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 September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 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, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 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.

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

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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	132,392
Total consolidated assets	$ 852,338	$ 699,177

The table above includes $2,940 and $3,149 of long-lived assets located in the Company's corporate-owned stores in Canada as of September 30, 2016 and December 31, 2015, respectively. All other assets are located in the U.S.

The following table summarizes the Company's goodwill by reportable segment:

	September 30, 2016	December 31, 2015
Franchise	$ 16,938	$ 16,938
Corporate-owned stores	67,377	67,377
Equipment	92,666	92,666
Consolidated goodwill	$ 176,981	$ 176,981

Planet Fitness, Inc. and subsidiaries

Notes to Condensed Consolidated financial statements

(Unaudited)

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

(13) Corporate-owned and franchisee-owned stores

The following table shows changes in our corporate-owned and franchisee-owned stores for the three months ended September 30, 2016 and 2015:

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Franchisee-owned stores:				
Stores operated at beginning of period	1,148	956	1,066	863
New stores opened	37	26	121	122
Stores debranded or consolidated(1)	(1)	-	(3)	(3)
Stores operated at end of period	1,184	982	1,184	982
Corporate-owned stores:				
Stores operated at beginning of period	58	58	58	55
New stores opened	-	-	-	3
Stores operated at end of period	58	58	58	58
Total stores:				
Stores operated at beginning of period	1,206	1,014	1,124	918
New stores opened	37	26	121	125
Stores debranded or consolidated(1)	(1)	-	(3)	(3)
Stores operated at end of period	1,242	1,040	1,242	1,040

(1) The term “debrand” refers to a franchisee-owned store whose right to use the Planet Fitness brand and marks has been terminated in accordance with the franchise agreement. We retain the right to prevent debranded stores from continuing to operate as fitness centers. The term “consolidated” refers to the combination of a franchisee’s store with another store located in close proximity, with our prior approval. This often coincides with an enlargement, re-equipment and/or refurbishment of the remaining store.

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

Unless the context requires otherwise, references in this report to the "Company," "we," "us" and "our" refer to Pla-Fit Holdings, LLC and its consolidated subsidiaries prior to the recapitalization transactions and to Planet Fitness, Inc. and its consolidated subsidiaries following the recapitalization transactions.

Overview

We are one of the largest and fastest-growing franchisors and operators of fitness centers in the United States by number of members and locations, with a highly recognized national brand. Our mission is to enhance people's lives by providing a high-quality fitness experience in a welcoming, non-intimidating environment, which we call the Judgement Free Zone, where anyone—and we mean anyone—can feel they belong. Our bright, clean stores are typically 20,000 square feet, with a large selection of high-quality, purple and yellow Planet Fitness-branded cardio, circuit- and weight-training equipment and friendly staff trainers who offer unlimited free fitness instruction to all our members in small groups through our PE@PF program. We offer this differentiated fitness experience at only $10 per month for our standard membership. This exceptional value proposition is designed to appeal to a broad population, including occasional gym users and the approximately 80% of the U.S. and Canadian populations over age 14 who are not gym members, particularly those who find the traditional fitness club setting intimidating and expensive. We and our franchisees fiercely protect Planet Fitness' community atmosphere—a place where you do not need to be fit before joining and where progress toward achieving your fitness goals (big or small) is supported and applauded by our staff and fellow members.

As of September 30, 2016, we had more than 8.7 million members and 1,242 stores in 47 states, the District of Columbia, Puerto Rico, Canada and the Dominican Republic. Of our 1,242 stores, 1,184 are franchised and 58 are corporate-owned. As of September 30, 2016, we had commitments to open more than 1,000 additional new stores under existing ADAs.

Our segments

We operate and manage our business in three business segments: Franchise, Corporate-owned stores and Equipment. Our Franchise segment includes operations related to our franchising business in the United States, Puerto Rico, Canada and the Dominican Republic. Our 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 our United States franchisee-owned stores. We evaluate the performance of our segments and allocate resources to them based on revenue and earnings before interest, taxes, depreciation and amortization, referred to as Segment EBITDA. Revenue and Segment EBITDA for all operating segments include only transactions with unaffiliated customers and do not include intersegment transactions. The tables below summarize the financial information for our segments for the three and nine months ended September 30, 2016 and 2015. "Corporate and other," as it relates to Segment EBITDA, primarily includes corporate overhead costs, such as payroll and related benefit costs and professional services that are not directly attributable to any individual segment.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
(in thousands)				
Revenue				

Franchise segment	$27,225	$19,794	$84,380	$63,430
Corporate-owned stores segment	26,675	25,153	78,756	73,674
Equipment segment	33,107	23,870	98,686	87,588
Total revenue	$87,007	$68,817	$261,822	$224,692
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[1]	$33,694	$16,500	$102,750	$64,843

(1) Total Segment EBITDA is equal to EBITDA, which is a metric that is not presented in accordance with U.S. GAAP. Refer to "—Non-GAAP financial measures" for a definition of EBITDA and a reconciliation to net income, the most directly comparable U.S. GAAP measure.

A reconciliation of income from operations to Segment EBITDA is set forth below:

(in thousands)	Franchise	Corporate-owned stores	Equipment	Corporate and other	Total
Three months ended September 30, 2016:					
Income from operations	$ 20,662	$ 6,715	$ 5,602	$ (6,826)	$ 26,153
Depreciation and amortization	2,142	3,913	1,551	139	7,745
Other income (expense)	10	(78)	-	(136)	(204)
Segment EBITDA(1)	$ 22,814	$ 10,550	$ 7,153	$ (6,823)	$ 33,694
Three months ended September 30, 2015:					
Income from operations	$ 13,381	$ 5,411	$ 3,357	$ (11,810)	$ 10,339
Depreciation and amortization	2,071	4,307	1,553	45	7,976
Other income (expense)	44	(462)	-	(1,397)	(1,815)
Segment EBITDA(1)	$ 15,496	$ 9,256	$ 4,910	$ (13,162)	$ 16,500
Nine months ended September 30, 2016:					
Income from operations	$ 64,951	$ 18,313	$ 16,678	$ (20,349)	$ 79,593
Depreciation and amortization	6,395	11,667	4,652	413	23,127
Other income (expense)	(38)	279	-	(211)	30
Segment EBITDA(1)	$ 71,308	$ 30,259	$ 21,330	$ (20,147)	$ 102,750
Nine months ended September 30, 2015:					
Income from operations	$ 40,272	$ 14,108	$ 14,255	$ (25,325)	$ 43,310
Depreciation and amortization	6,462	12,955	4,659	84	24,160
Other income (expense)	44	(721)	-	(1,950)	(2,627)
Segment EBITDA(1)	$ 46,778	$ 26,342	$ 18,914	$ (27,191)	$ 64,843

(1) Total Segment EBITDA is equal to EBITDA, which is a metric that is not presented in accordance with U.S. GAAP. Refer to "—Non-GAAP financial measures" for a definition of EBITDA and a reconciliation to net income, the most directly comparable U.S. GAAP measure.

