936
2017	18,215
2018	14,583
2019	14,215
2020	12,517
Thereafter	48,033
Total	$112,499

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(5) Long-term debt

Long-term debt as of September 30, 2016 and December 31, 2015 consists of the following:

	September 30, 2016	December 31, 2015
Term loan B requires quarterly installments plus interest through the term of the loan, maturing March 31, 2021. Outstanding borrowings bear interest at LIBOR or base rate (as defined) plus a margin at the election of the borrower (4.50% at September 30, 2016 and 4.75% at December 31, 2015)	$ 488,450	$ 492,275
Revolving credit line, requires interest only payments through the term of the loan, maturing March 31, 2019. Outstanding borrowings bear interest at LIBOR or base rate (as defined) plus a margin at the election of the borrower (4.25% at September 30, 2016 and December 31, 2015)	—	—
Total debt, excluding deferred financing costs	$ 488,450	492,275
Deferred financing costs, net of accumulated amortization	(6,283)	(7,396)
Total debt	482,167	484,879
Current portion of long-term debt and line of credit	5,100	5,100
Long-term debt, net of current portion	$ 477,067	$ 479,779

Future annual principal payments of long-term debt as of September 30, 2016 are as follows:

	Amount
Remainder of 2016	$1,275

2017	5,100
2018	5,100
2019	5,100
2020	5,100
Thereafter	466,775
Total	$488,450

(6) Derivative instruments and hedging activities

The Company utilizes interest-rate-related derivative instruments to manage its exposure related to changes in interest rates on its variable-rate debt instruments. The Company does not enter into derivative instruments for any purpose other than cash flow hedging. The Company does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is an asset, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is a liability, the Company owes the counterparty and, therefore, the Company is not exposed to the counterparty's credit risk in those circumstances. The Company minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is higher than A1/A+ at the inception of the derivative transaction. The derivative instruments entered into by the Company do not contain credit-risk-related contingent features.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

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The Company assesses interest rate risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company monitors interest rate risk attributable to both the Company's outstanding or forecasted debt obligations as well as the Company's offsetting hedge positions.

In September 2014 and September 2015, the Company entered into a series of interest rate caps. As of September 30, 2016, the Company had interest rate cap agreements with notional amounts of $209,000 outstanding that were entered into in order to hedge LIBOR greater than 1.5%.

The interest rate cap balances of $134 and $1,147 were recorded within other assets in the condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015, respectively. These amounts have been measured at fair value and are considered to be a Level 2 fair value measurement. The Company recorded a reduction to the value of its interest rate caps of $469, net of tax of $83, within other comprehensive loss during the nine months ended September 30, 2016.

As of September 30, 2016, the Company does not expect to reclassify any amounts included in accumulated other comprehensive income (loss) into earnings during the next 12 months. Transactions and events expected to occur over the next 12 months that will necessitate reclassifying these derivatives' loss to earnings include the re-pricing of variable-rate debt.

(7) Related party transactions

Amounts due from related parties consist of:

	September 30, 2016	December 31, 2015
Accounts receivable – related entities	$ 31	$ 39
Accounts receivable – stockholders/members	66	4,901
Due from related parties	$ 97	$ 4,940
Accounts payable – related entities	3,966	—
Due to related parties	$ 3,966	$ —

Amounts due from stockholders/members as of September 30, 2016 and December 31, 2015 relate to reimbursements for certain taxes owed or paid by the Company.

Activity with entities considered to be related parties is summarized below:

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Franchise revenue	$ 359	$ 298	$ 1,174	$ 868
Equipment revenue	3	425	770	1,108
Total revenue from related parties	$ 362	$ 723	$ 1,944	$ 1,976

The Company paid management fees to TSG Consumer Partners, LLC ("TSG") totaling $0 and $1,384 during the three months ended September 30, 2016 and 2015, respectively and $0 and $1,899 during the nine months ended September 30, 2016 and 2015. In connection with the IPO, the management agreement with TSG was terminated, and the Company paid TSG a $1,000 termination fee, which is included in the fees paid for the three and nine months ended September 30, 2015.

