UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021

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: 001-36724

The Joint Corp.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**90-0544160** **(IRS Employer Identification No.)**
16767 N. Perimeter Drive, Suite 110, Scottsdale Arizona **(Address of principal executive offices)**	**85260** **(Zip Code)**

(480) 245-5960
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 Par Value Per Share	JYNT	The NASDAQ Capital Market LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	▯	Accelerated filer	▯
Non-accelerated filer	▯	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 ▯

As of August 2, 2021, the registrant had 14,376,084 shares of Common Stock ($0.001 par value) outstanding.

THE JOINT CORP.
FORM 10-Q

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PART I: FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENTS

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2021	December 31, 2020
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 18,521,042	$ 20,554,258
Restricted cash	313,303	265,371
Accounts receivable, net	2,805,387	1,850,499
Deferred franchise and regional development costs, current portion	973,224	897,551
Prepaid expenses and other current assets	1,590,448	1,566,025
Total current assets	24,203,404	25,133,704
Property and equipment, net	12,418,496	8,747,369
Operating lease right-of-use asset	15,232,136	11,581,435
Deferred franchise and regional development costs, net of current portion	5,042,889	4,340,756
Intangible assets, net	6,176,429	2,865,006
Goodwill	5,128,302	4,625,604
Deferred tax assets	9,388,264	8,007,633
Deposits and other assets	474,782	431,336
Total assets	$ 78,064,702	$ 65,732,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,160,642	$ 1,561,648
Accrued expenses	1,143,858	770,221
Co-op funds liability	313,304	248,468
Payroll liabilities	4,624,414	2,776,036
Debt under the Credit Agreement	2,000,000	—
Operating lease liability, current portion	3,605,458	2,918,140
Finance lease liability, current portion	79,752	70,507
Deferred franchise and regional developer fee revenue, current portion	3,162,710	3,000,369
Deferred revenue from company clinics ($2.9 million and $2.6 million attributable to VIEs)	4,366,186	3,905,200
Debt under the Paycheck Protection Program	—	2,727,970
Other current liabilities	551,035	707,085
Total current liabilities	22,007,359	18,685,644
Operating lease liability, net of current portion	14,297,918	10,632,672
Finance lease liability, net of current portion	99,772	132,469
Debt under the Credit Agreement	—	2,000,000
Deferred franchise and regional developer fee revenue, net of current portion	14,708,216	13,503,745
Other liabilities	27,230	27,230
Total liabilities	51,140,495	44,981,760
Commitments and contingencies		
Stockholders' equity:		
Series A preferred stock, $0.001 par value; 50,000 shares authorized, 0 issued and outstanding, as of June 30, 2021 and December 31, 2020	—	—
Common stock, $0.001 par value; 20,000,000 shares authorized, 14,406,148 shares issued and 14,375,362 shares outstanding as of June 30, 2021 and 14,174,237 shares issued and 14,157,070 outstanding as of December 31, 2020	14,405	14,174
Additional paid-in capital	43,142,391	41,350,001
Treasury stock 30,786 shares as of June 30, 2021 and 17,167 shares as of December 31, 2020, at cost	(761,265)	(143,111)
Accumulated deficit	(15,471,424)	(20,470,081)
Total The Joint Corp. stockholders' equity	26,924,107	20,750,983
Non-controlling Interest	100	100
Total equity	26,924,207	20,751,083
Total liabilities and stockholders' equity	$ 78,064,702	$ 65,732,843

The accompanying notes are an integral part of these condensed consolidated financial statements.

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES
CONDENSED CONSOLIDATED INCOME STATEMENTS
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenues:				
Revenues from company-owned or managed clinics	$ 11,433,072	$ 6,856,807	$ 20,903,933	$ 14,151,102
Royalty fees	5,332,618	3,268,653	10,101,862	6,986,883
Franchise fees	623,655	523,964	1,319,082	1,036,716
Advertising fund revenue	1,518,908	930,795	2,893,650	1,988,413
Software fees	786,037	631,198	1,546,574	1,276,922
Regional developer fees	214,434	213,424	432,390	421,066
Other revenues	310,074	164,952	569,271	373,177
Total revenues	20,218,798	12,589,793	37,766,762	26,234,279
Cost of revenues:				
Franchise and regional development cost of revenues	1,786,833	1,275,191	3,411,404	2,692,682
IT cost of revenues	251,705	92,450	392,450	161,115
Total cost of revenues	2,038,538	1,367,641	3,803,854	2,853,797
Selling and marketing expenses	3,132,715	1,783,666	5,622,043	3,838,954
Depreciation and amortization	1,443,018	693,400	2,612,884	1,347,649
General and administrative expenses	11,614,444	8,541,108	21,701,047	17,235,358
Total selling, general and administrative expenses	16,190,177	11,018,174	29,935,974	22,421,961
Net (gain) loss on disposition or impairment	(44,260)	(54,606)	20,508	(53,413)
Income from operations	2,034,343	258,584	4,006,426	1,011,934
Other expense, net	(16,373)	(25,243)	(37,909)	(29,581)
Income before income tax (benefit) expense	2,017,970	233,341	3,968,517	982,353
Income tax (benefit) expense	(665,992)	117,756	(1,030,140)	51,821
Net income	$ 2,683,962	$ 115,585	$ 4,998,657	$ 930,532
Earnings per share:				
Basic earnings per share	$ 0.19	$ 0.01	$ 0.35	$ 0.07
Diluted earnings per share	$ 0.18	$ 0.01	$ 0.34	$ 0.06
Basic weighted average shares	14,290,697	13,980,984	14,234,929	13,935,829
Diluted weighted average shares	14,927,451	14,491,639	14,901,863	14,487,083

The accompanying notes are an integral part of these condensed consolidated financial statements.

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)

	Common Stock		Additional Paid In Capital	Treasury Stock		Accumulated Deficit	Total The Joint Corp. stockholders' equity	Non-controlling interest	Total
	Shares	Amount		Shares	Amount				
Balances, December 31, 2020	14,174,237	$ 14,174	$ 41,350,001	17,167	$ (143,111)	$ (20,470,081)	$ 20,750,983	$ 100	$ 20,751,083
Stock-based compensation expense	—	—	246,494	—	—	—	246,494	—	246,494
Issuance of restricted stock	7,879	8	(8)	—	—	—	—	—	—
Exercise of stock options	105,995	106	620,670	—	—	—	620,776	—	620,776
Purchases of treasury stock under employee stock plans	—	—	—	13,619	(618,154)	—	(618,154)	—	(618,154)
Net income	—	—	—	—	—	2,314,695	2,314,695	—	2,314,695
Balances, March 31, 2021 (unaudited)	14,288,111	$ 14,288	$ 42,217,157	30,786	$ (761,265)	$ (18,155,386)	$ 23,314,794	$ 100	$ 23,314,894
Stock-based compensation expense	—	—	283,564	—	—	—	283,564	—	283,564
Issuance of restricted stock	4,218	4	(4)	—	—	—	—	—	—
Exercise of stock options	113,819	113	641,674	—	—	—	641,787	—	641,787
Net income	—	—	—	—	—	2,683,962	2,683,962	—	2,683,962
Balances, June 30, 2021 (unaudited)	14,406,148	14,405	43,142,391	30,786	(761,265)	(15,471,424)	26,924,107	100	26,924,207

	Common Stock		Additional Paid In Capital	Treasury Stock		Accumulated Deficit	Total The Joint Corp. stockholders' equity	Non-controlling interest	Total
	Shares	Amount		Shares	Amount				
Balances, December 31, 2019	13,898,694	$ 13,899	$ 39,454,937	15,762	$ (111,041)	$ (33,637,395)	$ 5,720,400	$ 100	$ 5,720,500
Stock-based compensation expense	—	—	250,392	—	—	—	250,392	—	250,392
Issuance of restricted stock	15,578	16	(16)	—	—	—	—	—	—
Exercise of stock options	35,500	35	140,864	—	—	—	140,899	—	140,899
Purchases of treasury stock under employee stock plans	—	—	—	251	(3,774)	—	(3,774)	—	(3,774)
Net income	—	—	—	—	—	814,947	814,947	—	814,947
Balances, March 31, 2020 (unaudited)	13,949,772	$ 13,950	$ 39,846,177	16,013	$ (114,815)	$ (32,822,448)	$ 6,922,864	$ 100	$ 6,922,964
Stock-based compensation expense			216,081				216,081		216,081
Issuance of restricted stock	30,882	31	(31)				—		—
Exercise of stock options	62,200	62	246,959				247,021		247,021
Net income						115,585	115,585		115,585
Balances, June 30, 2020 (unaudited)	14,042,854	$ 14,043	$ 40,309,186	16,013	$ (114,815)	$ (32,706,863)	$ 7,501,551	$ 100	$ 7,501,651

The accompanying notes are an integral part of these condensed consolidated financial statements.

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash flows from operating activities:		
Net income	$ 4,998,657	$ 930,532
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,612,884	1,347,649
Net loss on disposition or impairment (non-cash portion)	109,519	1,193
Net franchise fees recognized upon termination of franchise agreements	(81,196)	(50,312)
Deferred income taxes	(1,380,631)	(2,756)
Stock based compensation expense	530,058	466,473
Changes in operating assets and liabilities:		
Accounts receivable	(954,888)	635,605
Prepaid expenses and other current assets	(24,423)	(35,789)
Deferred franchise costs	(881,891)	2,498
Deposits and other assets	(53,096)	4,406
Accounts payable	(162,524)	(141,327)
Accrued expenses	130,609	406,986
Payroll liabilities	1,848,378	(784,505)
Deferred revenue	1,757,294	(317,053)
Other liabilities	565,779	572,795
Net cash provided by operating activities	9,014,529	3,036,395
Cash flows from investing activities:		
Acquisition of AZ clinics	(1,925,000)	—
Acquisition of NC clinics	(2,325,000)	—
Purchase of property and equipment	(3,238,959)	(1,986,367)
Reacquisition and termination of regional developer rights	(1,388,700)	—
Payments received on notes receivable	—	80,441
Net cash used in investing activities	(8,877,659)	(1,905,926)
Cash flows from financing activities:		
Payments of finance lease obligation	(38,593)	(23,509)
Purchases of treasury stock under employee stock plans	(618,154)	(3,774)
Proceeds from exercise of stock options	1,262,563	387,920
Proceeds from the Credit Agreement, net of related fees	—	1,947,352
Proceeds from the Paycheck Protection Program	—	2,727,970
Repayment of debt under the Paycheck Protection Program	(2,727,970)	—
Net cash (used in) provided by financing activities	(2,122,154)	5,035,959
(Decrease) increase in cash, cash equivalents and restricted cash	(1,985,284)	6,166,428
Cash, cash equivalents and restricted cash, beginning of period	20,819,629	8,641,877
Cash, cash equivalents and restricted cash, end of period	$ 18,834,345	$ 14,808,305

Reconciliation of cash, cash equivalents and restricted cash:	June 30, 2021	June 30, 2020
Cash and cash equivalents	$ 18,521,042	$ 14,573,266
Restricted cash	313,303	235,039
	$ 18,834,345	$ 14,808,305

During the six months ended June 30, 2021 and 2020, cash paid for income taxes was $446,058 and $37,800, respectively. During the six months ended June 30, 2021 and 2020, cash paid for interest was $47,033 and $16,111, respectively.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Supplemental disclosure of non-cash activity:

As of June 30, 2021, accounts payable include property and equipment purchases of $761,518. As of December 31, 2020, accounts payable and accrued expenses include property and equipment purchases of $126,239, and $163,434, respectively.

In connection with the acquisitions during the six months ended June 30, 2021, the Company acquired $528,974 of property and equipment and intangible assets of $3,723,872, in exchange for $4,493,028 in cash to the sellers (of which $243,028 was paid in July 2021). Additionally, at the time of these transactions, the Company carried net deferred revenue of $87,858, representing net franchise fees collected upon the execution of the franchise agreement. The Company netted this amount against the purchase price of the acquisitions.

In connection with the Company's reacquisition and termination of regional developer rights during the six months ended June 30, 2021, the Company had deferred revenue of $35,679 representing fees collected upon the execution of the regional developer agreement. The Company netted this amount against the aggregate purchase price of $1,388,700.

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Basis of Presentation

These unaudited financial statements represent the condensed consolidated financial statements of The Joint Corp. ("The Joint"), its variable interest entities ("VIEs"), and its wholly owned subsidiary, The Joint Corporate Unit No. 1, LLC (collectively, the "Company"). The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments which are necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented in accordance with U.S. generally accepted accounting principles ("GAAP"). Such unaudited interim condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with The Joint Corp. and Subsidiary and Affiliates consolidated financial statements and the notes thereto as set forth in The Joint's Form 10-K, which included all disclosures required by U.S. GAAP. The results of operations for the periods ended June 30, 2021 and 2020 are not necessarily indicative of expected operating results for the full year. The information presented throughout the document as of and for the periods ended June 30, 2021 and 2020 is unaudited.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amount of assets, liabilities, revenue, costs, expenses and other (expenses) income that are reported in the condensed consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. As a result, actual results may be different from these estimates. For a discussion of significant estimates and judgments made in recognizing revenue, accounting for leases, and accounting for income taxes, see Note 1, "Nature of Operations and Summary of Significant Accounting Policies".