How we assess the performance of our business

In assessing the performance of our business, we consider a variety of performance and financial measures. The key measures for determining how our business is performing include the number of new store openings, same store sales for both corporate-owned and franchisee-owned stores, EBITDA, Adjusted EBITDA, Segment EBITDA, Adjusted net income, and Adjusted net income per share, diluted. See "—Non-GAAP financial measures" below for our definition of EBITDA, Adjusted EBITDA, Adjusted net income, and Adjusted net income per share, diluted and why we present EBITDA, Adjusted EBITDA, Adjusted net income, and Adjusted net income per share, diluted, and for a reconciliation of our EBITDA, Adjusted EBITDA, and Adjusted net income to net income, the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, and a reconciliation of Adjusted net income per share, diluted to net income per share, diluted, the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP.

Number of new store openings

The number of new store openings reflects stores opened during a particular reporting period for both corporate-owned and franchisee-owned stores. Opening new stores is an important part of our growth strategy and we expect the majority of our future new stores will be franchisee-owned. Before we obtain the certificate of occupancy or report any revenue for new corporate-owned stores, we incur pre-opening costs, such as rent expense, labor expense and other operating expenses. Some of our stores open with an initial start-up period of higher than normal marketing and operating expenses, particularly as a percentage of monthly revenue. New stores may not be profitable and their revenue may not follow historical patterns. The following table shows the change in our corporate-owned and franchisee-owned store base for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Franchisee-owned stores:				
Stores operated at beginning of period	1,148	956	1,066	863
New stores opened	37	26	121	122
Stores debranded or consolidated[1]	(1)	-	(3)	(3)
Stores operated at end of period	1,184	982	1,184	982
Corporate-owned stores:				
Stores operated at beginning of period	58	58	58	55
New stores opened	-	-	-	3
Stores operated at end of period	58	58	58	58
Total stores:				
Stores operated at beginning of period	1,206	1,014	1,124	918
New stores opened	37	26	121	125
Stores debranded or consolidated[1]	(1)	-	(3)	(3)
Stores operated at end of period	1,242	1,040	1,242	1,040

(1) The term “debrand” refers to a franchisee-owned store whose right to use the Planet Fitness brand and marks has been terminated in accordance with the franchise agreement. We retain the right to prevent debranded stores from continuing to operate as fitness centers. The term “consolidated” refers to the combination of a franchisee’s store with another store located in close proximity with our prior approval. This often coincides with an enlargement, re-equipment and/or refurbishment of the remaining store.

Same store sales

Same store sales refers to year-over-year sales comparisons for the same store sales base of both corporate-owned and franchisee-owned stores. We define the same store sales base to include those stores that have been open and for which monthly membership dues have been billed for longer than 12 months. We measure same store sales based solely upon monthly dues billed to members of our corporate-owned and franchisee-owned stores.

Several factors affect our same store sales in any given period, including the following:

- the number of stores that have been in operation for more than 12 months;
- the percentage mix of PF Black Card and standard memberships in any period;
- growth in total memberships per store;
- consumer recognition of our brand and our ability to respond to changing consumer preferences;
- overall economic trends, particularly those related to consumer spending;
- our and our franchisees' ability to operate stores effectively and efficiently to meet consumer expectations;
- marketing and promotional efforts;
- local competition;
- trade area dynamics; and
- opening of new stores in the vicinity of existing locations.

Consistent with common industry practice, we present same store sales as compared to the same period in the prior year for all stores that have been open and for which monthly membership dues have been billed for longer than 12 months, beginning with the 13th month and thereafter, as applicable. Same store sales of our international stores are calculated on a constant currency basis, meaning that we translate the current year's same store sales of our international stores at the same exchange rates used in the prior year. Since opening new stores will be a significant component of our revenue growth, same store sales is only one measure of how we evaluate our performance.

In March 2015, we completed a migration to a new point-of-sale and billing system ("POS system"), which gives us enhanced control over membership billing practices across all stores and allows us to create mandatory requirements to discontinue the attempted billing of delinquent membership accounts. We believe these changes in our billing practices are beneficial to our brand by controlling collection practices on delinquent accounts and do not believe they will have a negative impact on net membership billings collected by our corporate-owned or franchisee-owned stores. However, we expect the changes in our billing practices, which commenced in the second quarter of 2015, to cause our royalties to be lower due to earlier terminations of billings of certain delinquent accounts upon which we previously received royalty payments. While we do not believe that the impact on our royalties in the future will be material, these new billing practices are expected to negatively impact our same store sales metrics over the remainder of 2016 as monthly EFT is expected to include fewer delinquent membership accounts. Due in part to certain limitations of our prior POS system, we are unable to provide comparable same store sales data for prior periods had these changes in billing practices been implemented previously.

Stores acquired from or sold to franchisees are removed from the franchisee-owned or corporate-owned same store sales base, as applicable, upon the ownership change and for the 12 months following the date of the ownership change. These stores are included in the corporate-owned or franchisee-owned same store sales base, as applicable, following the 12th month after the acquisition or sale. These stores remain in the system-wide same store sales base in all periods.

The following table shows our same store sales for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Same store sales data				
Same store sales growth:				
Franchisee-owned stores	10.3 %	7.3 %	8.4 %	8.8 %
Corporate-owned stores	5.4 %	1.7 %	5.0 %	2.2 %
System-wide stores	10.0 %	6.9 %	8.2 %	8.3 %
Number of stores in same store sales base (end of period):				
Franchisee-owned stores	975	782	975	782
Corporate-owned stores	58	54	58	54
Total stores	1,033	836	1,033	836

Non-GAAP financial measures

We refer to EBITDA and Adjusted EBITDA as we use these measures to evaluate our operating performance and we believe these measures provide useful information to investors in evaluating our performance. EBITDA and Adjusted EBITDA as presented in this Quarterly Report on Form 10-Q are supplemental measures of our performance that are neither required by, nor presented in accordance with U.S. GAAP. EBITDA and Adjusted EBITDA should not be considered as substitutes for U.S. GAAP metrics such as net income or any other performance measures derived in accordance with U.S. GAAP. Also, in the future we may incur expenses or charges such as those used to calculate Adjusted EBITDA. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or nonrecurring items. We have also disclosed Segment EBITDA as an important financial metric utilized by the Company to evaluate performance and allocate resources to segments in accordance with ASC 280, Segment Reporting. As part of such disclosure in “Our Segments” within Management’s Discussion and Analysis of Financial Condition and Results of Operations, the Company has provided a reconciliation from income from operations to Total Segment EBITDA, which is equal to the Non-GAAP financial metric EBITDA.