(8) Stockholder's equity

The recapitalization transactions

We refer to the Merger, Reclassification and entry into the exchange agreement, each as described below, as the "recapitalization transactions." The Merger was effected pursuant to a merger agreement by and among the Company and Planet Fitness Holdings, L.P. (a predecessor entity to the Company that held indirect interests in Pla-Fit Holdings, LLC) and the recapitalization transactions were effected pursuant to a recapitalization agreement by and among the Company, Pla-Fit Holdings, Continuing LLC Owners, and Direct TSG Investors.

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Merger

Prior to the Merger, the Direct TSG Investors held interests in Planet Fitness Holdings, L.P., which was formed in October 2014 and had no material assets, liabilities or operations, other than as a holding company owning indirect interests in Pla-Fit Holdings. The Direct TSG Investors consist of investment funds affiliated with TSG. Pursuant to a merger agreement dated June 22, 2015, Planet Fitness Holdings, L.P. merged with and into the Company, and the interests in Planet Fitness Holdings, L.P. held by the Direct TSG Investors were converted into 26,106,930 shares of Class A common stock of the Company. We refer to this as the “Merger.” All shares of Class A common stock have both voting and economic rights in Planet Fitness, Inc.

The Merger was effected on August 5, 2015, prior to the time our Class A common stock was registered under the Exchange Act and prior to the completion of the IPO.

Reclassification

The equity interests of Pla-Fit Holdings, LLC previously consisted of three different classes of limited liability company units (Class M, Class T and Class O). Prior to the completion of the IPO, the limited liability company agreement of Pla-Fit Holdings was amended and restated to, among other things, modify its capital structure to create a single new class of units, the Holdings Units. We refer to this capital structure modification as the “Reclassification.”

The Direct TSG Investors’ indirect interest in Pla-Fit Holdings was held through Planet Fitness Holdings, L.P. As a result, following the Merger, the Direct TSG Investors’ indirect interests in Pla-Fit Holdings are held through the Company. Therefore, the Holdings Units received in the Reclassification were allocated to: (1) the Continuing LLC Owners based on their existing interests in Pla-Fit Holdings; and (2) the Company to the extent of the Direct TSG Investors’ indirect interest in Pla-Fit Holdings. The number of Holdings Units allocated to the Company in the Reclassification was equal to the number of shares of Class A common stock that the Direct TSG Investors received in the Merger (on a one-for-one basis).

The Reclassification was effected on August 5, 2015, prior to the time our Class A common stock was registered under the Exchange Act and prior to the completion of the IPO.

Following the Merger and the Reclassification, the Company issued to Continuing LLC Owners 72,602,810 shares of Class B common stock in addition to their Holdings Units, with each Continuing LLC Owner receiving one share of Class B common stock for each Holdings Unit held. The shares of Class B common stock have no rights to dividends or distributions, whether in cash or stock, but entitle the holder to one vote per share on matters presented to stockholders of the Company. The Holdings Units entitle the Continuing LLC Owners to participate pro rata in distributions made by Pla-Fit Holdings to its members, including the Continuing LLC Owners and the Company, but do not entitle the Continuing LLC Owners to any voting rights. The Continuing LLC Owners consist of investment funds affiliated with TSG and certain current and former employees and directors.

Pursuant to the LLC agreement that went into effect at the time of the Reclassification (“New LLC Agreement”), the Company was designated as the sole managing member of Pla-Fit Holdings. Accordingly, the Company has the right to determine when distributions will be made by Pla-Fit Holdings to its members, including the Company, and the amount of any such distributions (subject to the requirements with respect to the tax distributions described below). If the Company authorizes a distribution by Pla-Fit Holdings, the distribution will be made to the members of Pla-Fit Holdings, including the Company, pro rata in accordance with the percentages of their respective Holdings Units.

The holders of Holdings Units will incur U.S. federal, state and local income taxes on their allocable share of any taxable income of Pla-Fit Holdings (as calculated pursuant to the New LLC Agreement). Net profits and net losses of Pla-Fit Holdings will generally be allocated to its members pursuant to the New LLC Agreement pro rata in accordance with the percentages of their respective Holdings Units. The New LLC Agreement provides for cash distributions to the holders of Holdings Units for purposes of funding their tax obligations in respect of the income of Pla-Fit Holdings that is allocated to them, to the extent other distributions from Pla-Fit Holdings for the relevant year have been insufficient to cover such liability. Generally, these tax distributions are computed based on the estimated taxable income of Pla-Fit Holdings allocable to the holders of Holdings Units multiplied by an assumed, combined tax rate equal to the maximum rate applicable to an individual or corporation resident in San Francisco, California (taking into account the non-deductibility of certain expenses and the character of the Company’s income).