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of The Joint and its wholly owned subsidiary, The Joint Corporate Unit No. 1, LLC, which was dormant for all periods presented. The Company consolidates VIEs in which the Company is the primary beneficiary in accordance with Accounting Standards Codification 810, Consolidations ("ASC 810"). Non-controlling interests represent third-party equity ownership interests in VIEs. All significant inter-affiliate accounts and transactions between The Joint and its VIEs have been eliminated in consolidation.

Comprehensive Income

Net income and comprehensive income are the same for the three and six months ended June 30, 2021 and 2020.

Nature of Operations

The Joint Corp., a Delaware corporation, was formed on March 10, 2010 for the principal purpose of franchising, developing, selling regional developer rights, supporting the operations of franchised chiropractic clinics, and operating and managing corporate chiropractic clinics at locations throughout the United States of America. The franchising of chiropractic clinics is regulated by the Federal Trade Commission and various state authorities.

The following table summarizes the number of clinics in operation under franchise agreements and as company-owned or managed clinics for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
Franchised clinics:	**2021**	**2020**	**2021**	**2020**
Clinics open at beginning of period	527	469	515	453
Opened during the period	36	12	48	28
Sold during the period	(8)	—	(8)	—
Closed during the period	—	(4)	—	(4)
Clinics in operation at the end of the period	555	477	555	477
	Three Months Ended June 30,		**Six Months Ended June 30,**	
Company-owned or managed clinics:	**2021**	**2020**	**2021**	**2020**
Clinics open at beginning of period	65	61	64	60
Opened during the period	5	1	6	2
Acquired during the period	8	—	8	—
Closed during the period	—	—	—	—
Clinics in operation at the end of the period	78	62	78	62
Total clinics in operation at the end of the period	633	539	633	539
Clinic licenses sold but not yet developed	247	169	247	169
Executed letters of intent for future clinic licenses	35	40	35	40

Variable Interest Entities

Certain states prohibit the “corporate practice of chiropractic,” which restricts business corporations from practicing chiropractic care by exercising control over clinical decisions by chiropractic doctors. In states which prohibit the corporate practice of chiropractic, the Company typically enters into long-term management agreements with professional corporations (“PCs”) that are owned by licensed chiropractic doctors, which, in turn, employ or contract with doctors who provide professional chiropractic care in its clinics. Under these management agreements with PCs, the Company provides, on an exclusive basis, all non-clinical services of the chiropractic practice. The Company has entered into such management agreements with two PCs, including one in North Carolina, in connection with the acquisition on April 1, 2021 (reference Note 3).

An entity deemed to be the primary beneficiary of a VIE is required to consolidate the VIE in its financial statements. An entity is deemed to be the primary beneficiary of a VIE if it has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb the majority of losses of the VIE or the right to receive the majority of benefits from the VIE. In accordance with relevant accounting guidance, these PCs were determined to be VIEs. Such PCs are VIEs, as fees paid by the PCs to the Company as its management service provider are considered variable interests because they are liabilities on the PC’s books and the fees do not meet all the following criteria: 1) The fees are compensation for services provided and are commensurate with the level of effort required to provide those services; 2) The decision maker or service provider does not hold other interests in the VIE that individually, or in the aggregate, would absorb more than an insignificant amount of the VIE’s expected losses or receive more than an insignificant amount of the VIE’s expected residual returns; 3) The service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm’s length. Additionally, the Company has determined that it has the ability to direct the activities which most significantly impact the performance of these PCs and have an obligation to absorb losses or receive benefits which could potentially be significant to the PCs. Accordingly, the PCs are variable interest entities for which the Company is the primary beneficiary and are consolidated by the Company. The carrying amount of VIEs’ assets and liabilities are immaterial as of June 30, 2021 and December 31, 2020, except for amounts collected in advance for membership and wellness packages, which are recorded as deferred revenue. The VIEs’ deferred revenue liability balance as of June 30, 2021 and December 31, 2020 was $2.9 million and $2.6 million, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and credit quality of, the financial institutions with which it invests. As of the balance sheet date and periodically throughout the period, the Company has maintained balances in various operating accounts in excess of federally insured limits. The Company has invested substantially all its cash in short-term bank deposits. The Company had no cash equivalents as of June 30, 2021 and December 31, 2020.

Restricted Cash

Restricted cash relates to cash that franchisees and company-owned or managed clinics contribute to the Company’s National Marketing Fund and cash that franchisees provide to various voluntary regional Co-Op Marketing Funds. Cash contributed by franchisees to the National Marketing Fund is to be used in accordance with the Company’s Franchise Disclosure Document with a focus on regional and national marketing and advertising. While such cash balance is not legally segregated and restricted as to withdrawal or usage, the Company's accounting policy is to classify these funds as restricted cash.

Accounts Receivable

Accounts receivable primarily represent amounts due from franchisees for royalty fees. The Company considers a reserve for doubtful accounts based on the creditworthiness of the entity. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management’s best estimate of uncollectible amounts and is determined based on specific identification and historical performance that the Company tracks on an ongoing basis. Actual losses ultimately could differ materially in the near term from the amounts estimated in determining the allowance. As of June 30, 2021 and December 31, 2020, the Company had an allowance for doubtful accounts of $0.

Deferred Franchise Costs and Regional Development Costs

Deferred franchise and regional development costs represent commissions that are direct and incremental to the Company and are paid in conjunction with the sale of a franchise license or regional development rights. These costs are recognized as an expense, in franchise and regional development cost of revenues when the respective revenue is recognized, which is generally over the term of the related franchise or regional development agreement.

Property and Equipment

Property and equipment are stated at cost or for property acquired as part of franchise acquisitions at fair value at the date of closing. Depreciation is computed using the straight-line method over estimated useful lives of three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the assets.

Maintenance and repairs are charged to expense as incurred; major renewals and improvements are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Capitalized Software

The Company capitalizes certain software development costs. These capitalized costs are primarily related to software used by clinics for operations and by the Company for the management of operations. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct, are capitalized as assets in progress until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Software developed is recorded as part of property and equipment. Maintenance and training costs are expensed as incurred. Internal use software is amortized on a straight-line basis over its estimated useful life, which is generally three to five years.

The FASB issued in August 2018 an update to accounting guidance related to implementation costs incurred in a cloud computing arrangement that is a service contract. The update aligns the requirements for capitalizing implementation costs incurred under such arrangements with the requirements for capitalizing costs incurred to develop or obtain internal-use software. Accordingly, implementation costs incurred in connection with a cloud computing arrangement that is a service contract are capitalized and such costs were included in prepaid expenses in the Company's condensed consolidated balance sheet.

Leases

The Company leases property and equipment under operating and finance leases. The Company leases its corporate office space and the space for each of the company-owned or managed clinics in the portfolio. The Company recognizes a right-of-use ("ROU") asset and lease liability for all leases. Determining the lease term and amount of lease payments to include in the calculation of the ROU asset and lease liability for leases containing options requires the use of judgment to determine whether the exercise of an option is reasonably certain and if the optional period and payments should be included in the calculation of the associated ROU asset and liability. In making this determination, all relevant economic factors are considered that would compel the Company to exercise or not exercise an option. When available, the Company uses the rate implicit in the lease to discount lease payments; however, the rate implicit in the lease is not readily determinable for substantially all of its leases. In such cases, the Company estimates its incremental borrowing rate as the interest rate it would pay to borrow an amount equal to the lease payments over a similar term, with similar collateral as in the lease, and in a similar economic environment. The Company estimates these rates using available evidence such as rates imposed by third-party lenders to the Company in recent financings or observable risk-free interest rate and credit spreads for commercial debt of a similar duration, with credit spreads correlating to the Company's estimated creditworthiness.

For operating leases that include rent holidays and rent escalation clauses, the Company recognizes lease expense on a straight-line basis over the lease term from the date it takes possession of the leased property. Pre-opening costs are recorded as incurred in general and administrative expenses. The Company records the straight-line lease expense and any contingent rent, if applicable, in general and administrative expenses on the condensed consolidated income statements. Many of the Company's leases also require it to pay real estate taxes, common area maintenance costs and other occupancy costs which are also included in general and administrative expenses on the condensed consolidated income statements.

Intangible Assets

Intangible assets consist primarily of re-acquired franchise and regional developer rights and customer relationships. The Company amortizes the fair value of re-acquired franchise rights over the remaining contractual terms of the re-acquired franchise rights at the time of the acquisition, which generally range from one to nine years. In the case of regional developer rights, the Company generally amortizes the re-acquired regional developer rights over one to seven years. The fair value of customer relationships is amortized over their estimated useful life of two to four years.

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired in the acquisitions of franchises. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. As required, the Company performs an annual impairment test of goodwill as of the first day of the fourth quarter or more frequently if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to estimated undiscounted future cash flows in its assessment of whether or not long-lived assets are recoverable. The Company records an impairment loss when the carrying amount of the asset is not recoverable and exceeds its fair value. During the six months ended June 30, 2021, certain operating lease right-of-use assets related to closed clinics with a total carrying amount of $0.5 million was written down to its fair value of $0.4 million. As a result, the Company recorded a noncash impairment loss of approximately $0.1 million during the six months ended June 30, 2021.No impairments of long-lived assets were recorded for the three months ended June 30, 2021 and for the three and six months ended June 30, 2020.

Advertising Fund

The Company has established an advertising fund for national or regional marketing and advertising of services offered by its clinics. The monthly marketing fee is2% of clinic sales. The Company segregates the marketing funds collected which are included in restricted cash on its consolidated balance sheets. As amounts are expended from the fund, the Company recognizes a related expense.

Co-Op Marketing Funds

Some franchises have established regional Co-Ops for advertising within their local and regional markets. The Company maintains a custodial relationship under which the marketing funds collected are segregated and used for the purposes specified by the Co-Ops' officers. The marketing funds are included in restricted cash on the Company's condensed consolidated balance sheets.

Revenue Recognition

The Company generates revenue primarily through its company-owned and managed clinics, royalties, franchise fees, advertising fund contributions, and software fees from our franchisees.

Revenues from Company-Owned or Managed Clinics. The Company earns revenues from clinics that it owns and operates or manages throughout the United States. In those states where the Company owns and operates or manages the clinic, revenues are recognized when services are performed. The Company offers a variety of membership and wellness packages which feature discounted pricing as compared with its single-visit pricing. Amounts collected in advance for membership and wellness packages are recorded as deferred revenue and recognized when the service is performed. Any unused visits associated with monthly memberships are recognized on a month-to-month basis. The Company recognizes a contract liability (or a deferred revenue liability) related to the prepaid treatment plans for which the Company has an ongoing performance obligation. The Company recognizes this contract liability, and recognizes revenue, as the patient consumes his or her visits related to the package and the Company transfers its services. Based on a historical lag analysis and an evaluation of legal obligation by jurisdiction, the Company concluded that any remaining contract liability that exists after 12 to 24 months from transaction date will be deemed breakage. Breakage revenue is recognized only at that point, when the likelihood of the patient exercising his or her remaining rights becomes remote.

Royalties and Advertising Fund Revenue. The Company collects royalties from its franchisees, as stipulated in the franchise agreement, equal to7% of gross sales and a marketing and advertising fee currently equal to 2% of gross sales. Royalties, including franchisee contributions to advertising funds, are calculated as a percentage of clinic sales over the term of the franchise agreement. The revenue accounting standard provides an exception for the recognition of sales-based royalties promised in exchange for a license (which generally requires reporting entity to estimate the amount of variable consideration to which it will be entitled in the transaction price). As the franchise agreement royalties, inclusive of advertising fund contributions, represent sales-based royalties that are related entirely to the Company's performance obligation under the franchise agreement, such royalties are recognized as franchisee clinic level sales occur. Royalties are collected semi-monthly, two working days after each sales period has ended.

Franchise Fees. The Company requires the entire non-refundable initial franchise fee to be paid upon execution of a franchise agreement, which typically has an initial term of ten years. Initial franchise fees are recognized ratably on a straight-line basis over the term of the franchise agreement. The Company's services under the franchise agreement include: training of franchisees and staff, site selection, construction/vendor management and ongoing operations support. The Company provides no financing to franchisees and offers no guarantees on their behalf. The services provided by the Company are highly interrelated with the franchise license and as such are considered to represent a single performance obligation.