We define EBITDA as net income before interest, taxes, depreciation and amortization. We believe that EBITDA, which eliminates the impact of certain expenses that we do not believe reflect our underlying business performance, provides useful information to investors to assess the performance of our segments as well as the business as a whole. Our Board of Directors also uses EBITDA as a key metric to assess the performance of management. We define Adjusted EBITDA as net income before interest, taxes, depreciation and amortization, adjusted for the impact of certain additional non-cash and other items that we do not consider in our evaluation of ongoing performance of the Company’s core operations. These items include certain purchase accounting adjustments, management fees, certain IT system upgrade costs, acquisition transaction fees, public offering-related costs, IPO-related compensation expense, pre-opening costs and certain other charges and gains. We believe that Adjusted EBITDA is an appropriate measure of operating performance in addition to EBITDA because it eliminates the impact of other items that we believe reduce the comparability of our underlying core business performance from period to period and is therefore useful to our investors in comparing the core performance of our business from period to period. Four-wall EBITDA is an assessment of store-level profitability for stores included in the same-store-sales base, which adjusts for certain administrative and other items that we do not consider in our evaluation of individual store-level performance.

A reconciliation of net income to EBITDA and Adjusted EBITDA is set forth below for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
(in thousands)				
Net income	$14,863	$738	$49,300	$20,890
Interest expense, net	6,291	6,556	18,819	17,872
Provision for income taxes	4,795	1,230	11,504	1,921
Depreciation and amortization	7,745	7,976	23,127	24,160
EBITDA	33,694	16,500	102,750	64,843
Purchase accounting adjustments-revenue(1)	450	195	458	465
Purchase accounting adjustments-rent(2)	202	248	664	692
Management fees (3)	-	1,384	-	1,899
IT system upgrade costs (4)	-	(116)	-	3,901

Stock offering-related costs [5]	1,078	2,167	2,105	7,239
IPO-related compensation expense[6]	-	6,155	-	6,155
Severance costs[7]	-	-	423	-
Pre-opening costs [8]	-	-	-	793
Other[9]	-	-	72	-
Adjusted EBITDA	$35,424	$26,533	$106,472	$85,987

(1) Represents the impact of revenue-related purchase accounting adjustments associated with the 2012 acquisition of Pla-Fit Holdings on November 8, 2012 by TSG (the "2012 Acquisition"). At the time of the 2012 Acquisition, which consisted of the purchase of interests in Pla-Fit Holdings by investment funds affiliated with TSG Consumer Partners, LLC, the Company maintained a deferred revenue account, which consisted of deferred area development agreement fees, deferred franchise fees, and deferred enrollment fees that the Company billed and collected up front but recognizes for U.S. GAAP purposes at a later date. In connection with the 2012 Acquisition, it was determined that the carrying amount of deferred revenue was greater than the fair value assessed in accordance with ASC 805—Business Combinations, which resulted in a write-down of the carrying value of the deferred revenue balance upon application of acquisition push-down accounting under ASC 805. These amounts represent the additional revenue that would have been recognized in these periods if the write-down to deferred revenue had not occurred in connection with the application of acquisition pushdown accounting.

(2) Represents the impact of rent related purchase accounting adjustments. In accordance with guidance in ASC 805–Business Combinations, in connection with the 2012 Acquisition, the Company's deferred rent liability was required to be written off as of the acquisition date and rent was recorded on a straight-line basis from the acquisition date through the end of the lease term. This resulted in higher overall recorded rent expense each period than would have otherwise been recorded had the deferred rent liability not been written off as a result of the acquisition push down accounting applied in accordance with ASC 805. Adjustments of $105, $104, $372 and $310 in the three and nine months ended September 30, 2016 and 2015, respectively, reflect the difference between the higher rent expense recorded in accordance with U.S. GAAP since the acquisition and the rent expense that would have been recorded had the 2012 Acquisition not occurred. Adjustments of $97, $144, $292 and $382 for the three and nine months ended September 30, 2016 and 2015, respectively, are due to the amortization of favorable and unfavorable lease intangible assets which were recorded in connection with the 2012 Acquisition and the acquisition of eight franchisee-owned stores on March 31, 2014. All of the rent related purchase accounting adjustments are adjustments to rent expense which is included in store operations on our consolidated statements of operations.

(3) Represents management fees and expenses paid to a management company affiliated with TSG pursuant to a management services agreement that terminated in connection with the IPO.

(4) Represents costs associated with certain IT system upgrades, primarily related to our POS system.

(5) Represents legal, accounting and other costs incurred in connection with offerings of the Company's Class A common stock.

(6) Represents cash-based and equity-based compensation expense recorded in connection with the IPO.

(7) Represents severance expense recorded in connection with an equity award modification.

(8) Represents costs associated with new corporate-owned stores incurred prior to the store opening, including payroll-related costs, rent and occupancy expenses, marketing and other store operating supply expenses.

(9) Represents certain other charges and gains that we do not believe reflect our underlying business performance. In 2016, the expense related to the adjustment of our tax benefit arrangements primarily due to changes in our effective tax rate.

As a result of the recapitalization transactions that occurred prior to our IPO, the New LLC Agreement designated Planet Fitness, Inc. as the sole managing member of Pla-Fit Holdings. As sole managing member, Planet Fitness, Inc. exclusively operates and controls the business and affairs of Pla-Fit Holdings, LLC. As a result of the recapitalization transactions and the New LLC Agreement, Planet Fitness, Inc. now consolidates Pla-Fit Holdings, and Pla-Fit Holdings is considered the predecessor to Planet Fitness, Inc. for accounting purposes. Our presentation of Adjusted net income and Adjusted net income per share, diluted, gives effect to the consolidation of Pla-Fit Holdings with Planet Fitness, Inc. resulting from the recapitalization transactions and the New LLC Agreement as if they had occurred on January 1, 2015. In addition, Adjusted net income assumes that all net income is attributable to Planet Fitness, Inc., which assumes the full exchange of all outstanding Holdings Units for shares of Class A common stock of Planet Fitness, Inc., adjusted for certain non-recurring items that we do not believe directly reflect our core operations. Adjusted net income per share, diluted, is calculated by dividing Adjusted net income by the total shares of Class A common stock outstanding plus any dilutive options and restricted stock units as calculated in accordance with U.S. GAAP and assuming the full exchange of all outstanding Holdings Units and corresponding Class B common stock as of the beginning of each period presented. Adjusted net income and Adjusted net income per share, diluted, are supplemental measures of operating performance that do not represent, and should not be considered, alternatives to net income and earnings per share, as calculated in accordance with U.S. GAAP. We believe Adjusted net income and Adjusted net income per share, diluted, supplement U.S. GAAP measures and enable us to more effectively evaluate our performance period-over-period. A reconciliation of Adjusted net income to net income, the most directly comparable U.S. GAAP measure, and the computation of Adjusted net income per share, diluted, are set forth below.