Exchange agreement

Following the Merger and the Reclassification, the Company and the Continuing LLC Owners entered into an exchange agreement under which the Continuing LLC Owners (or certain permitted transferees thereof) have the right, from time to time and subject to the terms of the exchange agreement, to exchange their Holdings Units, along with a corresponding number of shares of Class B common stock, for shares of Class A common stock (or cash at the option of the Company) on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends, reclassifications and similar transactions. As a Continuing LLC Owner exchanges Holdings Units, along with a corresponding number of shares of Class B common stock, for shares of Class A common stock, the number of Holdings Units held by the Company will be correspondingly increased as it acquires the exchanged Holdings Units and cancels a corresponding number of shares of Class B common stock.

IPO transactions

In connection with the completion of the IPO on August 11, 2015, in order to facilitate the disposition of equity interests in Pla-Fit Holdings held by Continuing LLC Owners affiliated with TSG, the Company used the net proceeds received to purchase issued and outstanding Holdings Units from these Continuing LLC Owners that they received in the Reclassification. In connection with the IPO, the Company purchased 10,491,055 issued and outstanding Holdings Units from these Continuing LLC Owners for an aggregate of $156,946. This is in addition to the 26,106,930 Holdings Units that the Company acquired in the Reclassification on a one-for-one basis in relation to the number of shares of Class A common stock issued to the Direct TSG Investors in the Merger. Accordingly, following the IPO, the Company held 36,597,985 Holdings Units, which was equal to the number of shares of Class A common stock that were issued to the Direct TSG Investors and investors in the IPO. The Direct TSG Investors, who did not receive Holdings Units in the Reclassification but received shares of Class A common stock in the Merger, sold 5,033,945 shares of Class A common stock in the IPO.

June Secondary Offering

As described in Note 1, on June 28, 2016 the Company completed the June Secondary Offering of 11,500,000 shares of our Class A common stock at a price of $16.50 per share. All of the shares sold in the offering were offered by Direct TSG Investors and the participating Continuing LLC Owners. The Company did not receive any proceeds from the sale of shares of Class A common stock offered by the Direct TSG Investors and the participating Continuing LLC Owners. The shares sold in the offering consisted of (i) 3,608,840 existing shares of Class A common stock held by the Direct TSG Investors and (ii) 7,891,160 newly-issued shares of Class A common stock issued in connection with the exercise of the exchange right by the Continuing LLC Owners that participated in the June Secondary Offering. Simultaneously, and in connection with the exchange, 7,891,160 shares of Class B common stock were surrendered by the Continuing LLC Owners that participated in the June Secondary Offering and canceled. Additionally, in connection with the exchange, we received 7,891,160 Holdings Units, increasing Planet Fitness Inc.'s total ownership interest in Pla-Fit Holdings.

September Secondary Offering

As described in Note 1, on September 28, 2016, the Company completed the September Secondary Offering of 8,000,000 shares of our Class A common stock at a price of 19.62 per share. All of the shares sold in the offering were offered by the Direct TSG Investors and participating Continuing LLC Owners. The Company did not receive any proceeds from the sale of shares of Class A common stock offered by the Direct TSG Investors and the participating Continuing LLC Owners. The shares sold in the offering consisted of (i) 2,593,981 existing shares of Class A common stock held by the Direct TSG Investors and (ii) 5,406,019 newly-issued shares of Class A common stock issued in connection with the exercise of the exchange right by the Continuing LLC Owners that participated in the September Secondary Offering. Simultaneously, and in connection with the exchange, 5,406,019 shares of Class B common stock were surrendered by the Continuing LLC Owners that participated in the September Secondary Offering and canceled. Additionally, in connection with the exchange, Planet Fitness, Inc received 5,406,019 Holdings Units, increasing its total ownership interest in Pla-Fit Holdings. Future exchanges of Holdings Units by the Continuing LLC Owners will result in a change in ownership and reduce the amount recorded as non-controlling interest and increase additional paid-in capital on our consolidated balance sheets.