Software Fees. The Company collects a monthly fee from its franchisees for use of its proprietary chiropractic software, computer support, and internet services support. These fees are recognized ratably on a straight-line basis over the term of the respective franchise agreement.

Regional Developer Fees. The Company has a regional developer program where regional developers are granted an exclusive geographical territory and commit to a minimum development obligation within that defined territory. Regional developer fees paid to the Company are non-refundable and are recognized as revenue ratably on a straight-line basis over the term of the regional developer agreement, which is considered to begin upon the execution of the agreement. The Company's services under regional developer agreements include site selection, grand opening support for the clinics, sales support for identification of qualified franchisees, general operational support and marketing support to advertise for ownership opportunities. The services provided by the Company are highly interrelated with the development of the territory and the resulting franchise licenses sold by the regional developer and as such are considered to represent a single performance obligation. In addition, regional developers receive fees which are funded by the initial franchise fees collected from franchisees upon the sale of franchises within their exclusive geographical territory and a royalty of 3% of sales generated by franchised clinics in their exclusive geographical territory. Fees related to the sale of franchises within their exclusive geographical territory are initially deferred as deferred franchise costs and are recognized as an expense in franchise cost of revenues when the respective revenue is recognized, which is generally over the term of the related franchise agreement. Royalties of 3% of sales generated by franchised clinics in their regions are also recognized as franchise cost of revenues as franchisee clinic level sales occur, which is funded by the 7% royalties collected from the franchisees in their regions. Certain regional developer agreements result in the regional developer acquiring the rights to existing royalty streams from clinics already open in the respective territory. In those instances, the revenue associated from the sale of the royalty stream is recognized over the remaining life of the respective franchise agreements.

The Company entered into one regional developer agreement during the six months ended June 30, 2020 for which it received approximately $201,000. This fee was deferred as of the transaction date and is recognized as revenue ratably on a straight-line basis over the term of the regional developer agreement, which is considered to begin upon the execution of the agreement. The company did not enter into any new regional developer agreements during the six months ended June 30, 2021.

Advertising Costs

Advertising costs are advertising and marketing expenses incurred by the Company, primarily through advertising funds. The Company expenses production costs of commercial advertising upon first airing and expenses the costs of communicating the advertising in the period in which the advertising occurs. Advertising expenses were $1,126,561 and $1,977,217 for the three and six months ended June 30, 2021, respectively. Advertising expenses were $597,933 and $1,256,606 for the three and six months ended June 30, 2020, respectively.

Income Taxes

Income tax expense during interim periods is calculated by applying an estimated annual effective income tax rate to year-to-date pre-tax income, plus any significant unusual or infrequently occurring items which are recorded in the interim period. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected pre-tax income for the year and permanent differences. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is obtained, additional information becomes known or as the tax environment changes.

Earnings per Common Share

Basic earnings per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed by giving effect to all potentially dilutive common shares including restricted stock and stock options.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net Income	$ 2,683,962	$ 115,585	$ 4,998,657	$ 930,532
Weighted average common shares outstanding - basic	14,290,697	13,980,984	14,234,929	13,935,829
Effect of dilutive securities:				
Unvested restricted stock and stock options	636,754	510,655	666,934	551,254
Weighted average common shares outstanding - diluted	14,927,451	14,491,639	14,901,863	14,487,083
Basic earnings per share	$ 0.19	$ 0.01	$ 0.35	$ 0.07
Diluted earnings per share	$ 0.18	$ 0.01	$ 0.34	$ 0.06

Potentially dilutive securities excluded from the calculation of diluted net income per common share as the effect would be anti-dilutive were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Weighted average potentially dilutive securities:	**2021**	**2020**	**2021**	**2020**
Unvested restricted stock	1,576	18,557	792	11,318
Stock options	45,825	174,213	30,399	137,952

Stock-Based Compensation

The Company accounts for share-based payments by recognizing compensation expense based upon the estimated fair value of the awards on the date of grant. The Company determines the estimated grant-date fair value of restricted shares using the closing price on the date of the grant and the grant-date fair value of stock options using the Black-Scholes-Merton model. In order to calculate the fair value of the options, certain assumptions are made regarding the components of the model, including risk-free interest rate, volatility, expected dividend yield and expected option life. Changes to the assumptions could cause significant adjustments to the valuation. The Company recognizes compensation costs ratably over the period of service using the straight-line method. Forfeitures are estimated based on historical and forecasted turnover, which is approximately 5%.

Retirement Benefit Plan

Employees of the Company are eligible to participate in a defined contribution retirement plan, the Joint Corp. 401(k) Retirement Plan ("401(k) Plan"), under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, employees may contribute their eligible compensation, not to exceed the annual limits set by the IRS. The 401(k) Plan allows the Company to match participants' contributions in an amount determined at the sole discretion of the Company.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Items subject to significant estimates and assumptions include the allowance for doubtful accounts, share-based compensation arrangements, fair value of stock options, useful lives and realizability of long-lived assets, classification of deferred revenue and revenue recognition related to breakage, classification of deferred franchise costs, calculation of ROU assets and liabilities related to leases, realizability of deferred tax assets, impairment of goodwill, intangible assets, and other long-lived assets, and purchase price allocations and related valuations.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the Financial Accounting Standards Board issued ASU No. 2016-13, "*Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" and subsequent amendments to the initial guidance: ASU 2018-19, ASU 2019-04 and ASU 2019-05 (collectively, "Topic 326"). Topic 326 requires measurement and recognition of expected credit losses for financial assets held. Topic 326 becomes effective on December 31, 2021 for the Company. Early adoption is permitted. The Company is currently evaluating the potential impact of Topic 326 on the Company's consolidated financial statements.

Note 2: Revenue Disclosures

Company-owned or Managed Clinics

The Company earns revenues from clinics that it owns and operates or manages throughout the United States. Revenues are recognized when services are performed. The Company offers a variety of membership and wellness packages which feature discounted pricing as compared with its single-visit pricing. Amounts collected in advance for membership and wellness packages are recorded as deferred revenue and recognized when the service is performed or in accordance with the Company's breakage policy as discussed in Note 1, *Revenue Recognition*.

Franchising Fees, Royalty Fees, Advertising Fund Revenue, and Software Fees

The Company currently franchises its concept across 34 states. The franchise arrangement is documented in the form of a franchise agreement. The franchise arrangement requires the Company to perform various activities to support the brand that do not directly transfer goods and services to the franchisee, but instead represent a single performance obligation, which is the transfer of the franchise license. The intellectual property subject to the franchise license is symbolic intellectual property as it does not have significant standalone functionality, and substantially all of the utility is derived from its association with the Company's past or ongoing activities. The nature of the Company's promise in granting the franchise license is to provide the franchisee with access to the brand's symbolic intellectual property over the term of the license. The services provided by the Company are highly interrelated with the franchise license and as such are considered to represent a single performance obligation.

The transaction price in a standard franchise arrangement primarily consists of (a) initial franchise fees; (b) continuing franchise fees (royalties); (c) advertising fees; and (d) software fees. The revenue accounting standard provides an exception for the recognition of sales-based royalties promised in exchange for a license (which generally requires reporting entity to estimate the amount of variable consideration to which it will be entitled in the transaction price).

The Company recognizes the primary components of the transaction price as follows:

- Initial and renewal franchise fees, as well as transfer fees, are recognized as revenue ratably on a straight-line basis over the term of the respective franchise agreement commencing with the execution of the franchise agreement. As these fees are typically received in cash at or near the beginning of the franchise term, the cash received is initially recorded as a contract liability until recognized as revenue over time.

- The Company is entitled to royalties and advertising fees based on a percentage of the franchisee's gross sales as defined in the franchise agreement. Royalty and advertising revenue are recognized when the franchisee's sales occur. Depending on timing within a fiscal period, the recognition of revenue results in either what is considered a contract asset (unbilled receivable) or, once billed, accounts receivable, on the balance sheet.

- The Company is entitled to a software fee, which is charged monthly. The Company recognizes revenue related to software fees ratably on a straight-line basis over the term of the franchise agreement.

In determining the amount and timing of revenue from contracts with customers, the Company exercises significant judgment with respect to collectability of the amount; however, the timing of recognition does not require significant judgment as it is based on either the franchise term or the reported sales of the franchisee, none of which require estimation. The Company believes its franchising arrangements do not contain a significant financing component.

The Company recognizes advertising fees received under franchise agreements as advertising fund revenue.

Regional Developer Fees

The Company currently utilizes regional developers to assist in the development of the brand across certain geographic territories. The arrangement is documented in the form of a regional developer agreement. The arrangement between the Company and the regional developer requires the Company to perform various activities to support the brand that do not directly transfer goods and services to the regional developer, but instead represent a single performance obligation, which is the transfer of the development rights to the defined geographic region. The intellectual property subject to the development rights is symbolic intellectual property as it does not have significant standalone functionality, and substantially all of the utility is derived from its association with the Company's past or ongoing activities. The nature of the Company's promise in granting the development rights is to provide the regional developer with access to the brand's symbolic intellectual property over the term of the agreement. The services provided by the Company are highly interrelated with the development of the territory and the resulting franchise licenses sold by the regional developer and as such are considered to represent a single performance obligation.

The transaction price in a standard regional developer arrangement primarily consists of the initial and renewal territory fees. The Company recognizes the regional developer fee as revenue ratably on a straight-line basis over the term of the respective regional developer agreement commencing with the execution of the regional developer agreement. As these fees are typically received in cash at or near the beginning of the term of the regional developer agreement, the cash received is initially recorded as a contract liability until recognized as revenue over time.

Disaggregation of Revenue

The Company believes that the captions contained on the condensed consolidated income statements appropriately reflect the disaggregation of its revenue by major type for the three and six months ended June 30, 2021 and 2020. Other revenues primarily consist of merchant income associated with credit card transactions.

Rollforward of Contract Liabilities and Contract Assets

Changes in the Company's contract liability for deferred franchise and regional development fees during the six months ended June 30, 2021 were as follows:

	Deferred Revenue short and long-term
Balance at December 31, 2020	$ 16,504,114
Revenue recognized that was included in the contract liability at the beginning of the year	(1,767,151)
Net increase during the six months ended June 30, 2021[1]	3,133,963
Balance at June 30, 2021	$ 17,870,926

(1) Includes deferred revenues derecognized in connection with the acquisitions of $ 115,894

Changes in the Company's contract assets for deferred franchise and regional development costs during the six months ended June 30, 2021 were as follows:

	Deferred Franchise and Development Costs short and long-term
Balance at December 31, 2020	$ 5,238,307
Recognized as cost of revenue during the six months ended June 30, 2021	(552,729)
Net increase during the six months ended June 30, 2021[1]	1,330,535
Balance at June 30, 2021	$ 6,016,113

(1) Includes deferred cost of revenues derecognized in connection with the acquisitions of $ 28,036

The following table illustrates estimated revenues expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) as of June 30, 2021:

Contract liabilities expected to be recognized in	**Amount**
2021 (remainder)	$ 1,625,335
2022	2,943,063
2023	2,645,785
2024	2,182,348
2025	1,980,961
Thereafter	6,493,434
Total	$ 17,870,926

Note 3: Acquisitions

On April 1, 2021, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller two operating franchises in Phoenix, Arizona (the “AZ Clinics Purchase”). The Company operates the franchises as company-owned clinics. The total purchase price for the transaction was $1,925,000, less $29,417 of net deferred revenue, resulting in total purchase consideration of $1,895,583. Based on the terms of the purchase agreement, the AZ Clinics Purchase has been treated as a business combination under U.S. GAAP using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

The allocation of the purchase price was as follows:

Property and equipment	$	4,928
Operating lease right-of-use asset		651,197
Intangible assets		1,536,400
Total assets acquired		2,192,525
Goodwill		502,697
Deferred revenue		(123,974)
Operating lease liability - current portion		(49,303)
Operating lease liability - net of current portion		(626,362)
Net purchase consideration	$	1,895,583

Intangible assets in the table above consist of reacquired franchise rights of $1,337,400 amortized over an estimated useful lives of eight to nine years and customer relationships of $199,000 amortized over an estimated useful life of three years.

Goodwill represents the excess of the purchase consideration over the fair value of the underlying acquired net tangible and intangible assets. The factors that contributed to the recognition of goodwill included synergies and benefits expected to be gained from leveraging the Company's existing operations and infrastructures, as well as the expected associated revenue and cash flow projections. Goodwill has been allocated to the Company's Corporate Clinics segment based on such expected benefits. Goodwill related to the acquisition is expected to be deductible for income tax purposes over the next 15 years. The purchase price allocation is preliminary, and the Company expects to finalize the allocation during the fourth quarter of 2021.