(in thousands)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net income	$14,863	$738	$49,300	$20,890
Provision for income taxes, as reported	4,795	1,230	11,504	1,921
Purchase accounting adjustments-revenue(1)	450	195	458	465
Purchase accounting adjustments-rent(2)	202	248	664	692
Management fees(3)	-	1,384	-	1,899
IT system upgrade costs(4)	-	(116)	-	3,901
Stock offering-related costs(5)	1,078	2,167	2,105	7,239
IPO-related compensation expense(6)	-	6,155	-	6,155
Severance costs(7)	-	-	423	-
Pre-openings costs(8)	-	-	-	793
Other(9)	-	-	72	-
Purchase accounting amortization(10)	4,843	5,257	14,528	15,797
Adjusted income before income taxes	$26,231	$17,258	$79,054	$59,752
Adjusted income taxes(11)	10,361	6,800	31,226	23,542
Adjusted net income	$15,870	$10,458	$47,828	$36,210
Adjusted net income per share, diluted	$0.16		$0.48	
Adjusted weighted-average shares outstanding, diluted(12)	98,572		98,615	

(1)

Represents the impact of revenue-related purchase accounting adjustments associated with the 2012 Acquisition. At the time of the 2012 Acquisition, which consisted of the purchase of interests in Pla-Fit Holdings by investment funds affiliated with TSG Consumer Partners, LLC, the Company maintained a deferred revenue account, which consisted of deferred area development agreement fees, deferred franchise fees, and deferred enrollment fees that the Company billed and collected up front but recognizes for U.S. GAAP purposes at a later date. In connection with the 2012 Acquisition, it was determined that the carrying amount of deferred revenue was greater than the fair value assessed in accordance with ASC 805—Business Combinations, which resulted in a write-down of the carrying value of the deferred revenue balance upon application of acquisition push-down accounting under ASC 805. These amounts represent the additional revenue that would have been recognized in these periods if the write-down to deferred revenue had not occurred in connection with the application of acquisition pushdown accounting.

(2) Represents the impact of rent related purchase accounting adjustments. In accordance with guidance in ASC 805–Business Combinations, in connection with the 2012 Acquisition, the Company's deferred rent liability was required to be written off as of the acquisition date and rent was recorded on a straight-line basis from the acquisition date through the end of the lease term. This resulted in higher overall recorded rent expense each period than would have otherwise been recorded had the deferred rent liability not been written off as a result of the acquisition push down accounting applied in accordance with ASC 805. Adjustments of $105, $104, $372 and $310 in the three and nine months ended September 30, 2016 and 2015, respectively, reflect the difference between the higher rent expense recorded in accordance with U.S. GAAP since the acquisition and the rent expense that would have been recorded had the 2012 Acquisition not occurred. Adjustments of $97, $144, $292 and $382 for the three and nine months ended September 30, 2016 and 2015, respectively, are due to the amortization of favorable and unfavorable lease intangible assets which were recorded in connection with the 2012 Acquisition and the acquisition of eight franchisee-owned stores on March 31, 2014. All of the rent related purchase accounting adjustments are adjustments to rent expense which is included in store operations on our consolidated statements of operations.

(3) Represents management fees and expenses paid to a management company affiliated with TSG pursuant to a management services agreement that terminated in connection with the IPO.

(4) Represents costs associated with certain IT system upgrades, primarily related to our POS system.

(5) Represents legal, accounting and other costs incurred in connection with offerings of the Company's Class A common stock.

(6) Represents cash-based and equity-based compensation expense recorded in connection with the IPO.

(7) Represents severance expense recorded in connection with an equity award modification.

(8) Represents costs associated with new corporate-owned stores incurred prior to the store opening, including payroll-related costs, rent and occupancy expenses, marketing and other store operating supply expenses.

(9) Represents certain other charges and gains that we do not believe reflect our underlying business performance. In 2016, the expense related to the adjustment of our tax benefit arrangements primarily due to changes in our effective tax rate.

(10) Includes $4,219, $4,484, $12,655 and $13,452 of amortization of intangible assets, other than favorable leases, for the three and nine months ended September 30, 2016 and 2015, respectively, recorded in connection with the 2012 Acquisition, which consisted of the purchase of interests in Pla-Fit Holdings by investment funds affiliated with TSG Consumer Partners, LLC and $624, $773, $1,873 and $2,345 of amortization of intangible assets for the three and nine months ended September 30, 2016 and 2015, respectively, recorded in connection with the acquisition of eight franchisee-owned stores on March 31, 2014. The adjustment represents the amount of actual non-cash amortization expense recorded, in accordance with U.S. GAAP, in each period.

(11) Represents corporate income taxes at an assumed effective tax rate of 39.5% for the three and nine months ended September 30, 2016, and 39.4% for the three and nine months ended September 30, 2015, applied to adjusted income before income taxes.

(12) Assumes the full exchange of all outstanding Holdings Units and corresponding shares of Class B common stock for shares of Class A common stock of Planet Fitness, Inc.

A reconciliation of net income per share, diluted, to Adjusted net income per share, diluted is set forth below for the three and nine months ended September 30, 2016:

	Three months ended September 30, 2016			Nine months ended September 30, 2016		
(in thousands)	Net income	Weighted Average Shares	Net income per share,	Net income	Weighted Average Shares	Net income per share,

			diluted			diluted
Net income attributable to Planet Fitness Inc.[1]	$3,425	44,669	$ 0.08	$10,926	39,394	$ 0.28
Assumed exchange of shares[2]	11,438	53,903		38,374	59,221	
Net Income	14,863			49,300		
Adjustments to arrive at adjusted income before income taxes[3]	11,368			29,754		
Adjusted income before income taxes	26,231			79,054		
Adjusted income taxes[4]	10,361			31,226		
Adjusted Net Income	$15,870	98,572	$ 0.16	$47,828	98,615	$ 0.48

(1) Represents net income attributable to Planet Fitness, Inc. and the associated weighted average shares, diluted of Class A common stock outstanding.

(2) Assumes the full exchange of all outstanding Holdings Units and corresponding shares of Class B common stock for shares of Class A common stock of Planet Fitness, Inc. Also assumes the addition of net income attributable to non-controlling interests corresponding with the assumed exchange of Holdings Units and Class B common shares for shares of Class A common stock.

(3) Represents the total impact of all adjustments identified in the Adjusted net income table above to arrive at adjusted income before income taxes.

(4) Represents corporate income taxes at an assumed effective tax rate of 39.5% applied to adjusted income before income taxes.

Results of operations

The following table sets forth our condensed consolidated statements of operations as a percentage of total revenue for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue:				
Franchise revenue	26.5 %	23.5 %	26.7 %	23.1 %
Commission income	4.8 %	5.3 %	5.5 %	5.2 %
Franchise segment	31.3 %	28.8 %	32.2 %	28.3 %
Corporate-owned stores	30.6 %	36.5 %	30.1 %	32.8 %
Equipment	38.1 %	34.7 %	37.7 %	38.9 %
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Operating costs and expenses:				
Cost of revenue	29.8 %	27.4 %	29.5 %	31.2 %
Store operations	17.4 %	20.8 %	17.4 %	19.3 %
Selling, general and administrative	14.1 %	25.2 %	13.9 %	19.5 %
Depreciation and amortization	8.9 %	11.6 %	8.8 %	10.8 %
Other gain	(0.3 %)	0.0 %	(0.2 %)	0.0 %
Total operating costs and expenses	69.9 %	85.0 %	69.4 %	80.8 %
Income from operations	30.1 %	15.0 %	30.6 %	19.2 %
Other income (expense), net:				
Interest expense, net	(7.2 %)	(9.5 %)	(7.2 %)	(8.0 %)
Other income (expense)	(0.2 %)	(2.6 %)	0.0 %	(1.2 %)
Total other expense, net	(7.4 %)	(12.1 %)	(7.2 %)	(9.2 %)
Income before income taxes	22.7 %	2.9 %	23.4 %	10.0 %
Provision for income taxes	5.5 %	1.8 %	4.4 %	0.9 %
Net income	17.2 %	1.1 %	19.0 %	9.1 %
Less net income attributable to non-controlling interests	13.1 %	6.7 %	14.7 %	2.2 %
Net income attributable to Planet Fitness, Inc.	4.1 %	(5.6 %)	4.3 %	6.9 %