As a result of the recapitalization transactions, the offering transactions, the IPO, completion of our secondary offerings, and other exchanges and equity activity during the quarter:

- the investors in the IPO and the Company's secondary offerings collectively own 35,043,641 shares of Planet Fitness, Inc. Class A common stock, representing 35.5% of the voting power in the Company and, through the Company, 35.5% of the economic interest in Pla-Fit Holdings;
- the Direct TSG Investors own 14,870,164 shares of Planet Fitness, Inc. Class A common stock, representing 15.1% of the voting power in the Company and, through the Company, 15.1% of the economic interest in Pla-Fit Holdings; and
- the Continuing LLC Owners collectively hold 48,665,585 Holdings Units, representing 49.4% of the economic interest in Pla-Fit Holdings and 48,665,585 shares of Planet Fitness, Inc. Class B common stock, representing 49.4% of the voting power in the Company.

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(9) Earnings per share

Basic earnings per share of Class A common stock is computed by dividing net income attributable to Planet Fitness, Inc. by the weighted-average number of shares of Class A common stock outstanding during the same period. Diluted earnings per share of Class A common stock is computed by dividing net income attributable to Planet Fitness, Inc. by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities. There were no shares of Class A or Class B common stock outstanding prior to August 6, 2015, therefore no earnings per share information has been presented for any period prior to that date.

Shares of the Company's Class B common stock do not share in the earnings or losses attributable to Planet Fitness, Inc. and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share of Class B common stock under the two-class method has not been presented. Shares of the Company's Class B common stock are, however, considered potentially dilutive shares of Class A common stock because shares of Class B common stock, together with the related Holdings Units, are exchangeable into shares of Class A common stock on a one-for-one basis.

The following table sets forth reconciliations used to compute basic and diluted earnings per share of Class A common stock:

Net income per share:	For the three months ended September 30, 2016	For the nine months ended September 30, 2016	August 6, 2015 through September 30, 2015
Numerator			
Net income	$ 14,863	$ 49,300	$ 6,214
Less: net income attributable to non-controlling interests	11,438	38,374	4,593
Net income attributable to Planet Fitness, Inc. - basic	$ 3,425	$ 10,926	$ 1,621
Reallocation of net income assuming conversion of Holdings Units	-	-	4,518
Incremental tax effect of reallocation of net income assuming conversion of Holdings Units	-	-	(1,740)
Net income attributable to Planet Fitness, Inc. - diluted	$ 3,425	$ 10,926	$ 4,399
Denominator			
Weighted-average shares of Class A common stock outstanding - basic	44,668,875	39,394,318	35,661,284
Effect of dilutive securities:			
Class B common stock	-	-	63,048,456

Stock options	12,539	138	-
Restricted stock units	4,282	3,030	-
Weighted-average shares of Class A common stock outstanding - diluted	44,685,696	39,397,486	98,709,740
Earnings per share of Class A common stock - basic	$ 0.08	$ 0.28	$ 0.05
Earnings per share of Class A common stock - diluted	$ 0.08	$ 0.28	$ 0.04

Weighted average shares of Class B common stock of 53,898,536 and 59,218,127 for the three and nine months ended September 30, 2016, respectively, were evaluated under the if-converted method for potential dilutive effects and determined to be anti-dilutive. Weighted average stock options outstanding of 250,141 and 230,633 for the three and nine months ending September 30, 2016, respectively, were evaluated under the treasury stock method for potential dilutive effects and were determined to be anti-dilutive. Weighted average stock options outstanding of 116,690 and restricted stock units of 8,160 for the period from August 6, 2015 through September 30, 2015 were evaluated under the treasury stock method for potential dilutive effects and were determined to be anti-dilutive.

(10) Income taxes

As a result of the recapitalization transactions, the Company became the sole managing member of Pla-Fit Holdings, which is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, Pla-Fit Holdings is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by Pla-Fit Holdings is passed through to and included in the taxable income or loss of its members, including the Company following the recapitalization transactions, on a pro rata basis. Planet

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Fitness, Inc. is subject to U.S. federal income taxes, in addition to state and local income taxes with respect to our allocable share of any taxable income of Pla-Fit Holdings following the recapitalization transactions. The Company is also subject to taxes in foreign jurisdictions.

