Planet Fitness, Inc.
Form 10-Q
August 09, 2018
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 June 30, 2018
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.)

4 Liberty Lane West, Hampton, NH 03842
(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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	
Non-accelerated filer	(Do not check if a small reporting company)	Smaller reporting company	
Emerging growth company			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No ý
As of August 1, 2018 there were 88,168,785 shares of the Registrant’s Class A Common Stock, par value $0.0001 per share, outstanding and 10,235,804 shares of the Registrant’s Class B Common Stock, par value $0.0001 per share, outstanding.

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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;
- Potential return of capital initiatives;
- 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;
- our substantial increased indebtedness as a result of our refinancing and securitization transactions and our ability to incur additional indebtedness or refinance that indebtedness in the future;
- our future financial performance and our ability to pay principal and interest on our indebtedness;
- 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, 2017 filed with the Securities and Exchange Commission on March 1, 2018, and elsewhere in this Quarterly Report on Form 10-Q.

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.

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PART I-FINANCIAL INFORMATION
1. Financial Statements
Planet Fitness, Inc. and subsidiaries
Condensed consolidated balance sheets
(Unaudited)
(Amounts in thousands, except per share amounts)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$147,784	$113,080
Accounts receivable, net of allowance for bad debts of $20 and $32 at June 30, 2018 and December 31, 2017, respectively	14,932	37,272
Due from related parties	—	3,020
Inventory	3,193	2,692
Restricted assets – national advertising fund	73	499
Deferred expenses – national advertising fund	1,648	—
Prepaid expenses	3,796	3,929
Other receivables	23,343	9,562
Other current assets	5,916	6,947
Total current assets	200,685	177,001
Property and equipment, net of accumulated depreciation of $44,676, as of June 30, 2018 and $36,228 as of December 31, 2017	87,570	83,327
Intangible assets, net	237,092	235,657
Goodwill	191,038	176,981
Deferred income taxes	406,699	407,782
Other assets, net	1,637	11,717
Total assets	$1,124,721	$1,092,465
Liabilities and stockholders' deficit		
Current liabilities:		
Current maturities of long-term debt	$7,185	$7,185
Accounts payable	16,268	28,648
Accrued expenses	14,715	18,590
Equipment deposits	9,001	6,498
Restricted liabilities – national advertising fund	73	490
Deferred revenue, current	23,186	19,083
Payable to related parties pursuant to tax benefit arrangements, current	25,578	31,062
Other current liabilities	436	474
Total current liabilities	96,442	112,030
Long-term debt, net of current maturities	693,957	696,576
Deferred rent, net of current portion	7,700	6,127
Deferred revenue, net of current portion	23,255	8,440
Deferred tax liabilities	1,389	1,629
Payable to related parties pursuant to tax benefit arrangements, net of current portion	391,876	400,298
Other liabilities	1,350	4,302
Total noncurrent liabilities	1,119,527	1,117,372
Commitments and contingencies (Note 12)		
Stockholders' equity (deficit):		
	9	9

Class A common stock, $.0001 par value - 300,000 authorized, 87,932 and 87,188 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively		
Class B common stock, $.0001 par value - 100,000 authorized, 10,471 and 11,193 shares issued and outstanding as of June 30, 2018 December 31, 2017, respectively	1	1
Accumulated other comprehensive loss	(385)	(648)
Additional paid in capital	14,744	12,118
Accumulated deficit	(94,348)	(130,966)
Total stockholders' deficit attributable to Planet Fitness Inc.	(79,979)	(119,486)
Non-controlling interests	(11,269)	(17,451)
Total stockholders' deficit	(91,248)	(136,937)
Total liabilities and stockholders' deficit	$1,124,721	$1,092,465