The following table sets forth a comparison of our condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Revenue:				
Franchise revenue	$23,046	$16,148	$70,042	$51,806
Commission income	4,179	3,646	14,338	11,624
Franchise segment	27,225	19,794	84,380	63,430
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 income (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 attributable to Planet Fitness, Inc.	$3,425	$(3,893)	$10,926	$16,033

Comparison of the three months ended September 30, 2016 and three months ended September 30, 2015

Revenue

Total revenues were $87.0 million in the three months ended September 30, 2016, compared to $68.8 million in the three months ended September 30, 2015, an increase of $18.2 million, or 26.4%.

Franchise segment revenue was $27.2 million in the three months ended September 30, 2016, compared to $19.8 million in the three months ended September 30, 2015, an increase of $7.4 million, or 37.5%.

Franchise revenue was $23.0 million in the three months ended September 30, 2016 compared to $16.1 million in the three months ended September 30, 2015, an increase of $6.9 million or 42.7%. Included in franchise revenue is royalty revenue of $15.1 million, franchise and other fees of $5.8 million, and placement revenue of $2.2 million for the three months ended September 30, 2016, compared to royalty revenue of $10.8 million, franchise and other fees of $3.7 million, and placement revenue of $1.6 million for the three months ended September 30, 2015. The $4.2 million increase in royalty revenue was primarily driven by $2.1 million attributable to royalties from new stores in 2016 as well as stores that opened in 2015 that were not included in the same store sales base and $2.1 million attributable to a same store sales increase of 10.3% in franchisee-owned stores.

Commission income, which is included in our franchise segment, was $4.2 million in the three months ended September 30, 2016 compared to $3.6 million in the three months ended September 30, 2015, an increase of $0.5 million or 14.6%. The increase was primarily due to a higher volume of franchisee purchases from vendors due to more franchise stores open during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

Revenue from our corporate-owned stores segment was $26.7 million in the three months ended September 30, 2016, compared to $25.2 million in the three months ended September 30, 2015, an increase of $1.5 million, or 6.1%. The increase is attributable to same store sales from corporate-owned stores, which increased 5.4% in the three months ended September 30, 2016.

Equipment segment revenue was $33.1 million in the three months ended September 30, 2016, compared to $23.9 million in the three months ended September 30, 2015, an increase of $9.2 million, or 38.7%. The increase was driven by an increase in replacement equipment sales to existing franchisee-owned stores in the three months ended September 30, 2016 compared to the three months ended September 30, 2015, as well as an increase in equipment sales to new franchisee-owned stores in the three months ended September 30, 2016, as compared to the three months ended September 30, 2015.

Cost of revenue

Cost of revenue was $25.9 million in the three months ended September 30, 2016 compared to $18.9 million in the three months ended September 30, 2015, an increase of $7.1 million, or 37.5%. Cost of revenue, which primarily relates to our equipment segment, increased due to higher replacement equipment sales to existing franchisee-owned stores, as well as an increase in equipment sales to new franchisee-owned stores in the three months ended September 30, 2016, as compared to the three months ended September 30, 2015.

Store operations

Store operation expenses, which relates to our corporate-owned stores segment, were $15.2 million in the three months ended September 30, 2016 compared to $14.3 million in the three months ended September 30, 2015, an increase of $0.9 million, or 6.1%.

Selling, general and administrative

Selling, general and administrative expenses were $12.2 million in the three months ended September 30, 2016 compared to $17.3 million in the three months ended September 30, 2015. During the three months ended September 30, 2016, we incurred $1.1 million lower public offering-related costs than in the three months ended September 30, 2015. During the three months ended September 30, 2015 we also incurred $6.2 million of IPO-related compensation expense. Partially offsetting these decreases, we incurred additional expenses during the three months ended September 30, 2016 to support our growing franchisee operations, including additional headcount and infrastructure to provide training, development, pre-opening support and store operational excellence functions as well as incremental ongoing public company expenses. With respect to our growing franchisee operations, we anticipate that our selling, general and administrative expenses will continue to increase as our franchisee-owned store count increases.

Depreciation and amortization

Depreciation and amortization expense consists of the depreciation of property and equipment, including leasehold and building improvements and equipment. Amortization expense consists of amortization related to our intangible assets, including customer relationships and non-compete agreements.

Depreciation and amortization expense was $7.7 million in the three months ended September 30, 2016 compared to $8.0 million in the three months ended September 30, 2015, a decrease of $0.2 million, or 2.9%.

Other gain

Other gain was $0.2 million in the three months ended September 30, 2016 and $0 in the three months ended September 30, 2015.

Interest expense, net

Interest expense primarily consists of interest on long-term debt as well as the amortization of deferred financing costs.

Interest expense, net was $6.3 million in the three months ended September 30, 2016 compared to $6.6 million in the three months ended September 30, 2015, a decrease of $0.3 million, or 4.0%.

Other income (expense)

Other income (expense) was an expense of $0.2 million in the three months ended September 30, 2016 and an expense of $1.8 million in the three months ended September 30, 2015. Other income (expense) primarily consists of realized gains (losses) on derivative activities and the effects of foreign currency gains and losses. In 2015, other expense also includes management fees we paid to TSG related to the TSG management agreement including a $1.0 million payment related to the termination of the agreement in connection with the IPO.

Provision for income taxes

Prior to the recapitalization transactions, the Company was treated as a pass through entity for U.S. federal income tax purposes as well as in most states. As a result, the Company’s taxes were not significant. Provision for income taxes primarily consisted of tax expense related to the State of New Hampshire and Canada as well as certain other local taxes.

Subsequent to the recapitalization transactions, the Company is subject to U.S. federal income taxes, in addition to state and local taxes, with respect to our allocable share of any net taxable income of Pla-Fit Holdings. Our effective tax rate of 39.5%, was calculated using the U.S. federal income tax rate and the statutory rates applied to income apportioned to each state and local jurisdiction. This tax rate has been applied to the pro rata portion of income before taxes that represents the economic interest in Pla-Fit Holdings held by the Company following the recapitalization transactions and IPO. 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.