On April 1, 2021, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the sellersix operating franchises in North Carolina (the "NC Clinics Purchase"). The Company operates the franchises as company-managed clinics. The total purchase price for the transaction was $2,568,028, less $58,441 of net deferred revenue, resulting in total purchase consideration of $2,509,587. As of June 30, 2021, $243,028 of remaining consideration was outstanding, which was paid in July 2021. Based on the terms of the purchase agreement, the NC Clinics Purchase has been treated as an asset purchase under U.S. GAAP as there were no outputs or processes to generate outputs acquired as part of this transaction. Under an asset purchase, assets are recognized based on their cost to the acquiring entity. Cost is allocated to the individual assets acquired or liabilities assumed based on their relative fair values and does not give rise to goodwill.

The allocation of the purchase price was as follows:

Property and equipment	$	524,046
Operating lease right-of-use asset		865,813
Intangible assets		2,187,472
Total assets acquired		3,577,331
Deferred revenue		(244,998)
Operating lease liability - current portion		(185,181)
Operating lease liability - net of current portion		(637,565)
Net purchase consideration	$	2,509,587

Intangible assets in the table above consist of reacquired franchise rights of $1,195,327 amortized over an estimated useful lives of three to four years and customer relationships of $992,145 amortized over an estimated useful life of three years.

Pro Forma Results of Operations (Unaudited)

The following table summarizes selected unaudited pro forma condensed consolidated income statements for the three and six months ended June 30, 2021 and 2020 as if both the AZ Clinics Purchase and the NC Clinics Purchase in 2021 had been completed on January 1, 2020.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues, net	$ 20,218,798	$ 13,297,111	$ 38,674,601	$ 27,730,699
Net income	2,711,239	47,267	4,965,003	844,630

The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the purchases had taken place on January 1, 2020 or of results that may occur in the future. For 2021, this information includes actual data recorded in the Company's financial statements for the period subsequent to the date of the acquisition. The Company's condensed consolidated income statements for the three and six months ended June 30, 2021 include net revenue and net income of approximately $1.0 million and $0.3 million, respectively, attributable to both purchases.

Note 4: Property and Equipment

Property and equipment consist of the following:

	June 30, 2021	December 31, 2020
Office and computer equipment	$ 2,799,406	$ 2,194,348
Leasehold improvements	10,341,124	8,391,675
Software developed	1,193,861	1,193,007
Finance lease assets	267,252	282,027
	14,601,643	12,061,057
Accumulated depreciation and amortization	(7,695,687)	(6,890,837)
	6,905,956	5,170,220
Construction in progress	5,512,540	3,577,149
Property and equipment, net	$ 12,418,496	$ 8,747,369

Depreciation expense was $429,240 and $322,666 for the three months ended June 30, 2021 and 2020, respectively. Depreciation expense was $805,705 and $609,742 for the six months ended June 30, 2021 and 2020, respectively.

Amortization expense related to finance lease assets was $21,797 and $19,620 for the three months ended June 30, 2021 and 2020, respectively. Amortization expense related to finance lease assets was $41,710 and $30,173 for the six months ended June 30, 2021 and 2020, respectively.

Construction in progress at June 30, 2021 and December 31, 2020 principally relates to development costs for software to be used by the Company and all clinics for operations, including point-of-sales system.

Note 5: Fair Value Measurements

The Company's financial instruments include cash, restricted cash, accounts receivable, notes receivable, accounts payable, accrued expenses and notes payable. The carrying amounts of its financial instruments approximate their fair value due to their short maturities.

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on reliability of the inputs as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

As of June 30, 2021, and December 31, 2020, the Company did not have any financial instruments that were measured on a recurring basis as Level 1, 2 or 3.

The Company's non-financial assets, which primarily consist of goodwill, intangible assets, property, plant and equipment, and operating lease right-of-use assets, are not required to be measured at fair value on a recurring basis, and instead are reported at their carrying amount. However, on a periodic basis whenever events or changes in circumstances indicate that their carrying amount may not be fully recoverable (and at least annually for goodwill), non-financial assets are assessed for impairment. If the fair value is determined to be lower than the carrying amount, an impairment charge is recorded to write down the asset to its fair value, which is considered Level 3 within the fair value hierarchy.

The assets and liabilities resulting from the AZ Clinics Purchase (reference Note 3) were recorded at fair values on a non-recurring basis and are considered Level 3 within the fair value hierarchy.

During the six months ended June 30, 2021, certain operating lease right-of-use assets related to closed clinics with a total carrying amount of $0.5 million was written down to its fair value of $0.4 million. Fair value of the Company's operating lease right-of-use assets was determined based on the discounted cash flows of the estimated market rents. As a result, the Company recorded a noncash impairment loss of approximately $0.1 million during the six months ended June 30, 2021. No impairments of long-lived assets were recorded for the six months ended June 30, 2020.

Note 6: Intangible Assets

On January 1, 2021, the Company entered into an agreement under which the Company repurchased the right to develop franchises in various counties in Georgia. The total consideration for the transaction was $1,388,700. The Company carried a deferred revenue balance associated with this transaction of $35,679, representing the unrecognized fee collected upon the execution of the regional developer agreement. The Company accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price. The Company recognized the net amount of $1,353,021 as reacquired development rights in January 2021, which is amortized over the remaining original contract period of approximately 13 months.

On April 1, 2021, the Company recognized $2,532,727 and $1,191,145 of reacquired franchise rights and customer relationships, respectively, from the acquisitions (reference Note 3).

Intangible assets consist of the following:

	As of June 30, 2021		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Value**
Intangible assets subject to amortization:			
Reacquired franchise rights	$ 5,779,621	$ (2,556,203)	$ 3,223,418
Customer relationships	2,543,120	(1,364,266)	1,178,854
Reacquired development rights	4,406,221	(2,632,064)	1,774,157
	$ 12,728,962	$ (6,552,533)	$ 6,176,429

	As of December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization:			
Reacquired franchise rights	$ 3,246,894	$ (2,107,730)	$ 1,139,164
Customer relationships	1,351,975	(1,130,800)	221,175
Reacquired development rights	3,053,201	(1,548,534)	1,504,667
	$ 7,652,070	$ (4,787,064)	$ 2,865,006

Amortization expense related to the Company’s intangible assets was $991,981 and $351,114 for the three months ended June 30, 2021 and 2020, respectively. Amortization expense was $1,765,469 and $707,734 for the six months ended June 30, 2021 and 2020, respectively.

Estimated amortization expense for 2021 and subsequent years is as follows:

	Amount
2021 (remainder)	$ 1,866,159
2022	2,036,549
2023	982,337
2024	463,547
2025	199,118
Thereafter	628,719
Total expected amortization expense	$ 6,176,429

Note 7: Debt

Credit Agreement

On February 28, 2020, the Company entered into a Credit Agreement (the “Credit Agreement”), with JPMorgan Chase Bank, N.A., individually, and as Administrative Agent and Issuing Bank (“JPMorgan Chase” or the “Lender”). The Credit Agreement provides for senior secured credit facilities (the "Credit Facilities") in the amount of $7,500,000, including a $2,000,000 revolver (the "Revolver") and $5,500,000 development line of credit (the "Line of Credit"). The Revolver includes amounts available for letters of credit of up to $1,000,000 and an uncommitted additional amount of $2,500,000. All outstanding principal and interest on the Revolver are due on February 28, 2022. Principal and interest outstanding on the Line of Credit at the end of the first year are converted to a term loan payable in 36 monthly payments with a final maturity date of March 31, 2024. Principal amounts on the Line of Credit borrowed during the second year plus interest thereon which are outstanding at the end of the second year are converted to a second term loan payable in 36 monthly payments with a final maturity date of March 31, 2025. Borrowings under the Credit Facilities bear interest at a rate equal to an applicable margin, which is a one-, three- or six-month reserve adjusted Eurocurrency rate plus 2.00% or, at the election of the Company, an alternative base rate plus 1.00%. The alternative base rate is the greatest of the prime rate, the Federal Reserve Bank of New York rate plus 0.50% and the one-month reserve adjusted Eurocurrency plus 1.00%. Unused portions of the Credit Facilities bear interest at a rate equal to 0.25% per annum. If the current Eurocurrency rate is no longer available or representative, the loan agreement provides a mechanism for replacing that benchmark rate. The Credit Facilities are pre-payable at any time without penalty, other than customary breakage fees, and any voluntary repayments made by the Company would reduce the future required repayment amounts.

The Credit Facilities contain customary events of default, including but not limited to nonpayment; material inaccuracy of representations and warranties; violations of covenants; certain bankruptcies and liquidations; cross-default to material indebtedness; certain material judgments; and certain fundamental changes such as a merger or sale of substantially all assets (as further defined in the Credit Facilities). The Credit Facilities require the Company to comply with customary affirmative, negative and financial covenants, including minimum interest coverage and maximum net leverage. A breach of any of these operating or financial covenants would result in a default under the Credit Facilities. If an event of default occurs and is continuing, the lenders could elect to declare all amounts then outstanding, together with accrued interest, to be immediately due and payable. The Credit

Facilities are collateralized by substantially all of the Company's assets, including the assets in the Company's company-owned or managed clinics. The Company intends to use the Revolver for general working capital needs and the Line of Credit for acquiring and developing new chiropractic clinics.

On March 18, 2020, the Company drew down $2,000,000 under the Revolver as a precautionary measure in order to further strengthen its cash position and provide financial flexibility in light of the uncertainty in the global markets resulting from the COVID-19 outbreak. As of June 30, 2021, the Company was in compliance with all applicable financial and non-financial covenants under the Credit Agreement and the full $2,000,000 remains outstanding as of June 30, 2021. The interest rate on funds borrowed under the Revolver as of June 30, 2021 was 2.25%.

Paycheck Protection Program Loan

On April 10, 2020, the Company received a loan in the amount of approximately $2.7 million from JPMorgan Chase Bank, N.A. (the "Loan"), pursuant to the Paycheck Protection Program (the "PPP") administered by the United States Small Business Administration. The PPP is part of the Coronavirus Aid, Relief, and Economic Security Act, which provides for forgiveness of up to the full principal amount and accrued interest of qualifying loans guaranteed under the PPP. The Loan was granted pursuant to a Note dated April 9, 2020 issued by the Company. The Note had a maturity date of April 11, 2022 and bore interest at a rate of 0.98% per annum. On March 4, 2021, the Company elected to repay the full principal and accrued interest on the PPP Loan of approximately $2.7 million without prepayment penalty, in accordance with the terms of the PPP loan.

Note 8: Stock-Based Compensation

The Company grants stock-based awards under its 2014 Incentive Stock Plan (the "2014 Plan") and the 2012 Stock Plan (the "2012 Plan"). The 2014 Plan replaced the 2012 Plan, but the 2012 Plan remains in effect for the administration of awards made prior to its replacement by the 2014 Plan. The shares issued as a result of stock-based compensation transactions generally have been funded with the issuance of new shares of the Company's common stock.

The Company may grant the following types of incentive awards under the 2014 Plan: (i) non-qualified stock options; (ii) incentive stock options; (iii) stock appreciation rights; (iv) restricted stock; and (v) restricted stock units. Each award granted under the 2014 Plan is subject to an award agreement that incorporates, as applicable, the exercise price, the term of the award, the periods of restriction, the number of shares to which the award pertains, and such other terms and conditions as the plan committee determines. Awards granted under the 2014 Plan are classified as equity awards, which are recorded in stockholders' equity in the Company's consolidated balance sheets.

Stock Options

The Company's closing price on the date of grant is the basis of fair value of its common stock used in determining the value of share-based awards. To the extent the value of the Company's share-based awards involves a measure of volatility, the Company uses available historical volatility of the Company's common stock over a period of time corresponding to the expected stock option term. The Company uses the simplified method to calculate the expected term of stock option grants to employees as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term of stock options granted to employees. Accordingly, the expected life of the options granted is based on the average of the vesting term, which is generally four years and the contractual term, which is generally ten years. The Company will continue to evaluate the appropriateness of utilizing such method. The risk-free interest rate is based on United States Treasury yields in effect at the date of grant for periods corresponding to the expected stock option term.

The Company has computed the fair value of all options granted using the Black-Scholes-Merton model during the six months ended June 30, 2021 and 2020, using the following assumptions:

	Six Months Ended June 30,	
	2021	**2020**
Expected volatility	57%	53%
Expected dividends	None	None
Expected term (years)	7	7
Risk-free rate	0.98%	0.89%
Forfeiture rate	5%	5%

The information below summarizes the stock options activity for the six months ended June 30, 2021:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2020	835,601	$ 6.65	6.6
Granted	47,109	46.12	
Exercised	(219,814)	5.74	
Cancelled	(5,136)	21.33	
Outstanding at June 30, 2021	657,760	$ 9.67	6.4
Exercisable at June 30, 2021	418,758	$ 5.00	5.5

For the three months ended June 30, 2021 and 2020, stock-based compensation expense for stock options was $176,169 and $128,652, respectively. For the six months ended June 30, 2021 and 2020, stock-based compensation expense for stock options was $327,048 and $275,660, respectively.