See accompanying notes to condensed consolidated financial statements

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Planet Fitness, Inc. and subsidiaries
Condensed consolidated statements of operations
(Unaudited)
(Amounts in thousands, except per share amounts)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenue:				
Franchise	$45,417	$32,791	$87,579	$63,072
Commission income	1,575	5,003	3,563	11,519
National advertising fund revenue	11,158	—	21,620	—
Corporate-owned stores	34,252	28,285	66,959	55,326
Equipment	48,148	41,237	82,161	68,501
Total revenue	140,550	107,316	261,882	198,418
Operating costs and expenses:				
Cost of revenue	36,744	31,452	63,244	52,576
Store operations	18,047	14,604	36,403	29,788
Selling, general and administrative	17,210	14,768	34,831	28,588
National advertising fund expense	11,158	—	21,620	—
Depreciation and amortization	8,619	7,894	17,084	15,845
Other loss (gain)	(39)	348	971	316
Total operating costs and expenses	91,739	69,066	174,153	127,113
Income from operations	48,811	38,250	87,729	71,305
Other expense, net:				
Interest expense, net	(8,628)	(9,028)	(17,361)	(17,791)
Other expense	(502)	(933)	(310)	(251)
Total other expense, net	(9,130)	(9,961)	(17,671)	(18,042)
Income before income taxes	39,681	28,289	70,058	53,263
Provision for income taxes	9,263	10,285	16,146	17,393
Net income	30,418	18,004	53,912	35,870
Less net income attributable to non-controlling interests	4,544	5,592	8,157	14,616
Net income attributable to Planet Fitness, Inc.	$25,874	$12,412	45,755	$21,254
Net income per share of Class A common stock:				
Basic	$0.30	$0.16	$0.52	$0.30
Diluted	$0.29	$0.16	$0.52	$0.30
Weighted-average shares of Class A common stock outstanding:				
Basic	87,693	79,154	87,565	71,679
Diluted	88,105	79,193	87,931	71,713

See accompanying notes to condensed consolidated financial statements.

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Planet Fitness, Inc. and subsidiaries
Condensed consolidated statements of comprehensive income (loss)
(Unaudited)
(Amounts in thousands)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Net income including non-controlling interests	$30,418	$18,004	$53,912	$35,870
Other comprehensive income (loss), net:				
Unrealized gain on interest rate caps, net of tax	17	179	383	356
Foreign currency translation adjustments	(34)	13	(63)	5
Total other comprehensive (loss) income, net	(17)	192	320	361
Total comprehensive income including non-controlling interests	30,401	18,196	54,232	36,231
Less: total comprehensive income attributable to non-controlling interests	4,543	5,639	8,214	14,753
Total comprehensive income attributable to Planet Fitness, Inc.	$25,858	$12,557	$46,018	$21,478

See accompanying notes to condensed consolidated financial statements.

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Planet Fitness, Inc. and subsidiaries
Condensed consolidated statements of cash flows
(Unaudited)
(Amounts in thousands)

	For the six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$53,912	$35,870
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,084	15,845
Amortization of deferred financing costs	973	942
Amortization of favorable leases and asset retirement obligations	186	184
Amortization of interest rate caps	446	954
Deferred tax expense	13,300	14,589
Loss on extinguishment of debt	—	79
Third party debt refinancing expense	—	1,021
Gain on re-measurement of tax benefit arrangement	(354)	(541)
Provision for bad debts	(8)	28
Loss on reacquired franchise rights	350	—
Loss (gain) on disposal of property and equipment	547	(323)
Equity-based compensation	2,687	1,012
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	22,281	11,542
Due to and due from related parties	3,375	(289)
Inventory	(501)	355
Other assets and other current assets	(3,109)	(3,239)
National advertising fund	(1,634)	—
Accounts payable and accrued expenses	(16,884)	(14,144)
Other liabilities and other current liabilities	(2,908)	(33)
Income taxes	131	(406)
Payable to related parties pursuant to tax benefit arrangements	(21,706)	(7,909)
Equipment deposits	2,503	5,390
Deferred revenue	6,229	1,826
Deferred rent	1,594	245
Net cash provided by operating activities	78,494	62,998
Cash flows from investing activities:		
Additions to property and equipment	(8,136)	(14,127)
Acquisition of franchises	(28,503)	—
Proceeds from sale of property and equipment	134	—
Net cash used in investing activities	(36,505)	(14,127)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(23)	—
Repayment of long-term debt	(3,592)	(3,592)
Payment of deferred financing and other debt-related costs	—	(1,278)
Premiums paid for interest rate caps	—	(366)
Exercise of stock options	400	26
Dividend equivalent payments	(138)	(139)
Distributions to Continuing LLC Members	(3,503)	(5,592)

