

JOINT Corp
Form 10-Q
August 10, 2018

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, 2018

OR

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

For the transition period from _____ to _____

Commission file number: 001-36724

The Joint Corp.

(Exact name of registrant as specified in its charter)

Delaware **90-0544160**
(State or other jurisdiction of incorporation or
organization) **(IRS Employer Identification No.)**

16767 N. Perimeter Drive, Suite 240, Scottsdale
Arizona **85260**
(Address of principal executive offices) **(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)

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

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

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

Edgar Filing: JOINT Corp - Form 10-Q

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

Emerging growth company

Edgar Filing: JOINT Corp - Form 10-Q

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 3, 2018, the registrant had 13,725,994 shares of Common Stock (\$0.001 par value) outstanding.

THE JOINT CORP.

FORM 10-Q

TABLE OF CONTENTS

	<u>PAGE</u> <u>NO.</u>
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30,</u>	
<u>2018 and 2017 (unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and</u>	
<u>2017 (unaudited)</u>	<u>3</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>4</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 4. Controls and Procedures</u>	<u>27</u>
Part I, Item 3 – Not applicable	
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>27</u>
<u>Item 1A. Risk Factors</u>	<u>27</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>28</u>
<u>Item 6. Exhibits</u>	<u>28</u>
<u>SIGNATURES</u>	<u>28</u>
<u>EXHIBIT INDEX</u>	<u>29</u>
Part II, Items 3, 4, and 5 - Not applicable	

PART I: FINANCIAL INFORMATION**ITEM 1. UNAUDITED FINANCIAL STATEMENTS****THE JOINT CORP. AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2018 (unaudited)	December 31, 2017 (as adjusted)
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,583,025	\$4,216,221
Restricted cash	124,899	103,819
Accounts receivable, net	1,166,722	1,138,380
Notes receivable - current portion	180,706	171,928
Deferred franchise costs - current portion	539,517	498,433
Prepaid expenses and other current assets	632,791	542,342
Total current assets	7,227,660	6,671,123
Property and equipment, net	3,658,823	3,800,466
Notes receivable, net of current portion	259,255	351,857
Deferred franchise costs, net of current portion	2,483,977	2,312,837
Intangible assets, net	1,645,268	1,760,042
Goodwill	2,916,426	2,916,426
Deposits and other assets	596,251	623,308
Total assets	\$18,787,660	\$18,436,059
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$723,359	\$1,068,669
Accrued expenses	120,941	86,959
Co-op funds liability	107,134	89,681
Payroll liabilities	971,968	867,430
Notes payable - current portion	100,000	100,000
Deferred rent - current portion	164,018	152,198
Deferred franchise revenue - current portion	2,039,598	1,994,182
Deferred revenue from company clinics	937,526	867,804
Other current liabilities	403,160	152,534
Total current liabilities	5,567,704	5,379,457
Notes payable, net of current portion	1,000,000	1,000,000
Deferred rent, net of current portion	731,651	802,492

Edgar Filing: JOINT Corp - Form 10-Q

Deferred franchise revenue, net of current portion	9,657,869	9,552,746
Deferred tax liability	60,552	136,434
Other liabilities	424,616	411,497
Total liabilities	17,442,392	17,282,626
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, 2018, and December 31, 2017	-	-
Common stock, \$0.001 par value; 20,000,000 shares authorized, 13,738,078 shares issued and 13,723,994 shares outstanding as of June 30, 2018 and 13,600,338 shares issued and 13,586,254 outstanding as of December 31, 2017	13,738	13,600
Additional paid-in capital	37,851,248	37,229,869
Treasury stock 14,084 shares as of June 30, 2018 and December 31, 2017, at cost	(86,045)	(86,045)
Accumulated deficit	(36,433,673)	(36,003,991)
Total stockholders' equity	1,345,268	1,153,433
Total liabilities and stockholders' equity	\$18,787,660	\$18,436,059