Segment results

Franchise

Segment EBITDA for the franchise segment was $22.8 million in the three months ended September 30, 2016 compared to $15.5 million in the three months ended September 30, 2015, an increase of $7.3 million, or 47.2%. This increase was primarily the result of growth in our franchise segment revenue of $2.1 million due to higher royalties received from additional franchisee-owned stores not included in the same store sales base, $2.1 million attributable to a same store sales increase of 10.3% in franchisee-owned stores, $2.1 million of higher franchise and other fees, and $0.5 million of higher commission income. Depreciation and amortization was $2.1 million for both the three months ended September 30, 2016 and 2015.

Corporate-owned stores

Segment EBITDA for the corporate-owned stores segment was $10.6 million in the three months ended September 30, 2016 compared to $9.3 million in the three months ended September 30, 2015, an increase of $1.3 million, or 14.0%. This increase was the result of higher revenue related to an increase in same store sales of 5.4% in the three months ended September 30, 2016, compared to the three months ended September 30, 2015. Depreciation and amortization was $3.9 million for the three months ended September 30, 2016, compared to $4.3 million for the three months ended September 30, 2015.

Equipment

Segment EBITDA for the equipment segment was $7.2 million in the three months ended September 30, 2016 compared to $4.9 million in the three months ended September 30, 2015, an increase of $2.2 million, or 45.7%, driven by an increase in replacement equipment sales to existing franchisee-owned stores in the three months ended

September 30, 2016 compared to the three months ended September 30, 2015, as well as an increase in the number of equipment sales to new franchisee-owned stores in the three months ended September 30, 2016 compared to the three months ended September 30, 2015. Depreciation and amortization was $1.6 million for both periods.

Comparison of the nine months ended September 30, 2016 and the nine months ended September 30, 2015

Revenue

Total revenues were $261.8 million in the nine months ended September 30, 2016, compared to $224.7 million in the nine months ended September 30, 2015, an increase of $37.1 million, or 16.5%.

Franchise segment revenue was $84.4 million in the nine months ended September 30, 2016, compared to $63.4 million in the nine months ended September 30, 2015, an increase of $21.0 million, or 33.0%.

Franchise revenue was $70.0 million in the nine months ended September 30, 2016 compared to $51.8 million in the nine months ended September 30, 2015, an increase of $18.2 million or 35.2%. Included in franchise revenue is royalty revenue of $47.0 million, franchise and other fees of $16.1 million, and placement revenue of $7.0 million for the nine months ended September 30, 2016, compared to royalty revenue of $34.1 million, franchise and other fees of $11.8 million, and placement revenue of $5.9 million for the nine months ended September 30, 2015. The $12.9 million increase in royalty revenue was primarily driven by $6.0 million attributable to royalties from new stores in 2016 as well as stores that opened in 2015 that were not included in the same store sales base, $4.9 million attributable to a same store sales increase of 8.4% in franchisee-owned stores, and $2.0 million attributable to higher revenue from annual fees.

Commission income, which is included in our franchise segment, was $14.3 million in the nine months ended September 30, 2016 compared to $11.6 million in the nine months ended September 30, 2015, an increase of $2.7 million or 23.3%. This increase was primarily due to a higher volume of franchisee purchases from vendors due to more franchise stores open during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015.

Revenue from our corporate-owned stores segment was $78.8 million in the nine months ended September 30, 2016, compared to $73.7 million in the nine months ended September 30, 2015, an increase of $5.1 million, or 6.9%. Same store sales from corporate-owned stores increased 5.0% in the nine months ended September 30, 2016, which contributed incremental revenues of $3.0 million. Additionally, incremental revenue for stores not included in the same store sales base led to an increase in revenue of $0.9 million in the nine months ended September 30, 2016 and $1.5 million was attributable to higher revenue from annual fees.

Equipment segment revenue was $98.7 million in the nine months ended September 30, 2016, compared to $87.6 million in the nine months ended September 30, 2015, an increase of $11.1 million, or 12.7%. This increase was primarily driven by an increase in replacement equipment sales to existing franchisee-owned stores in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 partially offset by a decrease in the number of equipment sales to new franchisee-owned stores in the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015.

Cost of revenue

Cost of revenue was $77.4 million in the nine months ended September 30, 2016 compared to $70.1 million in the nine months ended September 30, 2015, an increase of $7.3 million, or 10.4%. Cost of revenue, which primarily relates to our equipment segment, increased due to higher replacement equipment sales to existing franchisee-owned stores, partially offset by lower equipment sales to new franchisee-owned stores in the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015. Direct costs associated with our previous point-of-sale system were $0 in the nine months ended September 30, 2016 compared to $1.2 million in the nine months ended September 30, 2015.

Store operations

Store operation expenses, which relates to our corporate-owned stores segment, were $45.7 million in the nine months ended September 30, 2016 compared to $43.4 million in the nine months ended September 30, 2015, an increase of $2.3 million, or 5.3%. The increase of $2.3 million relates to the three new store openings during the nine months ended September 30, 2015 in addition to slightly higher rent and employee compensation expenses in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

Selling, general and administrative

Selling, general and administrative expenses were $36.5 million in the nine months ended September 30, 2016 compared to $43.8 million in the nine months ended September 30, 2015, a decrease of $7.4 million, or 16.8%. Of the $7.4 million decrease, $5.1 million is due to higher public offering-related costs in the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2016. In 2015 we also incurred $6.2 million of IPO-related compensation expense. We also incurred an additional $3.9 million in 2015 related to increased information technology spend which was primarily attributable to the rollout of a new POS system. The POS system rollout began in late 2014 and was completed in April 2015. Offsetting these decreases, we incurred additional expenses during the nine months ended September 30, 2016 to support our growing franchisee operations, including additional headcount and infrastructure to provide training, development, preopening support and store operational excellence functions as well as incremental ongoing public company expenses. We anticipate that our selling, general and administrative expenses will continue to increase as our franchisee-owned store count grows.

Depreciation and amortization

Depreciation and amortization expense consists of the depreciation of property and equipment, including leasehold and building improvements and equipment. Amortization expense consists of amortization related to our intangible assets, including customer relationships and non-compete agreements.

Depreciation and amortization expense was $23.1 million in the nine months ended September 30, 2016 compared to $24.2 million in the nine months ended September 30, 2015, a decrease of $1.0 million, or 4.3%, primarily due to lower amortization expense in the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2015.

Other gain

Other gain was $0.4 million for the nine months ended September 30, 2016 compared to $0.1 million in the nine months ended September 30, 2015, an increase of $0.3 million.

Interest expense, net

Interest expense primarily consists of interest on long-term debt as well as the amortization of deferred financing costs.

Interest expense, net was $18.8 million in the nine months ended September 30, 2016 compared to $17.9 million in the nine months ended September 30, 2015, an increase of $0.9 million, or 5.3%. The increase was due to additional interest expense associated with the $120.0 million of incremental borrowings on March 31, 2015.

Other income (expense)

Other income was $0 in the nine months ended September 30, 2016 compared to expense of $2.6 million in the nine months ended September 30, 2015. Other income (expense) primarily consists of realized gains (losses) on derivative activities and the effects of foreign currency gains and losses. In 2015, other expense also included management fees we paid to TSG related to the TSG management agreement including a $1.0 million payment for the termination of the agreement in connection with the IPO.