Net cash used in financing activities	(6,856)	(10,941)
Effects of exchange rate changes on cash and cash equivalents	(429)	198
Net increase in cash and cash equivalents	34,704	38,128
Cash and cash equivalents, beginning of period	113,080	40,393
Cash and cash equivalents, end of period	$147,784	$78,521
Supplemental cash flow information:		
Net cash paid for income taxes	$2,929	$2,914
Cash paid for interest	$16,795	$15,890
Non-cash investing activities:		
Non-cash additions to property and equipment	$2,072	$988

See accompanying notes to condensed consolidated financial statements.

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Planet Fitness, Inc. and subsidiaries
Condensed consolidated statements of changes in equity (deficit)
(Unaudited)
(Amounts in thousands)

	Class A common stock		Class B common stock		Accumulated other comprehensive (loss) income	Additional paid-in capital	Accumulated deficit	Non-controlling interests	Total (deficit) equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2017	87,188	$ 9	11,193	$ 1	$ (648)	$ 12,118	$ (130,966)	$ (17,451)	$ (136,937)
Net income	—	—	—	—	—	—	45,755	8,157	53,912
Equity-based compensation expense	—	—	—	—	—	2,690	(3)	—	2,687
Exchanges of Class B common stock	713	—	(713)	—	—	(1,471)	—	1,471	—
Retirement of Class B common stock	—	—	(9)	—	—	—	—	—	—
Exercise of stock options and vesting of restricted share units	31	—	—	—	—	400	—	—	400
Tax benefit arrangement liability and deferred taxes arising from exchanges of Class B common stock	—	—	—	—	—	1,007	—	—	1,007
Forfeiture of dividend equivalents	—	—	—	—	—	—	58	—	58
Distributions paid to members of Pla-Fit Holdings	—	—	—	—	—	—	—	(3,503)	(3,503)
Cumulative effect adjustment (Note 15)	—	—	—	—	—	—	(9,192)	—	(9,192)
Other comprehensive income	—	—	—	—	263	—	—	57	320
Balance at June 30, 2018	87,932	$ 9	10,471	$ 1	$ (385)	$ 14,744	$ (94,348)	$ (11,269)	$ (91,248)

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 12.1 million members and 1,608 owned and franchised locations (referred to as stores) in 50 states, the District of Columbia, Puerto Rico, Canada, the Dominican Republic, Panama and Mexico as of June 30, 2018.

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 ("Holdings Units") not owned by the Company. Unless otherwise specified, "the Company" refers to both Planet Fitness, Inc. and Pla-Fit Holdings throughout the remainder of these notes.

As of June 30, 2018, Planet Fitness, Inc. held 100.0% of the voting interest and 89.4% of the economic interest of Pla-Fit Holdings and the holders of Holdings Units of Pla-Fit Holdings (the "Continuing LLC Owners") held the remaining 10.6% economic interest in Pla-Fit Holdings.

(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 six months ended June 30, 2018 and 2017 are unaudited. The condensed consolidated balance sheet as of December 31, 2017 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, 2017 (the "Annual Report") filed with the SEC on March 1, 2018. 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. 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

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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 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 June 30, 2018 and December 31, 2017:

	Total fair value at June 30, 2018	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Interest rate caps	$ 404	$ —	$ 404	$ —
	Total fair value at December 31, 2017	Quoted prices in active markets	Significant other observable inputs	Significant unobservable inputs (Level 3)

		(Level 1)	(Level 2)	
Interest rate caps	$ 340	$ —	$ 340	$ —

(d) Recent accounting pronouncements

The FASB issued ASU No. 2014-9, 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. The Company has adopted the guidance as of January 1, 2018 on a modified retrospective basis. See Note 15 for details about the effect of adoption.