Restricted Stock

Restricted stocks granted to employees generally vest in four equal annual installments. Restricted stocks granted to non-employee directors typically vest in full one year after the date of grant.

The information below summarizes the restricted stock activity for the six months ended June 30, 2021:

Restricted Stock Awards	Shares	Weighted Average Grant-Date Fair Value per Award
Non-vested at December 31, 2020	45,595	$ 13.13
Granted	9,313	57.03
Vested	(21,863)	14.65
Cancelled	—	—
Non-vested at June 30, 2021	33,045	$ 24.50

For the three months ended June 30, 2021 and 2020, stock-based compensation expense for restricted stock was $107,395 and $87,429, respectively. For the six months ended June 30, 2021 and 2020, stock-based compensation expense for restricted stock was $203,010 and $190,813, respectively.

Note 9: Income Taxes

During the three months ended June 30, 2021 and 2020, the Company recorded income tax (benefit) expense of $(665,992) and $117,756, respectively. During the six months ended June 30, 2021 and 2020, the Company recorded income tax (benefit) expense of $(1,030,140) and $51,821, respectively. The Company's effective tax rate differs from the federal statutory tax rate due to permanent differences and state taxes. The negative effective tax rates for the three and six months ended June 30, 2021 were primarily driven by excess tax benefits from exercise of stock options.

Note 10: Commitments and Contingencies

Leases

The table below summarizes the components of lease expense and income statement location for the three and six months ended June 30, 2021 and 2020:

	Line Item in the Company's Consolidated Income Statements	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Finance lease costs:					
Amortization of assets	Depreciation and amortization	$ 21,797	$ 19,620	$ 41,710	$ 30,173
Interest on lease liabilities	Other expense, net	2,470	3,332	5,093	5,712
Total finance lease costs		24,267	22,952	46,803	35,885
Operating lease costs	General and administrative expenses	1,171,414	890,777	2,076,172	1,767,112
Total lease costs		$ 1,195,681	$ 913,729	$ 2,122,975	$ 1,802,997

Supplemental information and balance sheet location related to leases is as follows:

	June 30, 2021	December 31, 2020
Operating Leases:		
Operating lease right-of -use asset	$ 15,232,136	$ 11,581,435
Operating lease liability - current portion	$ 3,605,458	$ 2,918,140
Operating lease liability - net of current portion	14,297,918	10,632,672
Total operating lease liability	$ 17,903,376	$ 13,550,812
Finance Leases:		
Property and equipment, at cost	$ 267,252	$ 282,027
Less accumulated amortization	(104,344)	(92,549)
Property and equipment, net	$ 162,908	$ 189,478
Finance lease liability - current portion	79,752	70,507
Finance lease liability - net of current portion	99,772	132,469
Total finance lease liabilities	$ 179,524	$ 202,976
Weighted average remaining lease term (in years):		
Operating leases	5.1	4.7
Finance lease	3.7	4.1
Weighted average discount rate:		
Operating leases	8.2 %	8.5 %
Finance leases	5.2 %	5.3 %

Supplemental cash flow information related to leases is as follows:

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash paid for amounts included in measurement of liabilities:		
Operating cash flows from operating leases	$ 1,998,470	$ 1,600,783
Operating cash flows from finance leases	5,093	5,712
Financing cash flows from finance leases	38,593	23,509
Non-cash transactions: ROU assets obtained in exchange for lease liabilities		
Operating lease	$ 4,769,494	$ 919,607
Finance lease	15,140	201,423

Maturities of lease liabilities as of June 30, 2021 are as follows:

	Operating Leases	Finance Lease
2021 (remainder)	$ 2,399,281	$ 45,649
2022	4,941,878	54,371
2023	4,234,917	27,600
2024	3,651,788	27,600
2025	3,202,506	27,600
Thereafter	3,485,380	11,500
Total lease payments	$ 21,915,750	$ 194,320
Less: Imputed interest	(4,012,374)	(14,796)
Total lease obligations	17,903,376	179,524
Less: Current obligations	(3,605,458)	(79,752)
Long-term lease obligation	$ 14,297,918	$ 99,772

During the second quarter of 2021, the Company entered into various operating leases that have not yet commenced for spaces to be used by the Company's new corporate clinics. These leases are expected to result in additional ROU assets and liabilities of approximately $1.6 million. These leases are expected to commence during the third and the fourth quarter of 2021, with lease terms of five to ten years.

Litigation

In the normal course of business, the Company is party to litigation from time to time. The Company maintains insurance to cover certain actions and believes that resolution of such litigation will not have a material adverse effect on the Company.

Note 11: Segment Reporting

An operating segment is defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the Chief Operating Decision Maker ("CODM") to evaluate performance and make operating decisions. The Company has identified its CODM as the Chief Executive Officer.

The Company has two operating business segments and one non-operating business segment. The Corporate Clinics segment is composed of the operating activities of the company-owned or managed clinics. As of June 30, 2021, the Company operated or managed 78 clinics under this segment. The Franchise Operations segment is composed of the operating activities of the franchise business unit. As of June 30, 2021, the franchise system consisted of 555 clinics in operation. Corporate is a non-operating segment that develops and implements strategic initiatives and supports the Company's two operating business segments by centralizing key administrative functions such as finance and treasury, information technology, insurance and risk management, legal and human resources. Corporate also provides the necessary administrative functions to support the Company as a publicly-traded company. A portion of the expenses incurred by Corporate are allocated to the operating business segments.

The tables below present financial information for the Company'stwo operating business segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues:				
Corporate clinics	$ 11,433,072	$ 6,856,807	$ 20,903,933	$ 14,151,102
Franchise operations	8,785,726	5,732,986	16,862,829	12,083,177
Total revenues	$ 20,218,798	$ 12,589,793	$ 37,766,762	$ 26,234,279
Depreciation and amortization:				
Corporate clinics	1,247,701	614,365	2,341,534	1,191,909
Franchise operations	342	342	685	685
Corporate administration	194,975	78,693	270,665	155,055
Total depreciation and amortization	$ 1,443,018	$ 693,400	$ 2,612,884	$ 1,347,649
Segment operating income:				
Corporate clinics	$ 1,825,248	$ 565,220	$ 3,174,712	$ 1,348,925
Franchise operations	3,882,468	2,529,516	7,730,241	5,373,814
Total segment operating income	$ 5,707,716	$ 3,094,736	$ 10,904,953	$ 6,722,739
Reconciliation of total segment operating income to consolidated earnings before income taxes:				
Total segment operating income	$ 5,707,716	$ 3,094,736	$ 10,904,953	$ 6,722,739
Unallocated corporate	(3,673,373)	(2,836,152)	(6,898,527)	(5,710,805)
Consolidated income from operations	2,034,343	258,584	4,006,426	1,011,934
Other expense, net	16,373	25,243	37,909	29,581
Income before income tax benefit	$ 2,017,970	$ 233,341	$ 3,968,517	$ 982,353

Segment assets:	June 30, 2021	December 31, 2020
Corporate clinics	$ 36,223,283	$ 24,928,311
Franchise operations	11,451,570	9,744,375
Total segment assets	47,674,853	34,672,686
Unallocated cash and cash equivalents and restricted cash	18,834,345	20,819,629
Unallocated property and equipment	973,530	1,063,815
Other unallocated assets	10,581,974	9,176,713
Total assets	$ 78,064,702	$ 65,732,843

"Unallocated cash and cash equivalents and restricted cash" relates primarily to corporate cash and cash equivalents and restricted cash (see Note 1), "unallocated property and equipment" relates primarily to corporate fixed assets, and "other unallocated assets" relates primarily to deposits, prepaid and other assets.

Note 12: Other Comments

COVID-19 Update

The Company's business remained healthy and resilient during the first half of 2021 despite the ongoing pandemic. However, the extent to which the COVID-19 pandemic will impact the Company's business and operations will depend on future developments that are highly uncertain. The Company's 2020 revenue and earnings were negatively impacted compared to its pre-COVID-19 pandemic expectations, and the pandemic may have a negative impact on the Company's revenue and net income in 2021. Even as government restrictions are lifted, the ongoing economic impacts and health concerns associated with the pandemic may continue to affect patient behavior and spending levels and could result in reduced visits and patient spending trends that adversely impact the Company's financial position and results of operations. Until the COVID-19 pandemic has been resolved as a public health crisis, it retains the potential to cause further and more severe disruption of global and national economies. The Company will continue to actively monitor the situation and may take further actions that alter its business operations as may be required by federal, state, or local authorities, or that it determines are in the best interests of its employees and patients.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2020 and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, (“the Exchange Act”), which are subject to the “safe harbor” created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management; and accounting estimates and the impact of new or recently issued accounting pronouncements. The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “should,” “could,” “predicts,” “potential,” “continue,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. 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 that we make. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements. All forward-looking statements in this Form 10-Q are made based on our current expectations, forecasts, estimates and assumptions, and involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in the forward-looking statements. In evaluating these statements, you should specifically consider various factors, uncertainties and risks that could affect our future results or operations as described from time to time in our SEC reports, including those risks outlined under “Risk Factors” which are contained in Part I, Item 1A of our Form 10-K for the year ended December 31, 2020 and in Part II, Item 1A of this Form 10-Q. These factors, uncertainties and risks may cause our actual results to differ materially from any forward-looking statement set forth in this Form 10-Q. You should carefully consider these risks and uncertainties and other information contained in the reports we file with or furnish to the SEC before making any investment decision with respect to our securities. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement. Some of the important factors contained in Part I, Item 1A of our Form 10-K for the year ended December 31, 2020 and in Part II, Item 1A of this Form 10-Q that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following:

- *major public health concerns, including the outbreak of epidemic or pandemic contagious disease, may adversely affect revenue at our clinics and disrupt financial markets, adversely affecting our stock price;*
- *the impact of the COVID-19 pandemic on the economy and our operations, including the measures taken by governmental authorities to address it, may precipitate or exacerbate other risks and/or uncertainties;*
- *we may not be able to successfully implement our growth strategy if we or our franchisees are unable to locate and secure appropriate sites for clinic locations, obtain favorable lease terms, and attract patients to our clinics;*
- *we have limited experience operating company-owned or managed clinics in those geographic areas where we currently have few or no clinics, and we may not be able to duplicate the success of some of our franchisees;*

- *we may not be able to acquire operating clinics from existing franchisees or develop company-owned or managed clinics on attractive terms;*
- *we may fail to successfully design and maintain our proprietary and third-party management information systems or implement new systems;*
- *we may fail to properly maintain the integrity of our data or to strategically implement, upgrade or consolidate existing information systems;*
- *increases in the number of franchisee acquisitions that we make could disrupt our business and harm our financial condition;*
- *we may not be able to continue to sell regional developer licenses to qualified regional developers or sell franchises to qualified franchisees, and our regional developers and franchisees may not succeed in developing profitable territories and clinics;*
- *we may not be able to identify, recruit and train enough qualified chiropractors to staff our clinics;*
- *new clinics may not reach the point of profitability, and we may not be able to maintain or improve revenues and franchise fees from existing franchised clinics;*
- *the chiropractic industry is highly competitive, with many well-established independent competitors, which could prevent us from increasing our market share or result in reduction in our market share;*
- *administrative actions and rulings regarding the corporate practice of chiropractic and joint employer responsibility may jeopardize our business model;*
- *negative publicity or damage to our reputation, which could arise from concerns expressed by opponents of chiropractic and by chiropractors operating under traditional service models, could adversely impact our operations and financial position;*
- *our security systems may be breached, and we may face civil liability and public perception of our security measures could be diminished, either of which would negatively affect our ability to attract and retain patients; and*
- *legislation, regulations, as well as new medical procedures and techniques, could reduce or eliminate our competitive advantages.*

Overview

Our principal business is to develop, own, operate, support and manage chiropractic clinics through direct ownership, management arrangements, franchising and the sale of regional developer rights throughout the United States.

We seek to be the leading provider of chiropractic care in the markets we serve and to become the most recognized brand in our industry through the rapid and focused expansion of chiropractic clinics in key markets throughout North America and potentially abroad.

Key Performance Measures. We receive monthly performance reports from our system and our clinics which include key performance indicators per clinic, including gross sales, comparable same-store sales growth, or “Comp Sales,” number of new patients, conversion percentage, and member attrition. In addition, we review monthly reporting related to system-wide sales, clinic openings, clinic license sales, adjusted EBITDA, and various earnings metrics in the aggregate and per clinic. We believe these indicators provide us with useful data with which to measure our performance and to measure our franchisees’ and clinics’ performance. Comp Sales include the sales from both company-owned or managed clinics and franchised clinics that in each case have been open at least 13 full months and exclude any clinics that have closed. System-wide sales include sales at all clinics, whether operated by us or by franchisees. While franchised sales are not recorded as revenues by us, management believes the information is important in understanding the overall brand’s financial performance, because these sales are the basis on which we calculate and record royalty fees and are indicative of the financial health of the franchisee base. Adjusted EBITDA consists of net income before interest, income taxes, depreciation and amortization, acquisition related expenses, stock-based compensation expense, bargain purchase gain, and (gain) loss on disposition or impairment. There was no bargain purchase gain for the six months ended June 30, 2021 and 2020.