Provision for income taxes

Prior to the recapitalization transactions, the Company was treated as a pass through entity for U.S. federal income tax purposes as well as in most states. As a result, the Company's taxes were not significant. Provision for income taxes primarily consisted of tax expense related to the state of New Hampshire and Canada as well as certain other local taxes.

Subsequent to the recapitalization transactions, the Company is subject to U.S. federal income taxes, in addition to state and local taxes, with respect to our allocable share of any net taxable income of Pla-Fit Holdings. Our effective tax rate of 39.5%, was calculated using the U.S. federal income tax rate and the statutory rates applied to income apportioned to each state and local jurisdiction. This tax rate has been applied to the pro rata portion of income before taxes that represents the economic interest in Pla-Fit Holdings held by the Company following the recapitalization transactions and IPO. 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.

Segment results

Franchise

Segment EBITDA for the franchise segment was $71.3 million in the nine months ended September 30, 2016 compared to $46.8 million in the nine months ended September 30, 2015, an increase of $24.5 million, or 52.4%. This increase was primarily the result of growth in our franchise segment revenue of $6.0 million due to higher royalties received from additional franchisee-owned stores not included in the same store sales base, $4.9 million attributable to a same store sales increase of 8.4% in franchisee-owned stores, $2.0 million attributable to higher revenue from annual fees, $2.7 million of higher commission income, $4.2 million of higher franchise and other fees, as well as lower expenses of $1.2 million associated with our previous POS system. Additionally, we had $3.9 million lower IT system upgrade costs in the nine months ended September 30, 2016 compared to the nine months ended September

30, 2015. Depreciation and amortization was $6.4 million in the nine months ended September 30, 2016, compared to $6.5 million for the nine months ended September 30, 2015.

Corporate-owned stores

Segment EBITDA for the corporate-owned stores segment was $30.3 million in the nine months ended September 30, 2016 compared to $26.3 million in the nine months ended September 30, 2015, an increase of $3.9 million, or 14.9%. This increase was the result of higher revenue related to stores not included in the same store sales base as well as an increase in revenue related to our same store sales increase of 5.0% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Depreciation and amortization was $11.7 million for the nine months ended September 30, 2016, compared to $13.0 million for the nine months ended September 30, 2015. The decrease is primarily due to lower amortization expense in the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015.

Equipment

Segment EBITDA for the equipment segment was $21.3 million in the nine months ended September 30, 2016 compared to $18.9 million in the nine months ended September 30, 2015, an increase of $2.4 million, or 12.8%, primarily driven by an increase in replacement equipment sales to existing franchisee-owned stores in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, partially offset by a decrease in the number of equipment sales to new franchisee-owned stores in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Depreciation and amortization was $4.7 million in both the nine months ended September 30, 2016 and 2015.

Liquidity and capital resources

As of September 30, 2016, we had $66.0 million of cash and cash equivalents. In addition, as of September 30, 2016, we had borrowing capacity of $40.0 million under our revolving credit facility.

We require cash principally to fund day-to-day operations, to finance capital investments, to service our outstanding debt and tax benefit arrangements and to address our working capital needs. Based on our current level of operations and anticipated growth, we believe that with the available cash balance, the cash generated from our operations, and amounts available under our revolving credit facility will be adequate to meet our anticipated debt service requirements and obligations under the tax benefit arrangements, capital expenditures and working capital needs for at least the next twelve months. We believe that we will be able to meet these obligations even if we experience no growth in sales or profits. Our ability to continue to fund these items and continue to reduce debt could be adversely affected by the occurrence of any of the events described under “Risk factors” in the Annual Report. There can be no assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available under our revolving credit facility or otherwise to enable us to service our indebtedness, including our senior secured credit facility, or to make anticipated capital expenditures. Our future operating performance and our ability to service, extend or refinance the senior secured credit facility will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

The following table presents summary cash flow information for the nine months ended September 30, 2016 and 2015:

(in thousands)	Nine months ended September 30, 2016	2015
Net cash (used in) provided by:		
Operating activities	$75,738	$56,573
Investing activities	(8,864)	(13,754)
Financing activities	(32,437)	(57,547)
Effect of foreign exchange rates on cash	87	(102)
Net increase (decrease) in cash	$34,524	$(14,830)

Operating activities

For the nine months ended September 30, 2016, net cash provided by operating activities was $75.7 million compared to $56.6 million in the nine months ended September 30, 2015, an increase of $19.1 million. This increase was primarily due to higher net income partially offset by higher cash used for working capital in the nine months ended September 30, 2016. The higher cash used for working capital was driven by changes in due to and due from related parties, inventory, accounts receivable, income taxes, payables to related parties pursuant to tax benefit arrangements, and equipment deposits.

Investing activities

Cash flow used in investing activities related to the following capital expenditures for the nine months ended September 30, 2016 and 2015:

(in thousands)	Nine months ended September 30, 2016	2015
New corporate-owned stores and corporate-owned stores not yet opened	$-	$5,822
Existing corporate-owned stores	8,308	6,924
Information systems	533	1,004
Corporate and all other	425	80
Total capital expenditures	$9,266	$13,830

For the nine months ended September 30, 2016, net cash used in investing activities was $8.9 million compared to $13.8 million in the nine months ended September 30, 2015, a decrease of $4.9 million, and was primarily related to the opening of three corporate owned stores in the nine months ended September 30, 2015 compared to none in the nine months ended September 30, 2016.

Financing activities

For the nine months ended September 30, 2016, net cash used in financing activities was $32.4 million compared to $57.5 million in the nine months ended September 30, 2015, a decrease of $25.1 million. Proceeds from the issuance of debt was $0 in the nine months ended September 30, 2016 compared to proceeds of $120.0 million in the nine months ended September 30, 2015. Additionally, member distributions were $27.1 million in the nine months ended September 30, 2016 compared to $171.1 million in the nine months ended September 30, 2015.

On March 31, 2015, we amended our credit agreement governing our senior secured credit facility primarily to provide for an increase of $120.0 million in term loan borrowings for a total of $506.1 million. The full incremental borrowing of $120.0 million and $20.0 million from cash on hand was used to issue a $140.0 million dividend to members of Pla-Fit Holdings.

Credit facility

Our senior secured credit facility consists of term loans and a revolving credit facility. Borrowings under the term loans bear interest, payable at least semi-annually. The term loans require principal payments equal to approximately $5.1 million per calendar year, payable in quarterly installments with the final scheduled principal payment on the outstanding term loan borrowings due on March 31, 2021.

The senior secured credit facility also provides for borrowings of up to $40.0 million under the revolving credit facility, of which up to $5.0 million is available for letter of credit advances. Borrowings under the revolving credit facility (excluding letters of credit) bear interest, payable at least semi-annually. We also pay a 0.40% commitment fee per annum on the unused portion of the revolver. The revolving credit facility expires on March 31, 2019.