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

THE JOINT CORP. AND SUBSIDIARY**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(as adjusted)		(as adjusted)	
Revenues:				
Revenues and management fees from company clinics	\$3,420,685	\$2,679,937	\$6,677,309	\$5,176,271
Royalty fees	2,421,185	1,854,087	4,695,173	3,560,160
Franchise fees	449,144	363,834	797,481	659,374
Advertising fund revenue	687,752	621,578	1,346,782	1,220,014
Software fees	315,910	282,525	623,385	549,538
Regional developer fees	137,412	98,741	272,423	162,887
Other revenues	124,744	99,348	242,194	178,953
Total revenues	7,556,832	6,000,050	14,654,747	11,507,197
Cost of revenues:				
Franchise cost of revenues	977,782	700,986	1,850,550	1,335,841
IT cost of revenues	73,802	65,452	173,366	124,313
Total cost of revenues	1,051,584	766,438	2,023,916	1,460,154
Selling and marketing expenses	1,293,663	1,058,224	2,395,967	2,016,930
Depreciation and amortization	404,975	503,226	792,392	1,081,212
General and administrative expenses	4,656,308	4,667,688	9,731,234	9,231,765
Total selling, general and administrative expenses	6,354,946	6,229,138	12,919,593	12,329,907
Loss on disposition or impairment	250,704	-	250,704	417,971
Loss from operations	(100,402)	(995,526)	(539,466)	(2,700,835)
Other income (expense):				
Bargain purchase gain	75,264	-	75,264	-
Other income (expense), net	(11,689)	(24,031)	(22,884)	(43,496)
Total other income (expense)	63,575	(24,031)	52,380	(43,496)
Loss before income tax expense	(36,827)	(1,019,557)	(487,086)	(2,744,331)
Income tax benefit (expense)	(5,951)	(2,583)	57,404	(43,192)
Net loss and comprehensive loss	\$(42,778)	\$(1,022,140)	\$(429,682)	\$(2,787,523)
Loss per share:				
Basic and diluted loss per share	\$(0.00)	\$(0.08)	\$(0.03)	\$(0.21)
Basic and diluted weighted average shares	13,622,710	13,127,255	13,605,370	13,085,159

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

THE JOINT CORP. AND SUBSIDIARY**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	Six Months Ended	
	June 30,	
	2018	2017
	(as adjusted)	
Cash flows from operating activities:		
Net loss	\$(429,682)	\$(2,787,523)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	792,392	1,081,212
Loss on sale of property and equipment	974	-
Loss on disposition or impairment of assets	250,704	417,971
Net franchise fees recognized upon termination of franchise agreements	(72,450)	-
Bargain purchase gain	(75,264)	-
Deferred income taxes	(75,882)	55,332
Stock based compensation expense	346,629	227,121
Changes in operating assets and liabilities:		
Accounts receivable	104,939	(161,302)
Income taxes receivable	-	38,960
Prepaid expenses and other current assets	(90,449)	(57,721)
Deferred franchise costs	(260,774)	129,101
Deposits and other assets	42,359	49,187
Accounts payable	(384,538)	(83,621)
Accrued expenses	33,982	(32,572)
Co-op funds liability	17,453	9,337
Payroll liabilities	104,538	(140,877)
Other liabilities	13,041	(96,492)
Deferred rent	(59,021)	(343,191)
Deferred revenue	354,259	906,444
Net cash provided by (used in) operating activities	613,210	(788,634)
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(80,000)	-
Purchase of property and equipment	(370,757)	(106,254)
Payments received on notes receivable	83,824	25,826
Net cash used in investing activities	(366,933)	(80,428)
Cash flows from financing activities:		
Borrowings on revolving credit note payable	-	1,000,000
Proceeds from exercise of stock options	141,607	83,495
Repayments on notes payable	-	(231,500)
Net cash provided by financing activities	141,607	851,995
Increase (decrease) in cash	387,884	(17,067)

Edgar Filing: JOINT Corp - Form 10-Q

Cash and restricted cash, beginning of period	4,320,040	3,344,258
Cash and restricted cash, end of period	\$4,707,924	\$3,327,191

During the six months ended June 30, 2018 and 2017, cash paid for income taxes was \$19,522 and \$22,838, respectively. During the six months ended June 30, 2018 and 2017, cash paid for interest was \$50,000 and \$56,993, respectively.

Supplemental disclosure of non-cash activity:

As of June 30, 2018, we had property and equipment purchases of \$19,228 included in accounts payable.

As of June 30, 2018, we had stock option exercise proceeds of \$133,281 included in accounts receivable.