Key Clinic Development Trends. As of June 30, 2021, we and our franchisees operated or managed 633 clinics, of which 555 were operated or managed by franchisees and 78 were operated as company-owned or managed clinics. Of the 78 company-owned or managed clinics, 29 were constructed and developed by us, and 49 were acquired from franchisees.

Our current strategy is to grow through the sale and development of additional franchises, build upon our regional developer strategy, and continue to expand our corporate clinic portfolio within clustered locations. The number of franchise licenses sold for the year ended December 31, 2020 was 121, compared with 126 and 99 licenses for the years ended December 31, 2019 and 2018, respectively. We ended the first half of 2021 with 21 regional developers who were responsible for 87% of the 89 licenses sold during the period. This strong result reflects the power of the regional developer program to accelerate the number of clinics sold, and eventually opened, across the country.

In addition, we believe that we can accelerate the development of, and revenue generation from, company-owned or managed clinics through the accelerated development of greenfield clinics and the further selective acquisition of existing franchised clinics. We will seek to acquire existing franchised clinics that meet our criteria for demographics, site attractiveness, proximity to other clinics and additional suitability factors. During the six months ended June 30, 2021, we opened six greenfield clinics, and as of June 30, 2021, we executed 19 leases for future greenfield clinic locations and had 12 additional letters-of-intent in place for further greenfield expansion.

We believe that The Joint has a sound concept, which has been further validated through its continuing resiliency during the pandemic and will benefit from the fundamental changes taking place in the manner in which Americans access chiropractic care and their growing interest in seeking effective, affordable natural solutions for general wellness. These trends join with the preference we have seen among chiropractic doctors to reject the insurance-based model to produce a combination that benefits the consumer and the service provider alike. We believe that these forces create an important opportunity to accelerate the growth of our network.

COVID-19 Update

The COVID-19 pandemic and related governmental control measures severely disrupted our business during the second quarter of 2020. During this period, we experienced a significant reduction in patient traffic and spending trends. With the easing to varying degrees of restrictive public health orders in May 2020, patient traffic recovered substantially throughout the year following a low point in April 2020. For the remainder of 2020, steadily improving key metrics, including gross sales, Comp Sales, patient traffic, and new patient conversion rate, drove our 2020 full year operating income to an all-time high.

The U.S. economy continued on a path to recovery in the first half of 2021 with millions of Americans receiving the COVID-19 vaccine and the easing of government-imposed restrictions. As mentioned in our results of operations, our business has remained healthy and resilient despite the ongoing pandemic.

Despite the continued improvements, the extent to which the COVID-19 pandemic will impact our business and operations will depend on future developments that are highly uncertain. Our 2020 revenue and earnings were negatively impacted compared to our pre-COVID-19 pandemic expectations, and the pandemic may have a negative impact on our revenue and net income in 2021. Even as government restrictions are lifted, the ongoing economic impacts and health concerns associated with the pandemic may continue to affect patient behavior and spending levels and could result in reduced visits and patient spending trends that adversely impact our financial position and results of operations. In addition, the impact of the COVID-19 pandemic depends on factors beyond our knowledge or control, including new or more restrictive stay-at-home orders and other new or revised public health requirements recommended or imposed by federal, state and local authorities. Until the COVID-19 pandemic has been resolved as a public health crisis, it retains the potential to cause further and more severe disruption of global and national economies.

In spite of these challenges, and other factors, which may individually or in combination slow the current recovery from the COVID-19 pandemic-induced disruptions, we believe we are well-positioned to operate effectively through the present environment, as we continue to conduct business as usual with modifications to employee travels, employee work locations, and with our new sanitary and safety measures in our clinics. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state, or local authorities, or that we determine are in the best interests of our employees and patients.

Other Significant Events and/or Recent Developments

For the three months ended June 30, 2021:

- Comp Sales of clinics that have been open for at least 13 full months increased 53%.
- Comp Sales for mature clinics open 48 months or more increased 44%.
- System-wide sales for all clinics open for any amount of time grew 64%.

For the six months ended June 30, 2021:

- System-wide sales for all clinics open for any amount of time grew 45%.
- 48 new franchised clinics and six company-owned or managed greenfields were opened, for a total of 633 clinics.

On January 1, 2021, we entered into an agreement under which we repurchased the right to develop franchises in various counties in Georgia. The total consideration for the transaction was $1,388,700. We carried a deferred revenue balance associated with this transaction of $35,679, representing the fee collected upon the execution of the regional developer agreement. We accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price. We recognized the net amount of $1,353,021 as reacquired development rights in January 2021, which is amortized over the remaining original contract period of approximately 13 months.

On March 4, 2021, we elected to repay the full principal and accrued interest on the PPP loan of approximately $2.7 million from JPMorgan Chase Bank, N.A. without prepayment penalty, in accordance with the terms of the PPP loan.

On April 1, 2021, we entered into an Asset and Franchise Purchase Agreement under which we repurchased from the seller two operating franchises in Phoenix, Arizona. We operate the franchises as company-owned clinics. The total purchase price for the transaction was $1,925,000, less $29,417 of net deferred revenue resulting in total purchase consideration of $1,895,583.

On April 1, 2021, we entered into an Asset and Franchise Purchase Agreement under which we repurchased from the seller six operating franchises in North Carolina. We operate the franchises as company-managed clinics. The total purchase price for the transaction was $2,568,028, less $58,441 of net deferred revenue resulting in total purchase consideration of $2,509,587

Effective as of December 31, 2021, we will be a large accelerated filer and will no longer qualify as a “smaller reporting company,” as defined in the Exchange Act. This is due to our public float (the market value of our common shares held by non-affiliates) being greater than $700 million as of June 30, 2021. Compliance with the “large accelerated filer” filing requirements will begin with our Form 10-K for the fiscal year ending December 31, 2021, which will now include an attestation by our independent registered public accounting firm as to the effectiveness of our internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act of 2002. Compliance with increased disclosure obligations due to the change in our smaller reporting company status will begin with our quarterly report for the three-month period ending March 31, 2022. These additional disclosure obligations will include, but not be limited to, fuller and more detailed disclosures regarding executive compensation and three years (instead of two years) of audited income, cash flow and stockholders’ equity statements. Compliance with additional filing and disclosure requirements will increase our costs and demands on management.

2021 Full Year Outlook

- We expect our revenues to be between $77 million and $79 million, compared to $58.7 million in 2020.
- We expect our adjusted EBITDA to be between $12.5 million and $13.5 million, compared to $9.1 million in 2020.
- We expect franchised clinic openings to be between 90 and 110, compared to 70 in 2020.
- We expect Company-owned or managed clinics, through a combination of both greenfields and buybacks, to increase by between 25 and 35, compared to 4 in 2020.

We believe we are well positioned for the remainder of 2021 due to, among other things, our resilient business model, planned new clinics openings and expansion of company-owned or managed clinics, and current positive economic trends. However, the long-term impact of COVID-19 on our operational and financial performance will depend on certain developments including the duration, spread, severity, and potential recurrence of the virus. These potential developments are uncertain and cannot be predicted and as such, the extent to which COVID-19 will impact our business, operations, financial condition and results of operations over the long term is unknown.

Factors Affecting Our Performance

Our operating results may fluctuate significantly as a result of a variety of factors, including the timing of new clinic sales, openings, closures, markets in which they are contained and related expenses, general economic conditions, consumer confidence in the economy, consumer preferences, competitive factors, and disease epidemics and other health-related concerns, such as the current COVID-19 outbreak.

Significant Accounting Polices and Estimates

There were no changes in our significant accounting policies and estimates during the six months ended June 30, 2021 from those set forth in “Significant Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2020.

Results of Operations

The following discussion and analysis of our financial results encompasses our consolidated results and results of our two business segments: Corporate Clinics and Franchise Operations.

Total Revenues - three months ended June 30, 2021 compared with three months ended June 30, 2020

Components of revenues were as follows:

	Three Months Ended June 30,			
Revenues	**2021**	**2020**	**Change from Prior Year**	**Percent Change from Prior Year**
Revenues from company-owned or managed clinics	$ 11,433,072	$ 6,856,807	$ 4,576,265	66.7 %
Royalty fees	5,332,618	3,268,653	2,063,965	63.1 %
Franchise fees	623,655	523,964	99,691	19.0 %
Advertising fund revenue	1,518,908	930,795	588,113	63.2 %
IT related income and software fees	786,037	631,198	154,839	24.5 %
Regional developer fees	214,434	213,424	1,010	0.5 %
Other revenues	310,074	164,952	145,122	88.0 %
Total revenues	$ 20,218,798	$ 12,589,793	$ 7,629,005	60.6 %

Consolidated Results

- Total revenues increased by $7.6 million, primarily due to the continued expansion and revenue growth of our franchise base, the continued revenue growth and expansion of our company owned or managed clinics portfolio, and the negative impact on total revenues for the three months ended June 30, 2020 discussed below, relative to the same quarter in 2021.

Corporate Clinics

- Revenues from company-owned or managed clinics increased, primarily due to improved same-store sales growth, as well as due to the expansion of our corporate-owned or managed clinic portfolio and the negative impact of the same-store sale decline due to the pandemic for company-owned or managed clinics for the three months ended June 30, 2020 relative to the same quarter in 2021.

Franchise Operations

- Royalty fees and advertising fund revenue increased due to an increase in the number of franchised clinics in operation during the current period along with continued sales growth in existing franchised clinics and the negative impact of the same-store sale decline due to the pandemic for franchised clinics for the three months ended June 30, 2020 relative to the same quarter in 2021. As of June 30, 2021 and 2020, there were 555 and 477 franchised clinics in operation, respectively.

- Franchise fees increased due to an increase in executed franchise agreements, as these fees are recognized ratably over the term of the respective franchise agreement.

- Software fee revenue increased due to an increase in our franchised clinic base and the related revenue recognition over the term of the franchise agreement as described above.

- Other revenues primarily consist of merchant income associated with credit card transactions.

Total Revenues - six months ended June 30, 2021 compared with six months ended June 30, 2020

Components of revenues were as follows:

	Six Months Ended June 30,			
Revenues	**2021**	**2020**	**Change from Prior Year**	**Percent Change from Prior Year**
Revenues from company-owned or managed clinics	$ 20,903,933	$ 14,151,102	$ 6,752,831	47.7 %
Royalty fees	10,101,862	6,986,883	3,114,979	44.6 %
Franchise fees	1,319,082	1,036,716	282,366	27.2 %
Advertising fund revenue	2,893,650	1,988,413	905,237	45.5 %
IT related income and software fees	1,546,574	1,276,922	269,652	21.1 %
Regional developer fees	432,390	421,066	11,324	2.7 %
Other revenues	569,271	373,177	196,094	52.5 %
Total revenues	$ 37,766,762	$ 26,234,279	$ 11,532,483	44.0 %

Consolidated Results

- Total revenues increased by $11.5 million, primarily due to the continued expansion and revenue growth of our franchise base, the continued revenue growth and expansion of our company owned or managed clinics portfolio, and the negative impact of the pandemic during the second quarter of 2020 relative to the same quarter of 2021, which decline is reflected in total revenues for the six months ended June 30, 2020.

Corporate Clinics

- Revenues from company-owned or managed clinics increased, primarily due to improved same-store sales growth, as well as due to the expansion of our corporate-owned or managed clinics portfolio and the negative impact of the same-store sale decline due to the pandemic in the second quarter of 2020 relative to the same quarter of 2021, which decline is included in the revenues for company-owned or managed clinics for the six months ended June 30, 2020.

Franchise Operations

- Royalty fees and advertising fund revenue increased due to an increase in the number of franchised clinics in operation during the current period along with continued sales growth in existing franchised clinics and the negative impact of the same-store sale decline due to the pandemic in the second quarter of 2020 relative to the same quarter of 2021, which decline is included in the revenues for franchised clinics for the six months ended June 30, 2020. As of June 30, 2021 and 2020, there were 555 and 477 franchised clinics in operation, respectively.

- Franchise fees increased due to an increase in executed franchise agreements, as these fees are recognized ratably over the term of the respective franchise agreement.

- Software fees revenue increased due to an increase in our franchised clinic base and the related revenue recognition over the term of the franchise agreement as described above.

- Other revenues primarily consist of merchant income associated with credit card transactions.