The credit agreement governing our senior secured credit facility requires us to comply on a quarterly basis with one financial covenant which is a maximum ratio of debt to Credit Facility Adjusted EBITDA (the “leverage ratio”) that becomes more restrictive over time. This covenant is only for the benefit of the revolving credit facility. At September 30, 2016, the terms of the senior secured credit facility require that we maintain a leverage ratio of no more than 5.75 to 1.0. The leverage ratio financial covenant will become more restrictive over time and will require us to maintain a leverage ratio of no more than 4.0 to 1.0 by June 30, 2019.

Failure to comply with this covenant would result in an event of default under our senior secured credit facility unless waived by our senior secured credit facility lenders. An event of default under our senior secured credit facility can result in the acceleration of our indebtedness under the facility, which in turn can result in an event of default and possible acceleration of our other indebtedness, if any.

As of September 30, 2016, we were in compliance with our senior secured credit facility financial covenant with a leverage ratio of 3.0 to 1.0 which was calculated for the 12 months ended September 30, 2016 based upon certain adjustments to EBITDA, as provided for under the terms of our senior secured credit facility.

On March 31, 2015, we amended our credit agreement governing our senior secured credit facility primarily to provide for an increase of $120.0 million in term loan borrowings for a total of $506.1 million. The full incremental borrowing of $120.0 million plus $20.0 million from cash on hand was used to fund a $140.0 million dividend to members of Pla-Fit Holdings. The incremental term loan borrowings bear a variable rate of interest of the greater of LIBOR or 1.00% plus the applicable margin of 3.50%. All other terms and conditions remain unchanged under the senior secured credit facility.

Off-balance sheet arrangements

As of September 30, 2016, our off-balance sheet arrangements consisted of operating leases and certain guarantees. In a limited number of cases, we have guaranteed certain leases and debt agreements of entities related through common ownership. These guarantees relate to leases for operating space, equipment and other operating costs of franchises operated by the related entities. Our maximum total commitment under these agreements is approximately $1.5 million and would only require payment upon default by the primary obligor. The estimated fair value of these guarantees at September 30, 2016 was not material, and no accrual has been recorded for our potential obligation under these arrangements.

Critical accounting policies and use of estimates

There have been no material changes to our critical accounting policies and use of estimates from those described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report.

JOBS Act

We qualify as an “emerging growth company” as defined in Section 2(a)(19) of the Securities Act, as modified by the Jumpstart Our Business Startups (“JOBS”) Act. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

Subject to certain conditions set forth in the JOBS Act, we are also eligible for and intend to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies, including (i) the exemption from the auditor attestation requirements with respect to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, (ii) the exemptions from say-on-pay, say-on-frequency and say-on-golden parachute voting requirements and (iii) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We may take advantage of these exemptions until we are no longer an emerging growth company. We will continue to be an emerging growth company until the earliest to occur of (i) the last day of the fiscal year in which the market value of our Class A common stock that is held by non-affiliates exceeds $700 million as of June 30 of that fiscal year, (ii) the last day of the fiscal year in which we had total annual gross revenue of $1 billion or more during such fiscal year (as indexed for inflation), (iii) the date on which we have issued more than $1 billion in non-convertible debt in the prior three-year period or (iv) the last day of the fiscal year following the fifth anniversary of the date of the first sale of Class A common stock under our registration statement.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Interest rate risk

We are exposed to market risk from changes in interest rates on our senior secured credit facility, which bears interest at variable rates and has a U.S. dollar LIBOR floor of 1.00%. As of September 30, 2016, we had outstanding borrowings of $488.5 million. An increase in the effective interest rate applied to these borrowings of 100 basis points would result in a $4.9 million increase in pre-tax interest expense on an annualized basis. We manage our interest rate risk through normal operating and financing activities and, when determined appropriate, through the use of derivative financial instruments. To mitigate exposure to fluctuations in interest rates, we entered into a series of interest rate caps as discussed in Note 6 to our unaudited condensed consolidated interim financial statements elsewhere in this Quarterly Report on Form 10-Q.

Foreign exchange risk

We are exposed to fluctuations in exchange rates between the U.S. and Canadian dollar, which is the functional currency of our Canadian entity. Our sales, costs and expenses of our Canadian subsidiary, when translated into U.S. dollars, can fluctuate due to exchange rate movement. As of September 30, 2016, a 10% increase or decrease in the exchange rate of the U.S. and Canadian dollar would increase or decrease net income by a negligible amount.

Inflation risk

Although we do not believe that inflation has had a material effect on our income from continuing operations, we have a substantial number of hourly employees in our corporate-owned stores that are paid wage rates at or based on the applicable federal or state minimum wage. Any increases in these minimum wages will subsequently increase our labor costs. We may or may not be able to offset cost increases in the future.

ITEM 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2016, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

In the first half of 2015, management identified a material weakness in our internal control over financial reporting relating to our controls over the authorization of IT hardware purchases and the processing of related invoices. The internal controls in place during this time were not adequate to detect fraudulent purchases being made.

Since identifying this material weakness, we have implemented processes and controls designed to remediate this material weakness by revising existing, and implementing new, procedures and systems regarding (i) authorizing purchases, (ii) receiving invoices, (iii) receiving IT hardware products and (iv) processing invoices. As a result of the successful implementation of the remediation actions noted, as well as subsequent successful testing of the design and operation of the enhanced control procedures, management has concluded that its material weakness as disclosed in the Company’s 2015 Annual Report on Form 10-K has been remediated as of March 31, 2016.

Other than the aforementioned remediation efforts, there have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

ITEM 1. Legal Proceedings

We are currently involved in various claims and legal actions that arise in the ordinary course of business, most of which are covered by insurance. We do not believe that the ultimate resolution of these actions will have a material adverse effect on our business, financial condition, results of operations, liquidity or capital resources nor do we believe that there is a reasonable possibility that we will incur material loss as a result of such actions. However, a significant increase in the number of these claims or an increase in amounts owing under successful claims could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1A. Risk Factors.

For a discussion of our potential risks and uncertainties, see the information under the heading "Risk Factors" in the Annual Report.

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

On September 28, 2016 we 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 the participating Continuing LLC Owners. We 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, we received 5,406,019 Holdings Units, increasing our total ownership interest in Pla-Fit Holdings.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Mine Safety Disclosures.

None.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits

Exhibit Number	Exhibit Description	Description of Exhibit Incorporated Herein by Reference Form	File No.	Filing Date	Exhibit Number	Filed Herewith
10.1	Amendment No. 1 to the Exchange Agreement, dated August 30, 2016, by and among Planet Fitness, Inc., Pla-Fit Holdings, LLC, and the holders of Holdings Units (as defined therein) and shares of Class B Common Stock (as defined therein)					X
10.2	Amendment No. 1 to the Registration Rights Agreement, dated August 30, 2016, by and among Planet Fitness, Inc., the Investors (as defined therein) and the Managers (as defined therein)					X
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101	Interactive Data Files pursuant to Rule 405 of Regulation S-T (XBRL)					X

Signatures

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

	Planet Fitness, Inc. (Registrant)
Date: November 3, 2016	/s/ Dorvin Lively Dorvin Lively Chief Financial Officer (On behalf of the Registrant and as Principal Financial Officer)