In connection with our acquisitions of franchises during the six months ended June 30, 2018, we acquired \$17,964 of property and equipment, intangible assets of \$129,000, and favorable leases of \$15,302, in exchange for \$80,000 in cash to the sellers with \$20,000 held in accounts payable as holdback for settlement of final expenses. Additionally, at the time of these transactions, we carried deferred revenue of \$12,998, representing franchise fees collected upon the execution of the franchise agreement. In accordance with ASC-952-605, we netted this amount against the aggregate purchase price of the acquisitions (Note 2).

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

THE JOINT CORP. AND SUBSIDIARY

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”) and its wholly owned subsidiary, The Joint Corporate Unit No. 1, LLC (collectively, the “Company”). These unaudited condensed consolidated financial statements should be read in conjunction with The Joint Corp. and Subsidiary consolidated financial statements and the notes thereto as set forth in The Joint Corp.’s Form 10-K, which included all disclosures required by generally accepted accounting principles (“GAAP”). In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the Company’s financial position on a consolidated basis and the consolidated results of operations and cash flows for the interim periods presented. The results of operations for the periods ended June 30, 2018 and 2017 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, 2018 and 2017 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 under the new revenue standard, see Note 3, *Revenue Disclosures*. Certain balances were reclassified from general and administrative expenses to other expense, net, as well as certain balances from other revenues to revenues and management fees from company clinics for the period ended June 30, 2017 to conform to the current year presentation and align with the segment footnote presentation.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of The Joint Corp. and its wholly owned subsidiary, The Joint Corporate Unit No. 1, LLC, which was dormant for all periods presented.

All significant intercompany accounts and transactions between The Joint Corp. and its subsidiary have been eliminated in consolidation.

Comprehensive Loss

Net loss and comprehensive loss are the same for the three and six months ended June 30, 2018 and 2017.

Nature of Operations

The Joint, a Delaware corporation, was formed on March 10, 2010 for the principal purpose of franchising, developing and managing chiropractic clinics, selling regional developer rights and supporting the operations of franchised 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.

Certain states in which the Company manages clinics regulate the practice of chiropractic care and require that chiropractic services be provided by legal entities organized under state laws as professional corporations or PCs. Such PCs are VIEs. In these states, the Company has entered into management services agreements with such PCs under which the Company provides, on an exclusive basis, all non-clinical services of the chiropractic practice. The Company has analyzed its relationship with the PCs and has determined that the Company does not have the power to direct the activities of the PCs. As such, the activities of the PCs are not included in the Company's condensed consolidated financial statements.

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, 2018 and December 31, 2017.

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.

Accounts Receivable

Accounts receivable represent amounts due from franchisees for initial franchise fees and 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, 2018, and December 31, 2017, the Company had an allowance for doubtful accounts of \$0.

Deferred Franchise Costs

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

Software Developed

The Company capitalizes certain software development costs. These capitalized costs are primarily related to proprietary 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, generally five years.

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 range from four to eight years. In the case of regional developer rights, the Company amortizes the acquired regional developer rights over seven years. The fair value of customer relationships is amortized over their estimated useful life of two 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. No impairments of goodwill were recorded for the three and six months ended June 30, 2018 and 2017.

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 have been impaired. No impairments of long-lived assets were recorded for the three and six months ended June 30, 2018 and 2017.

Advertising Fund

The Company has established an advertising fund for national/regional marketing and advertising of services offered by its clinics. The monthly marketing fee is 2% of clinic sales. The Company segregates the marketing funds collected which are included in restricted cash on its condensed 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.

Accounting for Costs Associated with Exit or Disposal Activities

The Company recognizes a liability for the cost associated with an exit or disposal activity that is measured initially at its fair value in the period in which the liability is incurred.

Costs to terminate an operating lease or other contracts are (a) costs to terminate the contract before the end of its term or (b) costs that will continue to be incurred under the contract for its remaining term without economic benefit to the entity. A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity shall be recognized at the cease-use date. In periods subsequent to initial measurement, changes to the liability are measured using the credit adjusted risk-free rate that was used to measure the liability initially. The cumulative effect of a change resulting from a revision to either the timing or the amount of estimated cash flows shall be recognized as an adjustment to the liability in the period of the change.