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

The FASB issued ASU No. 2016-2, 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 anticipates that adoption of this guidance will bring all current operating leases onto the statement of financial position as a right of use asset and related rent liability, and is currently evaluating the effect that implementation of this guidance will have on its consolidated statement of operations.

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 has adopted the guidance as of January 1, 2018 on a prospective basis, noting no material impact on its consolidated financial statements.

The FASB issued ASU No. 2017-4, Intangibles–Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, in January 2017. This guidance eliminates the requirement to calculate the implied fair value, essentially eliminating step two from the goodwill impairment test. The new standard requires goodwill impairment to be based upon the results of step one of the impairment test, which is defined as the excess of the carrying value of a reporting unit over its fair value. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. This guidance will be effective for fiscal years beginning after December 15, 2019, including interim periods within that year. This new guidance is not expected to have a material impact on the Company's consolidated financial statements.

The FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, in August 2017. The guidance simplifies the application of hedge accounting in certain situations and amends the hedge accounting model to enable entities to better portray the economics of their risk management activities in the financial statements. This guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within that year. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

(3) Variable Interest Entities

The carrying values of VIEs included in the consolidated financial statements as of June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
PF Melville	$4,603	$ —	$4,420	$ —
MMR	3,461	—	3,360	—
Total	$8,064	$ —	$7,780	$ —

The Company also has variable interests in certain franchisees mainly through the guarantee of certain debt and lease agreements 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 $858 and $979 as of June 30, 2018 and December 31, 2017, 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.

(4) Acquisition

On January 1, 2018, the Company purchased from one of its franchisees certain assets associated with six franchisee-owned stores in New York for a cash payment of $28,503. As a result of the transaction, the Company incurred a loss on unfavorable reacquired franchise rights of $350, which has been reflected in other operating costs in the statement of operations. The loss incurred reduced the net purchase price to $28,153. The Company financed the purchase through cash on hand. The acquired stores are included in the Corporate-owned stores segment.

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

The purchase consideration was allocated as follows:

	Amount
Fixed assets	$4,672
Reacquired franchise rights	7,640
Customer relationships	1,150
Favorable leases, net	520
Reacquired area development rights	150
Other assets	275
Goodwill	14,056
Liabilities assumed, including deferred revenues	(310)
	$28,153

The goodwill created through the purchase is attributable to the assumed future value of the cash flows from the stores acquired. The goodwill is deductible for tax purposes over 15 years.
The acquisition was not material to the results of operations, financial position or cash flows of the Company.

(5) Goodwill and Intangible Assets
A summary of goodwill and intangible assets at June 30, 2018 and December 31, 2017 is as follows:

June 30, 2018	Weighted average amortization period (years)	Gross carrying amount	Accumulated amortization	Net carrying Amount
Customer relationships	11.1	$172,932	(92,965)	$79,967
Noncompete agreements	5.0	14,500	(14,500)	—
Favorable leases	7.7	3,455	(2,156)	1,299
Order backlog	0.4	3,400	(3,400)	—
Reacquired franchise rights	6.8	16,590	(7,199)	9,391
Reacquired ADA rights	5.0	150	(15)	135
		211,027	(120,235)	90,792
Indefinite-lived intangible:				
Trade and brand names	N/A	146,300	—	146,300
Total intangible assets		$357,327	$(120,235)	$237,092
Goodwill		$191,038	$—	$191,038

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December 31, 2017	Weighted average amortization period (years)	Gross carrying amount	Accumulated amortization	Net carrying Amount
Customer relationships	11.1	$171,782	$ (86,501)	$85,281
Noncompete agreements	5.0	14,500	(14,500)	—
Favorable leases	7.5	2,935	(1,972)	963
Order backlog	0.4	3,400	(3,400)	—
Reacquired franchise rights	5.8	8,950	(5,837)	3,113
		201,567	(112,210)	89,357
Indefinite-lived intangible:				
Trade and brand names	N/A	146,300	—	146,300
Total intangible assets		$347,867	$ (112,210)	$235,657
Goodwill		$176,981	$ —	$176,981

The Company determined that no impairment charges were required during any periods presented and the increase to goodwill was due to the acquisition of six franchisee-owned stores on January 1, 2018 (Note 4).