The Company incurs U.S. federal and state income taxes on its pro rata share of income flowed through from Pla-Fit Holdings. The effective tax rate on such income was approximately 39.5%. The provision for income taxes also reflects an effective state tax rate of 2.1% applied to non-controlling interests, excluding income from variable interest entities, related to Pla-Fit Holdings.

Net deferred tax assets of $255,729 and $117,358 as of September 30, 2016 and December 31, 2015, respectively, relate primarily to the tax effects of temporary differences in the book basis as compared to the tax basis of Planet Fitness, Inc.'s investment in Pla-Fit Holdings as a result of the recapitalization transactions, IPO, and secondary offerings. The Company has net operating loss carryforwards related to its Canada operations of approximately $1,911, which begin to expire in 2034. It is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. The net deferred tax liabilities of $1,275 as of September 30, 2016 and $0 as of December 31, 2015 relate primarily to the tax effects of temporary differences in the book basis as compared to the tax basis of certain assets of Pla-Fit Holdings.

As of September 30, 2016, the total liability related to uncertain tax positions is $300. The Company recognizes interest accrued and penalties, if applicable, related to unrecognized tax benefits in income tax expense. Interest and penalties for the nine months ended September 30, 2016 were not material.

Tax benefit arrangements

The Company's acquisition of Holdings Units in connection with the IPO, secondary offerings and future and certain past exchanges of Holdings Units for shares of the Company's Class A common stock (or cash at the option of the Company) are expected to produce and have produced favorable tax attributes. In connection with the IPO, the Company entered into two tax receivable agreements. Under the first of those agreements, the Company generally is required to pay to the Continuing LLC Owners 85% of the applicable tax savings, if any, in U.S. federal and state income tax that the Company is deemed to realize as a result of certain tax attributes of their Holdings Units sold to the Company (or exchanged in a taxable sale) and that are created as a result of (i) the sales or exchanges of their Holdings Units for shares of Class A common stock and (ii) tax benefits attributable to payments made under the tax receivable agreement (including imputed interest). Under the second tax receivable agreement, the Company generally is required to pay to the Direct TSG Investors 85% of the amount of tax savings, if any, that the Company is deemed to realize as a result of the tax attributes of the Holdings Units held in respect of the Direct TSG Investors' interest in the Company, which resulted from the Direct TSG Investors' purchase of interests in Pla-Fit Holdings in 2012, and certain other tax benefits. Under both agreements, the Company generally retains the benefit of the remaining 15% of the applicable tax savings. Also, pursuant to the exchange agreement (see Note 8), to the extent an exchange results in Pla-Fit Holdings, LLC incurring a current tax liability relating to the New Hampshire business profits tax, the Continuing LLC Owners have agreed that they will contribute to Pla-Fit Holdings, LLC an amount sufficient to pay such tax liability (up to 3.5% of the value received upon exchange). If and when the Company subsequently realizes a related tax benefit, Pla-Fit Holdings, LLC will distribute the amount of any such tax benefit to the relevant Continuing LLC Owner in respect of its contribution. Due to changes in New Hampshire tax law, the Company no longer expects to incur any such liability under the New Hampshire business profits tax.

In June 2016, in connection with the June Secondary Offering, 7,891,160 Holdings Units were redeemed by the participating Continuing LLC Owners for newly-issued shares of Class A common stock, resulting in an increase in the tax basis of the net assets of Pla-Fit Holdings subject to the provisions of the tax receivable agreements. As a result of the change in Planet Fitness, Inc.'s ownership percentage of Pla-Fit Holdings that occurred in conjunction with the exchange, we recorded a decrease to our net deferred tax assets of $7,638 during the three months ended June 30, 2016. As a result of the exchange, we also recognized a deferred tax asset in the amount of $89,876 and a corresponding tax benefit arrangement liability of $78,152, representing 85% of the tax benefits due to the participating Continuing LLC Owners.

In September 2016, in connection with the September Secondary Offering, 5,406,019 Holdings Units were redeemed by the participating Continuing LLC Owners for newly-issued shares of Class A common stock, resulting in an increase in the tax basis of the net assets of Pla-Fit Holdings subject to the provisions of the tax receivable agreements. As a result of the change in Planet Fitness, Inc.'s ownership percentage of Pla-Fit Holdings that occurred in conjunction with the exchange, we recorded a decrease to our net deferred tax assets of $5,378 during the three months ended September 30, 2016. As a result of the exchange, we also recognized a deferred tax asset in the amount of $71,174 and a corresponding tax benefit arrangement liability of $61,735, representing 85% of the tax benefits due to the participating Continuing LLC Owners.