Lease exit liability at December 31, 2017	\$299,400
Additions or changes in estimates	250,704
Settlements	-
Net accretion	(24,342)
Lease exit liability at June 30, 2018	\$525,762

Deferred Rent

The Company leases office space for its corporate offices and company-owned or managed clinics under operating leases, which may include rent holidays and rent escalation clauses. It recognizes rent holiday periods and scheduled rent increases on a straight-line basis over the term of the lease. The Company records tenant improvement allowances as deferred rent and amortizes the allowance over the term of the lease, as a reduction to rent expense.

Revenue Recognition

The Company generates revenue primarily through its company-owned and managed clinics, royalties, franchise fees, advertising fund, and through IT related income and computer software fees.

Revenues and Management Fees from Company 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 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. In other states where state law requires the chiropractic practice to be owned by a licensed chiropractor, the Company enters into a management agreement with the doctor's PC. Under the management agreement, the Company provides administrative and business management services to the doctor's PC in return for a monthly management fee. Due to certain implicit variable consideration in these management agreement contracts, and based on past practices between the parties, the Company determined that it cannot meet the probable threshold if it includes all of the variable consideration in the transaction price. Therefore, the Company recognizes revenue under these contracts only when it has a high degree of confidence that revenue will not be reversed in a subsequent reporting period.

Royalties and Advertising Fund Revenue. The Company collects royalties, as stipulated in the franchise agreement, equal to 7% 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 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 and are recognized as franchisee clinic level sales occur. Royalties are collected bi-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.

Regional Developer Fees. During 2011, the Company established a regional developer program to engage independent contractors to assist in developing specified geographical regions. Under the historical program, regional developers paid a license fee for each franchise they received the right to develop within the region. In 2017, the program was revised to grant exclusive geographical territory and establish a minimum development obligation within that defined territory. Regional developers receive fees which are collected from franchisees upon the sale of franchises within their region and a royalty of 3% of sales generated by franchised clinics in their region. Regional developer fees paid to the Company are nonrefundable and are recognized as revenue ratably on a straight-line basis over the term of the regional developer agreement, which is considered to be upon the execution of the agreement. The franchisor'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 franchise license and as such are considered to represent a single performance obligation.

Software Fees. The Company collects a monthly fee 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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$471,056 and \$881,694 for the three and six months ended June 30, 2018, respectively. Advertising expenses were \$359,997 and \$646,411 for the three and six months ended June 30, 2017, respectively.

Income Taxes

The Company uses an estimated annual effective tax rate method in computing its interim tax provision. This effective tax rate is based on forecasted annual pre-tax income, permanent tax differences and statutory tax rates.

The Company accounts for uncertainty in income taxes by recognizing the tax benefit or expense from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The Company measures the tax benefits and expenses recognized in the condensed consolidated financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company has not identified any material uncertain tax positions as of June 30, 2018 and December 31, 2017. Interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expenses.

The Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”) was signed into law on December 22, 2017. The 2017 Tax Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The Company has not completed its determination of the accounting implications of the 2017 Tax Act on its accruals. However, it has reasonably estimated the effects of the 2017 Tax Act and recorded provisional amounts in its financial statements as of June 30, 2018. As the Company completes its analysis of the 2017 Tax Act, collects and prepares necessary data, and interprets any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, it may make adjustments to the provisional amounts.

Loss per Common Share

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

Edgar Filing: JOINT Corp - Form 10-Q

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017 (as adjusted)	June 30, 2018	2017 (as adjusted)
Net loss	\$(42,778)	\$(1,022,140)	\$(429,682)	\$(2,787,523)
Weighted average common shares outstanding - basic	13,622,710	13,127,255	13,605,370	13,085,159
Effect of dilutive securities:				
Unvested restricted stock, stock options and warrants	-	-	-	-
Weighted average common shares outstanding - diluted	13,622,710	13,127,255	13,605,370	13,085,159
Basic and diluted loss per share	\$(0.00)	\$(0.08)	\$(0.03)	\$(0.21)

The following table summarizes the potential shares of common stock that were excluded from diluted net loss per share, because the effect of including these potential shares was anti-dilutive:

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Unvested restricted stock	37,012	65,700	37,012	65,700
Stock options	976,271	1,044,286	976,271	1,044,286
Warrants	90,000	90,000	90,000	90,000

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 quoted market prices and the grant-date fair value of stock options using the Black-Scholes option pricing model. In order to calculate the fair value of the options, certain assumptions are made regarding the components of the model, including the estimated fair value of underlying common stock, 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.