Amortization expense related to the intangible assets totaled $4,012 and $4,710 for the three months ended June 30, 2018 and 2017, respectively, and $8,025 and $9,425 for the six months ended June 30, 2018 and 2017. Included within these total amortization expense amounts are $92 and $88 related to amortization of favorable leases for the three months ended June 30, 2018 and 2017, respectively, and $183 and $181 for the six months ended June 30, 2018 and 2017, respectively. Amortization of favorable 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 June 30, 2018 is as follows:

	Amount
Remainder of 2018	$8,016
2019	15,536
2020	13,676
2021	13,701
2022	13,789
Thereafter	26,074
Total	$90,792

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(6) Long-Term Debt
Long-term debt as of June 30, 2018 and December 31, 2017 consists of the following:

	June 30, 2018	December 31, 2017
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 (all-in weighted-average rate of 4.89% at June 30, 2018 and 4.59% at December 31, 2017)	$705,877	$709,470
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 (all-in rate of 6.75% at June 30, 2018 and 6.25% at December 31, 2017)	—	—
Total debt, excluding deferred financing costs	$705,877	709,470
Deferred financing costs, net of accumulated amortization	(4,735)	(5,709)
Total debt	701,142	703,761
Current portion of long-term debt and line of credit	7,185	7,185
Long-term debt, net of current portion	$693,957	$696,576

Term loan B payments are payable in quarterly installments with the final scheduled principal payment on the outstanding term loan borrowings due on March 31, 2021.
Future annual principal payments of long-term debt as of June 30, 2018 are as follows:

	Amount
Remainder of 2018	$3,593
2019	7,185
2020	7,185
2021	687,914
2022	—
Total	$705,877

On August 1, 2018, the Company completed a refinancing of the above senior secured credit facilities. See Note 16.

(7) 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.

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 order to manage the market risk arising from the outstanding term loans, the Company has entered into a series of interest rate caps. As of June 30, 2018, the Company had interest rate cap agreements with notional amounts of $134,000 outstanding that were entered into in order to hedge three month LIBOR greater than 1.5% through September 30, 2018, and interest rate cap agreements with notional amounts of $219,837 that were entered into in order to hedge one month LIBOR greater than 2.5% through March 31, 2019.

The interest rate cap balances of $404 and $340 were recorded within other assets in the condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively. These amounts have been measured at fair value and are considered to be a Level 2 fair value measurement. The Company recorded an increase to the value of its interest rate caps of $17, net of tax of $5 and $180, net of tax of $89, within other comprehensive income (loss) during the three months ended June 30, 2018 and 2017, respectively, and an increase to the value of its interest rate caps of $383, net of tax of $130, and $356, net of tax of $145, within other comprehensive income (loss) during the six months ended June 30, 2018 and 2017 respectively.

As of June 30, 2018, the Company expects to reclassify all amounts related to interest rate caps included in accumulated other comprehensive income (loss) into earnings during the next 12 months.

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

(8) Related Party Transactions

Amounts due from related parties of $0 and $3,020 as of June 30, 2018 and December 31, 2017. The balance at December 31, 2017 primarily related to potential reimbursements for certain taxes accrued or paid by the Company (see Note 11).

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Franchise revenue	$813	$382	$1,557	$830
Equipment revenue	323	554	323	573
Total revenue from related parties	$1,136	$936	1,880	$1,403

Additionally, the Company had deferred area development agreement revenue from related parties of $824 and $389 as of June 30, 2018 and December 31, 2017, respectively.

The Company entered into a consulting agreement that continues through December 31, 2018 with a shareholder and former executive officer of the Company.

The Company had payables to related parties pursuant to tax benefit arrangements of $50,890 and $44,794, as of June 30, 2018 and December 31, 2017, respectively (see Note 11).

The Company provides administrative services to Planet Fitness NAF, LLC (“NAF”) and charges NAF a fee for providing these services. The services provided include accounting services, information technology, data processing, product development, legal and administrative support, and other operating expenses, which amounted to $556 and $428 for the three months ended June 30, 2018 and 2017, respectively, and $1,196 and $1,001 for the six months ended June 30, 2018 and 2017, respectively.