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As of September 30, 2016, the Company has a liability of $274,072 related to its projected obligations under the tax benefit arrangements. Projected future payments under the tax benefit arrangements are as follows:

	Amount
Remainder of 2016	$922
2017	10,658
2018	13,438
2019	13,569
2020	13,910
Thereafter	221,575
Total	$274,072

(11) Commitments and contingencies

From time to time, and in the ordinary course of business, the Company is subject to various claims, charges, and litigation, such as employment-related claims and slip and fall cases. The Company is not currently aware of any legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's financial position or result of operations.

(12) Segments

The Company has three reportable segments: (i) Franchise; (ii) Corporate-owned stores; and (iii) Equipment.

The Company's operations are organized and managed by type of products and services and segment information is reported accordingly. The Company's chief operating decision maker (the "CODM") is its Chief Executive Officer. The CODM reviews financial performance and allocates resources by reportable segment. There have been no operating segments aggregated to arrive at the Company's reportable segments.

The Franchise segment includes operations related to the Company's franchising business in the United States, Puerto Rico, Canada and the Dominican Republic. The Corporate-owned stores segment includes operations with respect to all Corporate-owned stores throughout the United States and Canada. The Equipment segment includes the sale of equipment to franchisee-owned stores.

The accounting policies of the reportable segments are the same as those described in Note 2. The Company evaluates the performance of its segments and allocates resources to them based on revenue and earnings before interest, taxes, depreciation, and amortization, referred to as Segment EBITDA. Revenues for all operating segments include only transactions with unaffiliated customers and include no intersegment revenues.

The tables below summarize the financial information for the Company’s reportable segments for the three and nine months ended September 30, 2016 and 2015. The “Corporate and other” category, as it relates to Segment EBITDA, primarily includes corporate overhead costs, such as payroll and related benefit costs and professional services which are not directly attributable to any individual segment.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue				
Franchise segment revenue - U.S.	$26,940	$19,785	$83,312	$63,371
Franchise segment revenue - International	285	9	1,068	59
Franchise segment total	27,225	19,794	84,380	63,430
Corporate-owned stores - U.S.	25,591	24,203	75,595	71,716
Corporate-owned stores - International	1,084	950	3,161	1,958
Corporate-owned stores total	26,675	25,153	78,756	73,674
Equipment segment - U.S.	33,107	23,870	98,686	87,588
Equipment segment total	33,107	23,870	98,686	87,588
Total revenue	$87,007	$68,817	$261,822	$224,692

Franchise segment revenue includes franchise revenue and commission income.

Planet Fitness, Inc. and subsidiaries

Notes to Condensed Consolidated financial statements

(Unaudited)

(Amounts in thousands, except share and per share amounts)

Franchise revenue includes revenue generated from placement services of $2,224 and $1,623 for the three months ended September 30, 2016 and 2015, respectively and $6,952 and $5,895 for the nine months ended September 30, 2016 and 2015, respectively.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Segment EBITDA				
Franchise	$22,814	$15,496	$71,308	$46,778
Corporate-owned stores	10,550	9,256	30,259	26,342
Equipment	7,153	4,910	21,330	18,914
Corporate and other	(6,823)	(13,162)	(20,147)	(27,191)
Total Segment EBITDA	$33,694	$16,500	$102,750	$64,843

The following table reconciles total Segment EBITDA to income before income taxes:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Total Segment EBITDA	$33,694	$16,500	$102,750	$64,843
Less:				
Depreciation and amortization	7,745	7,976	23,127	24,160
Other (expense) income	(204)	(1,815)	30	(2,627)
Income from operations	26,153	10,339	79,593	43,310
Interest expense, net	(6,291)	(6,556)	(18,819)	(17,872)
Other (expense) income	(204)	(1,815)	30	(2,627)
Income before income taxes	$19,658	$1,968	$60,804	$22,811

The following table summarizes the Company’s assets by reportable segment:

	September 30, 2016	December 31, 2015
Franchise	$ 204,137	$ 206,997
Corporate-owned stores	157,509	151,620
Equipment	210,997	208,168
Unallocated	279,695	