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 deferred franchise costs, lease exit liabilities, uncertain tax positions, realizability of deferred tax assets, impairment of goodwill and intangible assets and purchase price allocations.

Recent Accounting Pronouncements

Accounting Standards Adopted Effective January 1, 2018

On January 1, 2018, the Company adopted the guidance of Accounting Standards Codification 606 - Revenue from Contracts with Customers (“ASC 606”). The Company adopted this change in accounting principles using the full retrospective method to all contracts at the date of initial application. Accordingly, previously reported financial information has been restated to reflect the application of ASC 606 to all comparative periods presented. The Company utilized all of the practical expedients for adoption allowed under the full retrospective method. The Company believes utilization of the practical expedients did not have a significant impact on the consolidated financial statements of the periods presented herein.

Adoption of ASC 606 impacted the Company's previously reported consolidated balance sheet as follows (in thousands):

THE JOINT CORP. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	As of December 31, 2017 (as reported)	Adjustments due to ASC 606 Adoption	As of December 31, 2017 (as adjusted)
ASSETS			
Current assets:			
Deferred franchise costs - current portion	\$ 484	\$ 14	\$ 498
Total current assets	6,657	14	6,671
Deferred franchise costs, net of current portion	813	1,500	2,313
Deposits and other assets	612	12	623
Total assets	\$ 16,910	\$ 1,526	\$ 18,436
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Deferred franchise revenue - current portion	\$ 1,686	\$ 308	\$ 1,994
Other current liabilities	49	104	153
Total current liabilities	4,967	412	5,379
Deferred revenue, net of current portion	4,693	4,859	9,553
Total liabilities	12,011	5,271	17,283
Stockholders' equity:			
Accumulated deficit	(32,259)	(3,745)	(36,004)
Total stockholders' equity	4,899	(3,745)	1,153
Total liabilities and stockholders' equity	\$ 16,910	\$ 1,526	\$ 18,436

The revenue and deferred cost adjustments are due to the change in method of recognizing franchise and regional developer fees. See Note 3, *Revenue Disclosures*, for a description of these changes. The change in other current liabilities relates to the Company's classification of funds received related to letters of intent for future clinic licenses.

Adoption of ASC 606 impacted the Company's previously reported condensed consolidated statement of operations for the three and six months ended June 30, 2017, as follows (in thousands, except per share data):

THE JOINT CORP. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		
	Three Months Ended	Adjustments Due	Three Months Ended
	June 30, 2017 (as reported)	to ASC 606 Adoption	June 30, 2017 (as adjusted)
Revenues:			
Franchise fees	\$358	\$ 6	\$ 364
Regional developer fees	120	(21)	99
Total revenues	6,015	(15)	6,000
Cost of revenues:			
Franchise cost of revenues	705	(4)	701
Total cost of revenues	770	(4)	766
Loss from operations	(985)	(11)	(996)
Loss before income tax expense	(1,009)	(11)	(1,020)
Net loss and comprehensive loss	\$(1,011)	\$ (11)	\$(1,022)
Loss per share:			
Basic and diluted loss per share	\$(0.08)	\$ (0.00)	\$(0.08)

Edgar Filing: JOINT Corp - Form 10-Q

	Six Months Ended		
	Six Months Ended	Adjustments Due	Six Months Ended
	June 30, 2017 (as reported)	to ASC 606 Adoption	June 30, 2017 (as adjusted)
Revenues:			
Franchise fees	\$807	\$ (148)	\$659
Regional developer fees	197	(34)	163
Total revenues	11,689	(181)	11,507
Cost of revenues:			
Franchise cost of revenues	1,388	(52)	1,336
Total cost of revenues	1,512	(52)	1,460
Loss from operations	(2,572)	(129)	(2,701)
Loss before income tax expense	(2,615)	(129)	(2,744)
Net loss and comprehensive loss	\$(2,658)	\$ (129)	\$(2,788)
Loss per share:			
Basic and diluted loss per share	\$(0.20)	\$ 0.06	\$(0.14)