Cost of Revenues	**2021**	**2020**	**Change from Prior Year**	**Percent Change from Prior Year**
Three Months Ended June 30,	$ 2,038,538	$ 1,367,641	$ 670,897	49.1 %
Six Months Ended June 30,	3,803,854	2,853,797	950,057	33.3 %

For the three months ended June 30, 2021, as compared with the three months ended June 30, 2020, the total cost of revenues increased primarily due to an increase in regional developer royalties and sales commissions of $0.5 million. For the six months ended June 30, 2021, as compared with the six months ended June 30, 2020, the total cost of revenues increased primarily due to an increase in regional developer royalties and sales commissions of $0.7 million.

Selling and Marketing Expenses	**2021**	**2020**	**Change from Prior Year**	**Percent Change from Prior Year**
Three Months Ended June 30,	$ 3,132,715	$ 1,783,666	$ 1,349,049	75.6 %
Six Months Ended June 30,	5,622,043	3,838,954	1,783,089	46.4 %

Selling and marketing expenses increased for the three and six months ended June 30, 2021, as compared to the three and six months ended June 30, 2020, driven by: i) an increase in advertising fund expenditures from a larger franchise base, ii) an increase in local marketing expenditures by the company-owned or managed clinics, and iii) timing of certain advertising fund expenditures relative to the second quar

Depreciation and Amortization Expenses	**2021**	**2020**	**Change from Prior Year**	**Percent Change from Prior Year**
Three Months Ended June 30,	$ 1,443,018	$ 693,400	$ 749,618	108.1 %
Six Months Ended June 30,	2,612,884	1,347,649	1,265,235	93.9 %

Depreciation and amortization expenses increased for the three and six months ended June 30, 2021, as compared to the three and six months ended June 30, 2020, primarily due to: i) the development rights reacquired in December 2020 and January 2021 for a total net consideration of $2.4 million, which are amortized over the remaining original contract periods of approximately 13 to 25 months, ii) amortization of intangibles related to the 2021 acquisitions, and iii) depreciation expenses associated with the expansion of our corporate-owned or managed clinics portfolio in 2020 and 2021.

General and Administrative Expenses	2021	2020	Change from Prior Year	Percent Change from Prior Year
Three Months Ended June 30,	$ 11,614,444	$ 8,541,108	$ 3,073,336	36.0 %
Six Months Ended June 30,	21,701,047	17,235,358	4,465,689	25.9 %

General and administrative expenses increased during the three months ended June 30, 2021 compared to the three months ended June 30, 2020, primarily due to an increase in payroll and overhead expenses to support continued clinic count and revenue growth. As a percentage of revenue, general and administrative expenses during the three months ended June 30, 2021 and 2020 were 57% and 68%, respectively, reflecting improved leverage in the operating model, which is not expected to continue in following quarters, as four greenfields were opened at the end of June 2021 and the anticipated pace of more in the latter half of 2021.

Income from Operations - three months ended June 30, 2021 compared with three months ended June 30, 2020

Three Months Ended June 30,	2021	2020	Change from Prior Year	Percent Change from Prior Year
Income from Operations	$ 2,034,343	$ 258,584	$ 1,775,759	686.7 %

Consolidated Results

Consolidated income from operations increased by $1.8 million for the three months ended June 30, 2021 compared to the three months ended June 30, 2020, primarily due to the improved operating income in both the corporate clinics and the franchise operations segments, partially offset by increased expenses in the unallocated corporate segment discussed below. In addition, consolidated income from operations for the three months ended June 30, 2020 included the negative impact of the same-store sale decline due to the pandemic as discussed above, which contributed to the amount of the increase of consolidated income from operations for the three months ended June 30, 2021 relative to the three months ended June 30, 2020.

Corporate Clinics

Our corporate clinics segment had income from operations of $1.8 million for the three months ended June 30, 2021, an increase of $1.3 million compared to income from operations of $0.6 million for the prior year period. The increase was primarily due to:

- An increase in revenues of $4.6 million from company-owned or managed clinics, which includes the negative impact of the same-store sale decline due to the pandemic in the second quarter of 2020 relative to the same quarter of 2021; partially offset by

- A $3.3 million increase in operating expenses primarily driven by: (i) an increase in payroll-related expenses due to a higher head count to support the expansion of our corporate clinic portfolio, (ii) an increase in depreciation and administration expense due to the amortization of reacquired development rights discussed above, and (iii) an increase in selling and marketing expenses due to increased local marketing expenditures by the company-owned or managed clinics.

Franchise Operations

Our franchise operations segment had income from operations of $3.9 million for the three months ended June 30, 2021, an increase of $1.4 million, compared to income from operations of $2.5 million for the prior year period. This increase was primarily due to:

- An increase of $3.1 million in total revenues, which includes the negative impact of the same-store sale decline due to the pandemic in the second quarter of 2020 relative to the same quarter of 2021; partially offset by

- An increase of $0.7 million in cost of revenues primarily due to an increase in regional developer royalties and sales commissions and an increase of $1.0 million in operating expenses, primarily due to an increase in selling and marketing expenses resulting from a larger franchise base, as well as due to an increase in payroll-related expenses due to a higher head count.

Unallocated Corporate

Unallocated corporate expenses for the three months ended June 30, 2021 increased by $0.8 million compared to the prior year period, primarily due to higher payroll and professional fees to support continued clinic count and revenue growth in both operating segments.

Income from Operations - six months ended June 30, 2021 compared with six months ended June 30, 2020

Six Months Ended June 30,	2021	2020	Change from Prior Year	Percent Change from Prior Year
Income from Operations	4,006,426	1,011,934	$ 2,994,492	295.9 %

Consolidated Results

Consolidated income from operations increased by $3.0 million for the six months ended June 30, 2021 compared to the six months ended June 30, 2020, primarily due to the improved operating income in both the corporate clinics and the franchise operations segments, partially offset by increased expenses in the unallocated corporate segment discussed below. In addition, consolidated income from operations for the six months ended June 30, 2020 included the negative impact of the same-store sale decline during the second quarter of 2020 due to the pandemic as discussed above, which contributed to the amount of the increase of consolidated income from operations for the six months ended June 30, 2021 relative to the six months ended June 30, 2020.

Corporate Clinics

Our corporate clinics segment had income from operations of $3.2 million for the six months ended June 30, 2021, an increase of $1.8 million compared to income from operations of $1.3 million for the prior year period. The increase was primarily due to:

- An increase in revenues of $6.8 million from company-owned or managed clinics; partially offset by

- A $4.9 million increase in operating expenses primarily driven by: (i) an increase in payroll-related expenses due to a higher head count to support the expansion of our corporate clinic portfolio, (ii) an increase in depreciation and administration expense due to the amortization of reacquired development rights discussed above, and (iii) an increase in selling and marketing expenses due to increased local marketing expenditures by the company-owned or managed clinics.

Franchise Operations

Our franchise operations segment had income from operations of $7.7 million for the six months ended June 30, 2021, an increase of $2.4 million, compared to income from operations of $5.4 million for the prior year period. This increase was primarily due to:

- An increase of $4.8 million in total revenues; partially offset by

- An increase of $0.9 million in cost of revenues primarily due to an increase in regional developer royalties and sales commissions and an increase of $1.5 million in operating expenses, primarily due to an increase in selling and marketing expenses resulting from a larger franchise base, as well as due to an increase in payroll-related expenses due to a higher head count.

Unallocated Corporate

Unallocated corporate expenses for the six months ended June 30, 2021 increased by $1.2 million compared to the prior year period, primarily due to higher payroll related expenses to support continued clinic count and revenue growth in both operating segments.

Non-GAAP Financial Measures

The table below reconciles net income to Adjusted EBITDA for the three and six months ended June 30, 2021 and 2020.

(unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Non-GAAP Financial Data:				
Net income	$ 2,683,962	$ 115,585	$ 4,998,657	$ 930,532
Net interest expense	16,373	25,243	37,909	29,580
Depreciation and amortization expense	1,443,018	693,400	2,612,884	1,347,649
Income tax (benefit) expense	(665,992)	117,756	(1,030,140)	51,821
EBITDA	3,477,361	951,984	6,619,310	2,359,582
Stock compensation expense	283,564	216,080	530,058	466,473
Acquisition related expenses	39,373	—	45,346	—
(Gain) loss on disposition or impairment	(44,260)	(54,606)	20,508	(53,413)
Adjusted EBITDA	$ 3,756,038	$ 1,113,458	$ 7,215,222	$ 2,772,642

Adjusted EBITDA consists of net income before interest, income taxes, depreciation and amortization, acquisition related expenses, stock-based compensation expense, bargain purchase gain, and (gain) loss on disposition or impairment. There was no bargain purchase gain for the three and six months ended June 30, 2021 and 2020. We have provided Adjusted EBITDA because it is a non-GAAP measure of financial performance commonly used for comparing companies in our industry. You should not consider Adjusted EBITDA as a substitute for operating profit as an indicator of our operating performance or as an alternative to cash flows from operating activities as a measure of liquidity. We may calculate Adjusted EBITDA differently from other companies.

We believe that the use of Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial measures with other outpatient medical clinics, which may present similar non-GAAP financial measures to investors. In addition, you should be aware when evaluating Adjusted EBITDA that in the future we may incur expenses similar to those excluded when calculating these measures. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate Adjusted EBITDA in the same manner.

Liquidity and Capital Resources

As of June 30, 2021, we had unrestricted cash and short-term bank deposits of $18.5 million and available capacity of $5.5 million under the development line of credit. While the ongoing COVID-19 pandemic creates potential liquidity risks, as discussed further below, we believe that our existing cash and cash equivalents, our anticipated cash flows from operations and amounts available under our development line of credit will be sufficient to fund our anticipated operating and investment needs for at least the next twelve months.

While the unprecedented public health and governmental efforts to contain the spread of COVID-19 have created uncertainty as to general economic conditions for the remainder of 2021 and beyond, as of the date of this report, we believe we have adequate capital resources and sufficient access to external financing sources to satisfy our current and reasonably anticipated requirements for funds to conduct our operations and meet other needs in the ordinary course of our business. For the remainder of 2021, we expect to use or redeploy our cash resources to support our business within the context of prevailing market conditions, which, given the ongoing uncertainty surrounding the COVID-19 pandemic, could rapidly and materially deteriorate or otherwise change. Our long-term capital requirements, primarily for acquisitions and other corporate initiatives, could be dependent on our ability to access additional funds through the debt and/or equity markets. From time to time, we consider and evaluate transactions related to our portfolio and capital structure, including debt financings, equity issuances, purchases and sales of assets, and other transactions. Due to the ongoing COVID-19 pandemic, the levels of our cash flows from operations for 2021 may be impacted. There can be no assurance that we will be able to generate sufficient cash flows or obtain the capital necessary to meet our short and long-term capital requirements.

Analysis of Cash Flows

Net cash provided by operating activities increased by $6.0 million to $9.0 million for the six months ended June 30, 2021, compared to $3.0 million for the six months ended June 30, 2020. The increase was primarily attributable to an increase in revenue over the prior year period, which was partially offset by an increase in operating expenses over the prior year period.

Net cash used in investing activities was $8.9 million and $1.9 million for the six months ended June 30, 2021 and 2020, respectively. For the six months ended June 30, 2021, this included acquisitions of $4.3 million, purchases of property and equipment of $3.2 million, and reacquisition and termination of regional developer rights for $1.4 million. For the six months ended June 30, 2020, this included purchases of property and equipment of $2.0 million.

Net cash used in financing activities for the six months ended June 30, 2021 was $2.1 million, compared with net cash provided by financing activities of $5.0 million for the six months ended June 30, 2020. For the six months ended June 30, 2021, this included repayment of the PPP loan of $2.7 million and purchases of treasury stock for $0.6 million, which were partially offset by the proceeds from the exercise of stock options of $1.3 million. For the six months ended June 30, 2020, this included proceeds from: (i) the credit facility, net of related fees of $1.9 million, (ii) the loan under the CARES Act Paycheck Protection Program of $2.7 million, and (iii) the exercise of stock options of $0.4 million.

Recent Accounting Pronouncements

See Note 1, *Nature of Operations and Summary of Significant Accounting Policies,* to our condensed consolidated financial statements included in this report for information regarding recently issued accounting pronouncements that may impact our financial statements.

Off-Balance Sheet Arrangements

During the six months ended June 30, 2021, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act are accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures were designed to provide reasonable assurance of achieving such objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2021, our management concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the six months ended June 30, 2021 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

In the normal course of business, we are a party to litigation from time to time.

ITEM 1A. RISK FACTORS

We documented our risk factors in Item 1A of Part I of our Form 10-K for the year ended December 31, 2020. Other than the updates identified below, which should be read in conjunction with the risk factors as they appear in such Form 10-K, there have been no material changes to our risk factors since the filing of that report.