(9) Stockholder’s Equity

Pursuant to the exchange agreement between the Company and the Continuing LLC Owners, the Continuing LLC Owners (or certain permitted transferees thereof) have the right, from time to time and subject to the terms of the exchange agreement, to exchange their Holdings Units, along with a corresponding number of shares of Class B common stock, for shares of Class A common stock (or cash at the option of the Company) on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends, reclassifications and similar transactions. In connection with any exchange of Holdings Units for shares of Class A common stock by a Continuing LLC Owner, the number of Holdings Units held by the Company is correspondingly increased as it acquires the exchanged Holdings Units, and a corresponding number of shares of Class B common stock are canceled.

During the six months ended June 30, 2018, certain existing holders of Holdings Units exercised their exchange rights and exchanged 713,000 Holdings Units for 713,000 newly-issued shares of Class A common stock. Simultaneously, and in connection with these exchanges, 713,000 shares of Class B common stock were surrendered by the holders of Holdings Units that exercised their exchange rights and canceled. Additionally, in connection with these exchanges, Planet Fitness, Inc. received 713,000 Holdings Units, increasing its total ownership interest in Pla-Fit Holdings.

As a result of these transactions, as of June 30, 2018:

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- Holders of our Class A common stock owned 87,932,160 shares of our Class A common stock, representing 89.4% of the voting power in the Company and, through the Company, 87,932,160 Holdings Units representing 89.4% of the economic interest in Pla-Fit Holdings; and
- the Continuing LLC Owners collectively owned 10,470,750 Holdings Units, representing 10.6% of the economic interest in Pla-Fit Holdings and 10,470,750 shares of our Class B common stock, representing 10.6% of the voting power in the Company.

(10) 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.

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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:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Numerator				
Net income	$30,418	$ 18,004	$53,912	$ 35,870
Less: net income attributable to non-controlling interests	4,544	5,592	8,157	14,616
Net income attributable to Planet Fitness, Inc.	$25,874	$ 12,412	$45,755	$ 21,254
Denominator				
Weighted-average shares of Class A common stock outstanding - basic	87,693,377	79,153,778	87,564,596	71,678,755
Effect of dilutive securities:				
Stock options	389,994	33,564	351,987	28,893
Restricted stock units	21,960	5,708	14,886	5,121
Weighted-average shares of Class A common stock outstanding - diluted	88,105,331	79,193,050	87,931,469	71,712,769
Earnings per share of Class A common stock - basic	$0.30	$ 0.16	$0.52	$ 0.30
Earnings per share of Class A common stock - diluted	$0.29	$ 0.16	$0.52	$ 0.30

Weighted average shares of Class B common stock of 10,704,794 and 19,197,461 for the three months ended June 30, 2018 and 2017, respectively, and 10,828,471 and 26,745,818 for the six months ended June 30, 2018 and 2017, respectively, were evaluated under the if-converted method for potential dilutive effects and were not determined to be dilutive. Weighted average stock options outstanding of 164,341 and 491,856 for the three months ended June 30, 2018 and 2017, respectively and 82,165 and 302,457 for the six months ended June 30, 2018 and 2017, respectively, were evaluated under the treasury stock method for potential dilutive effects and were determined to be anti-dilutive. Weighted average RSUs outstanding of 1,153 and 0 respectively, and 579 and 0 for the six months ended June 30, 2018 and 2017, respectively, were evaluated under the treasury stock method for potential dilutive effects and were determined to be anti-dilutive.

(11) Income Taxes

The Company is the sole managing member of Pla-Fit Holdings, which is treated as a partnership for U.S. federal and certain state and local income taxes. 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, on a pro-rata basis.

Planet 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. The Company’s effective tax rate was 23.3% and 36.4% for the three months ended June 30, 2018 and 2017, respectively and 23.0% and 32.7% for the six months ended June 30, 2018 and 2017, respectively. The reduction in the effective tax rate was primarily attributable to the lower U.S. statutory tax rate in 2018, partially offset by the Company’s increased pro rata share of income from Pla-Fit Holdings. The impact of discrete items was not material. The Company was also subject to taxes in foreign jurisdictions.