The revenue and deferred cost adjustments are due to the change in method of recognizing franchise and regional developer fees. See Note 3, *Revenue Disclosures*, for a description of these changes.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force), to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The Company retrospectively adopted the standard on January 1, 2018 and reclassified restricted cash to be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. Accordingly, we reclassified \$53,980 of restricted cash into cash, cash equivalents, and restricted cash as of June 30, 2017, which resulted in an increase in net cash used in operating activities in the condensed consolidated statement of cash flows for the six months ended June 30, 2017. The adoption of the guidance also requires us to make disclosures about the nature of restricted cash balances. See previous discussion in Note 1. '*Restricted Cash*' for these disclosures.

In December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* ("SAB 118"), which allows us to record provisional amounts during a measurement period not to extend beyond one year from the enactment date. SAB 118 was codified by the FASB as part of ASU No. 2018-05, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. As of June 30, 2018, we have not made any additional measurement period adjustments. Such adjustments may be necessary in future periods due to, among other things, the significant complexity of the 2017 Tax Act and anticipated additional regulatory guidance that may be issued by the Internal Revenue Service ("IRS"), changes in analysis, interpretations and assumptions the Company has made and actions the Company may take as a result of the

2017 Tax Act. We are continuing to gather information to assess the application of the 2017 Tax Act and expect to complete our analysis with the filing of our 2017 income tax returns later in 2018. We do not expect any subsequent adjustments to have any material impact on the consolidated balance sheets or statements of operations due to our historical loss position and the full valuation allowance on our net deferred tax assets.

Additional new accounting guidance became effective for the Company effective January 1, 2018 that the Company reviewed and concluded was either not applicable to the Company's operations or had no material effect on the Company's consolidated financial statements.

Newly Issued Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance will require lessees to recognize a right-of-use asset and a lease liability for virtually all leases, other than leases with a term of 12 months or less, and to provide additional disclosures about leasing arrangements. Accounting by lessors is largely unchanged from existing accounting guidance. The Company will be required to adopt the new guidance on a modified retrospective basis beginning with its first fiscal quarter of 2019. Early adoption is permitted.

While the Company is still in the process of evaluating the impact of the new guidance on its consolidated financial statements and disclosures, the Company expects adoption of the new guidance will have a material impact on its Consolidated Balance Sheets due to recognition of the right-of-use asset and lease liability related to its operating leases. While the new guidance is also expected to impact the measurement and presentation of elements of expenses and cash flows related to leasing arrangements, the Company does not presently believe there will be a material impact on its Consolidated Statements of Comprehensive Income or Consolidated Statements of Cash Flows. Recognition of a lease liability related to operating leases will not impact any covenants related to the Company's long-term debt because the debt agreements specify that covenant ratios be calculated using U.S. GAAP in effect at the time the debt agreements were entered into.

The Company reviewed other newly issued accounting pronouncements and concluded that they either are not applicable to the Company's operations or that no material effect is expected on the Company's financial statements upon future adoption.

Note 2: Acquisition

On April 6, 2018, the Company entered into an Asset and Franchise Purchase Agreement under which (i) the Company repurchased from the seller one operating franchise in San Diego, California and (ii) the parties agreed to mutually terminate a second franchise agreement for an operating franchise. The Company intends to operate the remaining franchise as a company-managed clinic. The total purchase price for the transaction was \$100,000, less \$12,998 of deferred revenue resulting in total purchase consideration of \$87,002 related to the transaction.

The Company incurred approximately \$3,250 of transaction costs related to this acquisition, which is included in general and administrative expenses in the accompanying statements of operations.

Purchase Price Allocation

The following summarizes the aggregate estimated fair values of the assets acquired and liabilities assumed during 2018 as of the acquisition date:

Property and equipment	\$17,964
Intangible assets	129,000
Favorable leases	15,302
Total assets acquired	162,266
Bargain purchase gain	(75,264)
Net purchase price	\$87,002

Intangible assets in the table above consist of reacquired franchise rights of \$85,000 amortized over an estimated useful life of four years and customer relationships of \$44,000 amortized over an estimated useful life of two years.