The following risks related to our business have been updated or replaced:

The following risk under "STATE REGULATION ON THE CORPORATE PRACTICE OF CHIROPRACTIC" has been revised as follows:

The disclosures in the risk factor under the heading "*Our management services agreements, according to which we provide non-clinical services to affiliated PCs, could be challenged by a state or chiropractor under laws regulating the practice of chiropractic. Some state chiropractic boards have made inquiries concerning our business model or have proposed or adopted changes to their rules that could be interpreted to pose a threat to our business model*" have been updated below with regard to the State of Washington**:**

In February 2020, the State of Washington Chiropractic Quality Assurance Commission delivered notices that it was investigating complaints made against three chiropractors who own clinics, or are (or were) employed by clinics, in Washington. These clinics receive management services from our franchisees that are not owned by chiropractors. The notices contained allegations of fee-splitting, specifically targeting a provision in our Franchise Disclosure Document providing for the payment of royalty fees based on revenue derived from the furnishing of chiropractic care. The notices appeared to question our business model. The Commission posed a number of questions to the chiropractors and requested documentation describing the fee structure and related matters. All three chiropractors responded to the Commission, and the Commission has since closed the investigations with respect to two of the chiropractors, finding that the evidence did not support any claim of violation. The third investigation remains outstanding.

The following risks under "RISKS RELATED TO OTHER LEGAL AND REGULATORY MATTERS" have been revised as follows:

The risk factor under the heading *"Expected new federal regulations under the Biden administration expanding the meaning of "joint employer" and evolving state laws increase our potential liability for employment law violations by our franchisees and the likelihood that we may be required to participate in collective bargaining with our franchisees' employees"* has been updated and replaced in its entirety by the following:

<u>Background</u>

As a franchisor, we could be liable for certain employment law and other labor-related claims against our franchisees if we are found to be a joint employer of our franchisees' employees.

A July 2014 decision by the United States National Labor Relations Board (NLRB) held that McDonald's Corporation could be held liable as a "joint employer" for labor and wage violations by its franchisees under the Fair Labor Standards Act (FLSA). After this decision, the NLRB issued a number of complaints against McDonald's Corporation in connection with these violations, although these complaints were ultimately settled without any admission of liability by McDonald's. Additionally, an August 2015 decision by the NLRB held that Browning-Ferris Industries was a "joint employer" for purposes of collective bargaining under the National Labor Relations Act (NLRA) and, thus, obligated to negotiate with the Teamsters union over workers supplied by a contract staffing firm within one of its recycling plants.

In an effort to effectively reverse the McDonald's Corporation decision, in 2020, the Department of Labor (DOL) issued a final rule narrowing the meaning of "joint employer" in the FLSA. Much of the new rule relating to "joint employer" status was then vacated by the United States District Court for the Southern District of New York in a lawsuit brought by various state attorneys general, which decision was appealed by the DOL. Similarly, in an effort to effectively reverse the Browning-Ferris decision, in 2020, the NLRB issued a final rule, narrowing the meaning of "joint employer" in the collective bargaining context under the NLRA.

<u>Current Status</u>

The Protecting the Right to Organize (PRO) Act, supported by the Biden administration, was passed by the U.S. House of Representatives in March 2021 and will now move to the Senate for consideration. The PRO Act, among other things, seeks to codify for purposes of the NLRA the Browning-Ferris expansive definition of “joint employer.” The PRO Act requires the NLRB and courts to consider not only an entity’s direct control, but to also consider an entity’s indirect control, over an individual’s terms and conditions of employment, including any reserved authority to control such terms and conditions, which standing alone, can be sufficient to make a finding of a “joint employer” relationship.

The PRO Act's revision of the joint employer rule could subject franchisors to potential liability under the NLRA for actions taken by their franchisees, depending on the degree of control exercised by the franchisor over the franchisee’s employees. Under the NLRA, a joint employer may be required to bargain with a union representing jointly employed workers, may be subject to joint liability for unfair labor practices committed by the other employer and may be subject to labor picketing that otherwise would be unlawful.

In addition, in March 2021, the DOL proposed the withdrawal of the joint employer final rules under the Fair Labor Standards Act (FLSA), which had narrowed the definition of “joint employer” under the FLSA. Key provisions of the joint employer final rules had already been vacated by the United States District Court for the Southern District of New York in a lawsuit brought by various state attorneys general. Under a more expansive definition of “joint employer,” a franchisor could be jointly liable with its franchisee for minimum wages and overtime pay violations, depending on the extent of control and supervision the franchisor is able to exercise over the franchisee’s employees. The public comment period with respect to the DOL’s proposed withdrawal of the joint employer final rule under the FLSA closed in April 2021.

Similar to efforts to expand the definition of “joint employer” under the NLRA and the FLSA, it is expected that the Equal Opportunity Employment Commission (EEOC), which enforces anti-discrimination laws, will issue rules which include an expansive definition of “joint employer” as well.

The following disclosure remains materially unchanged from Item 1A of Part I of our Form 10-K for the year ended December 31, 2020:

California adopted Assembly Bill 5, or AB-5, which took effect on January 1, 2020. This legislation codified the standard established in a California Supreme Court case (Dynamex Operations West v. Superior Court) for determining whether workers should be classified as employees or independent contractors, with a strict test that put the burden of proof on employers to establish that workers are not employees. The law was aimed at the so-called “gig economy” where workers in many industries are treated as independent contractors, rather than employees, and lack the protections of wage and hour laws, although California voters recently approved a ballot initiative, now under court review, to exclude app-based drivers from the application of AB-5. AB-5 is not a franchise-specific law and does not address joint employer liability; however, a significant concern exists in the franchise industry that an expansive interpretation of AB-5 or similar law could be used to hold franchisors jointly liable for the labor law violations of its franchisees. Courts addressing this issue have come to differing conclusions, and while it remains uncertain as to how the joint employer issue will finally be resolved in California, potential new federal laws or regulations may ultimately be controlling on this issue.

AB-5 has been the subject of widespread national discussion. Other states are considering similar approaches. Some states have adopted similar laws in narrower contexts, and a handful of other states have adopted similar laws for broader purposes. All of these laws or proposed laws may similarly raise concerns with respect to the expansion of joint liability to the franchise industry. Furthermore, there have been private lawsuits in which parties have alleged that a franchisor and its franchisee “jointly employ” the franchisee’s staff, that the franchisor is responsible for the franchisees’ staff (under theories of apparent agency, ostensible agency, or actual agency), or otherwise.

Evolving labor and employment laws, rules and regulations, and theories of liability could result in expensive litigation and potential claims against us as a franchisor for labor and employment-related and other liabilities that have historically been borne by franchisees. This could negatively impact the franchise business model, which could materially and adversely affect our business, financial condition and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Use of Proceeds from Registered Securities

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Commission File No. 333-198860) filed with the Securities and Exchange Commission on September 19, 2014)
3.2	Second Amended and Restated Bylaws of The Joint Corp. (incorporated by reference to Exhibit 3.(II)1 to the Company's Current Report on Form 8-K (Commission File No. 001-36724) filed with the Securities and Exchange Commission on August 9, 2018)
10.1*	Executive Short-Term Incentive Plan (amended May 2, 2021).
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, (filed herewith).
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, (filed herewith).
32**	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith
** Furnished herewith, not filed

THE JOINT CORP.

SIGNATURES

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

	THE JOINT CORP.
Dated: August 6, 2021	By: /s/ Peter D. Holt Peter D. Holt President and Chief Executive Officer (Principal Executive Officer)
Dated: August 6, 2021	By: /s/ Jake Singleton Jake Singleton Chief Financial Officer (Principal Financial Officer)

The Joint Corp.
Executive Short-Term Incentive Plan (STIP)
(Amended May 2, 2021)

Plan Overview

The Joint Corp. ("the Company") Executive Short-Term Incentive Plan ("Executive STIP") is an annual bonus plan. The STIP pool earned for each year will be determined based upon the achievement of the Company's Target EBITDA for that year. Upon achievement of the Target EBITDA for the calendar year, each dollar of EBITDA in excess of Target EBITDA will be credited to a pool, which will be combined with the Non-Executive STIP Pool (the "Combined Pool") until a maximum Combined Pool is reached in an amount established by the Compensation Committee (the "Combined Pool Maximum"). Except for amounts earned pursuant to the EBITDA Bonus Accelerator described herein, in no event will the amount in the Combined Pool exceed the Combined Pool Maximum.

Eligibility: The CEO and CFO of the Company are eligible to participate in the Executive STIP. Unless otherwise agreed to in writing between the Company and a participant, participants must be actively employed by the Company on the date of payout in order to receive an award under the Executive STIP. The following are the eligible percentages of base salary:

CEO	65%
CFO	40%

Proration: For those participants whose employment with the Company starts during mid-year, their participation in the plan shall be prorated based on the number of days employed during that calendar year divided by 365 days. If the total amount in the STIP Pool is insufficient to award all participants (including the participants in the coinciding Non-Executive STIP) 100% of their STIP award, each participant's award shall be reduced by his or her pro rata share of the shortfall.

Award: 100% of each individual Executive STIP award is a function of achieving results in excess of the Target EBITDA (defined below). The percentage of achievement of that metric will be the same as the percentage of funding (between 85% and 100%) of the maximum bonus pool. The Company will not fund the Combined Pool and no award will be granted unless the amount to be allocated to the Combined Pool would equal at least 85% of the Combined Pool Maximum (the "Award Threshold"), provided that if the amount allocated to the Combined Pool is less than the Award Threshold, the Board of Directors may in its sole discretion approve and create the Combined Pool under such terms and conditions as the Board of Directors may determine.

STIP awards are expected to be paid following approval by the Compensation Committee of the Board of Directors (the "Compensation Committee") and completion of the Company's annual audit. Executive STIP awards will be paid in cash by no later than March 15th of the following year.

EBITDA Bonus Accelerator: If total EBITDA achieved exceeds the Target EBITDA for the year after 100% funding of the STIP Pool discussed above, the Company will fund an additional 25% into the bonus pool (up to a maximum of 125% of the participants' target STIP) to be allocated to participants on a pro-rata basis based on their respective eligibility. The STIP Pool plus this additional 25% Bonus Accelerator will represent the Adjusted STIP Pool to be awarded.

Plan Description

Target EBITDA: In connection with the annual budgeting process, the Company will establish an annual budget with corresponding EBITDA that must be approved by the Board of Directors of the Company.

EBITDA Definition: The Company shall prepare a budget on a consistent basis from year to year and apply a consistent definition of EBITDA. The company currently defines EBITDA as net income (loss) before interest expense, income taxes, depreciation, and amortization expenses.

Example of Combined Pool and EBITDA Bonus Accelerator

Scenario:	**Achievement <85%**	**Achievement >85%,<100%**	**Achievement >100%**	**Achievement >100%,<200%**	**Achievement >200%**	
Actual EBITDA before STIP Accrual	$ 12,700,000	$13,020,000	$13,340,000	$ 14,300,000	$15,500,000	
Target EBITDA	(11,500,000)	(11,500,000)	(11,500,000)	(11,500,000)	(11,500,000)	A
Excess EBITDA over Target EBITDA	1,200,000	1,520,000	1,840,000	2,800,000	4,000,000	
Combined Pool Maximum (CPM)	(1,600,000)	(1,600,000)	(1,600,000)	(1,600,000)	(1,600,000)	B
Scenario Achievement/Pool Funded %	75%	95%	115%	175%	250%	
Combined Pool (CP)	-	1,520,000	1,600,000	1,600,000	1,600,000	C
Excess EBITDA over Target EBITDA and CP	-	-	240,000	1,200,000	2,400,000	
Potential EBITDA Bonus Accelerator	-	-	60,000	300,000	600,000	D
Amounts in Excess of Accelerator Maximum	-	-	-	-	(200,000)	E
EBITDA Bonus Accelerator Pool (AP)	-	-	60,000	300,000	400,000	
Total Adjusted STIP Pool (CP + AP)	-	1,520,000	1,660,000	1,900,000	2,000,000	

A Established by Board of Directors annually
B Combined potential achievement of particpants, calculated as salary x STIP bonus achievement % opportur
C Excess EBITDA over Target EBITDA, not to exceed Combined Pool Maximum
D Excess EBITDA over Target EBITDA AND Combined Pool x 25%
E Reducing Potential EBITDA Bonus Accelerator, as Accelerator Pool may not exceed CP x 25%

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14(a) AND 15a-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, Peter D. Holt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 of The Joint Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021

/s/ Peter D. Holt

Peter D. Holt
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULES 13a-14(a) AND 15a-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, Jake Singleton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 of The Joint Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021

/s/ Jake Singleton

Jake Singleton
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of The Joint Corp. (the "Company"), for the quarter ended Date: June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, in his or her capacity as an officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Peter D. Holt
Peter D. Holt
President and Chief Executive Officer
(Principal Executive Officer)

Dated August 6, 2021

By: /s/ Jake Singleton
Jake Singleton
Chief Financial Officer
(Principal Financial Officer)

Dated August 6, 2021