Undistributed earnings of foreign operations were not material for the three and six months ended June 30, 2018 and 2017.

Net deferred tax assets of $405,310 and $406,153 as of June 30, 2018 and December 31, 2017, respectively, relate primarily to the tax effects of temporary differences in the book basis as compared to the tax basis of our investment in Pla-Fit Holdings as a result of the secondary offerings, other exchanges, recapitalization transactions and IPO. As of June 30, 2018, the Company does not have any material net operating loss carryforwards.

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

As of June 30, 2018 and December 31, 2017, the total liability related to uncertain tax positions was $300 and $2,608, respectively. During the three months ended June 30, 2018, the Company settled an examination for $2,625 which was fully indemnified. At the date of settlement the Company had recorded on its balance sheet an uncertain tax position reserve and related indemnification asset of $2,967 reflecting principal and interest and therefore released $342 as an offset to provision for income taxes and also released an indemnification asset of $342 through other expense. The Company recognizes interest accrued and penalties, if applicable, related to unrecognized tax benefits in income tax expense. Interest and penalties for the three and six months ended June 30, 2018 and 2017 were not material.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of H.R. 1, originally known as the Tax Cuts and Jobs Act ("2017 Tax Act"). As of December 31, 2017, the Company made reasonable provisional estimates of the effects of the Tax Act on our consolidated financial statements and tax disclosures, including changes to existing deferred tax balances, the mandatory repatriation tax and remeasurement of our tax benefit arrangements. At June 30, 2018, the Company has not obtained the additional information needed to complete the accounting for the effects of the 2017 Tax Act.

Tax benefit arrangements

The Company’s acquisition of Holdings Units in connection with the IPO 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 certain existing and previous equity owners of Pla-Fit Holdings (the “TRA Holders”) 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 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 TSG AIV II-A L.P and TSG PF Co-Investors A L.P. (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.

During the six months ended June 30, 2018, 713,000 Holdings Units were redeemed by the TRA Holders 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 exchanges, we recorded a decrease to our net deferred tax assets of $426 during the six months ended June 30, 2018. As a result of these exchanges, during the six months ended June 30, 2018, we also recognized deferred tax assets in the amount of $9,587, and corresponding tax benefit arrangement liabilities of $8,154, representing 85% of the tax benefits due to the TRA Holders. The offset to the entries recorded in connection with exchanges was to equity.

As of June 30, 2018 and December 31, 2017, the Company had a liability of $417,454 and $431,360, respectively, related to its projected obligations under the tax benefit arrangements. Projected future payments under the tax benefit arrangements are as follows:

	Amount
Remainder of 2018	$8,764

2019	24,004
2020	23,983
2021	24,407
2022	24,897
Thereafter	311,399
Total	$417,454

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(12) 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.

(13) 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, the Dominican Republic, Panama and Mexico, including revenues and expenses from the national advertising fund beginning on January 1, 2018 (see Note 15). 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 six months ended June 30, 2018 and 2017. 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue				
Franchise segment revenue - U.S.	$57,252	$37,017	$110,697	$73,445
Franchise segment revenue - International	898	777	2,065	1,146
Franchise segment total	58,150	37,794	112,762	74,591
Corporate-owned stores - U.S.	33,125	27,210	64,697	53,183
Corporate-owned stores - International	1,127	1,075	2,262	2,143
Corporate-owned stores total	34,252	28,285	66,959	55,326
Equipment segment - U.S.	48,148	41,237	82,161	68,501
Equipment segment total	48,148	41,237	82,161	68,501
Total revenue	$140,550	$107,316	$261,882	$198,418

Franchise segment revenue includes franchise revenue, national advertising fund revenue, and commission income.

Franchise revenue includes revenue generated from placement services of $3,079 and $2,871 for the three months ended June 30, 2018 and 2017, respectively, and $5,177 and $4,977 for the six months June 30, 2018 and 2017, respectively.

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	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Segment EBITDA				
Franchise	$40,041			