Pro Forma Results of Operations (Unaudited)

Edgar Filing: JOINT Corp - Form 10-Q

The following table summarizes selected unaudited pro forma condensed consolidated statements of operations data for the three and six months ended June 30, 2018 and 2017 as if the acquisitions in 2018 had been completed on January 1, 2017.

	Pro Forma for the Three Months Ended		Pro Forma for the Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues, net	\$7,561,471	\$6,082,097	\$14,659,386	\$11,663,316
Net income (loss)	\$139,769	\$(1,022,668)	\$(440,214)	\$(2,357,491)

This selected unaudited pro forma consolidated financial data is included only for the purpose of illustration and does not necessarily indicate what the operating results would have been if the acquisitions had been completed on that date. Moreover, this information is not indicative of what the Company's future operating results will be. The information for 2017 and 2018 prior to the acquisitions is included based on prior accounting records maintained by the acquired companies. In some cases, accounting policies differed materially from accounting policies adopted by the Company following the acquisitions. For 2018, this information includes actual data recorded in the Company's financial statements for the period subsequent to the date of the acquisitions. The Company's consolidated statement of operations for the three and six months ended June 30, 2018 includes net revenue and net income of approximately \$62,000 and \$17,000, respectively, attributable to the acquisitions.

The pro forma amounts included in the table above reflect the application of accounting policies and adjustment of the results of the clinics to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property and equipment and intangible assets had been applied from January 1, 2017.

Note 3: Revenue Disclosures

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 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. In other states where state law requires the chiropractic practice to be owned by a licensed chiropractor, the Company enters into a management agreement with the doctor's PC. Under the management agreement, the Company provides administrative and business management services to the doctor's PC in return for a monthly management fee. Due to certain implicit variable consideration in these management agreement contracts, and based on past practices between the parties, the Company determined that it cannot meet the probable threshold if it includes all of the variable consideration in the transaction price. Therefore, the Company recognizes revenue under these contracts only when it has a high degree of confidence that revenue will not be reversed in a subsequent reporting period.

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

The Company currently franchises its concept across 29 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. Since the Company considers the licensing of the franchising right to be a single performance obligation, no allocation of the transaction price is required.

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

Franchise fees are recognized as revenue ratably on a straight-line basis over the term of the 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 is 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 monthly software fee, which is charged monthly. The Company recognizes revenue related to these 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.

Prior to the adoption of ASC 606, the Company generally recognized the entire franchise fee as revenue at the clinic opening date. The impact on the Company's previously reported financial statements of the change from that policy to the policy described above is presented in Note 1, *Nature of Operations and Summary of Significant Accounting Policies*.

Under ASC 606, the Company will record advertising fees received under franchise agreements as advertising fund revenue. Under previously issued accounting guidance for franchisors, advertising revenue and expense were recognized in the same amount in each period. That guidance was superseded by ASC 606 such that advertising expense may now be different than the advertising revenue recognized as described above. The impact of these changes with respect to advertising fees and advertising expenses on the Company's previously reported financial statements was not material.

Regional Developer Fees

The Company currently utilizes eighteen 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 territory fees. The Company recognizes the regional developer fee as revenue ratably on a straight-line basis over the term of the 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 statements of operations appropriately reflect the disaggregation of its revenue by major type for the three and six months ended June 30, 2018 and 2017.

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, 2018 were as follows (in thousands):

	Deferred Revenue (short- and long- term)
Balance at December 31, 2017	\$ 11,547
Recognized as revenue during the six months ended June 30, 2018	(1,070)
Fees received and deferred during the six months ended June 30, 2018	1,220
Balance at June 30, 2018	\$ 11,697

Changes in the Company's contract assets for deferred franchise costs during the six months ended June 30, 2018 are as follows (in thousands):

Deferred
Franchise
Costs
(short-
and long-
term)

Edgar Filing: JOINT Corp - Form 10-Q

Balance at December 31, 2017	\$ 2,811
Recognized as cost of revenue during the six months ended June 30, 2018	(300)
Costs incurred and deferred during the six months ended June 30, 2018	512
Balance at June 30, 2018	\$ 3,023

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, 2018 (in thousands):

Contract liabilities expected to be recognized in	Amount
2018 (remaining)	\$1,028
2019	2,040
2020	2,041
2021	1,917
2022	1,493
Thereafter	3,178
Total	\$11,697

Note 4. Restricted Cash

The table below reconciles the cash and cash equivalents balance and restricted cash balances from our condensed consolidated balance sheet to the amount of cash reported on the condensed consolidated statement of cash flows:

	June 30, 2018	June 30, 2017
Cash and cash equivalents	\$4,583,025	\$3,046,777
Restricted cash	124,899	280,414
Total cash, cash equivalents and restricted cash	\$4,707,924	\$3,327,191

Note 5: Notes Receivable

Effective April 29, 2017, the Company entered into a regional developer agreement for certain territories in the state of Florida in exchange for \$320,000, of which \$187,000 was funded through a promissory note. The note bears interest at 10% per annum for 42 months and requires monthly principal and interest payments over 36 months, beginning November 1, 2017 and maturing on October 1, 2020. The note is collateralized by the regional developer rights in the respective territory.

Effective August 31, 2017, the Company entered into a regional developer agreement for certain territories in Maryland/Washington DC in exchange for \$220,000, of which \$117,475 was funded through a promissory note. The note bears interest at 10% per annum for 36 months and requires monthly principal and interest payments over 36 months, beginning September 1, 2017 and maturing on August 1, 2020. The note is collateralized by the regional developer rights in the respective territory.

Effective September 22, 2017, the Company entered into a regional developer and asset purchase agreement for certain territories in Minnesota in exchange for \$228,293, of which \$119,147 was funded through a promissory note. The note bears interest at 10% per annum for 36 months and requires monthly principal and interest payments over 36 months, beginning October 1, 2017 and maturing on September 1, 2020. The note is collateralized by the regional developer rights in the respective territory.

Effective October 10, 2017, the Company entered into a regional developer agreement for certain territories in Texas, Oklahoma and Arkansas in exchange for \$170,000, of which \$135,688 was funded through a promissory note. The note bears interest at 10% per annum for 36 months and requires monthly principal and interest payments over 36 months, beginning September 24, 2017 and maturing on October 24, 2020. The note is collateralized by the regional developer rights in the respective territory.

The net outstanding balances of the notes as of June 30, 2018 and December 31, 2017 were \$439,961 and \$523,785, respectively. Maturities of notes receivable as of June 30, 2018 are as follows:

2018 (remainder) \$88,104

2019	189,931
2020	161,926
2021	-
2022	-
Thereafter	-
Total	\$439,961

Note 6: Property and Equipment

Property and equipment consists of the following:

	June 30, 2018	December 31, 2017
Office and computer equipment	\$1,191,539	\$1,137,970
Leasehold improvements	5,217,969	5,117,379
Software developed	1,295,450	1,066,454
	7,704,958	7,321,803
Accumulated depreciation	(4,476,967)	(3,928,349)
	3,227,991	3,393,454
Construction in progress	430,832	407,012
	\$3,658,823	\$3,800,466

Depreciation expense was \$284,265 and \$548,618 for the three and six months ended June 30, 2018, respectively. Depreciation expense was \$356,329 and \$759,459 for the three and six months ended June 30, 2017, respectively.

Note 7: Fair Value Consideration

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.

The Company does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks.

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, 2018, and December 31, 2017, the Company did not have any financial instruments that were measured on a recurring basis as Level 1, 2 or 3.

The intangible assets resulting from the acquisition (reference Note 2) were recorded at fair value on a non-recurring basis and are considered Level 3 within the fair value hierarchy.

Note 8: Intangible Assets

Intangible assets consist of the following:

	As of June 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:			
Reacquired franchise rights	\$1,758,000	\$786,884	\$971,116
Customer relationships	745,000	706,500	38,500
Reacquired development rights	1,162,000	526,348	635,652
	\$3,665,000	\$2,019,732	\$1,645,268

	As of December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:			
Reacquired franchise rights	\$1,673,000	\$657,943	\$1,015,057
Customer relationships	701,000	674,667	26,333
Reacquired development rights	1,162,000	443,348	718,652
	\$3,536,000	\$1,775,958	\$1,760,042

Amortization expense was \$120,710 and \$243,774 for the three and six months ended June 30, 2018, respectively. Amortization expense was \$146,897 and \$321,753 for the three and six months ended June 30, 2017, respectively.

Estimated amortization expense for 2018 and subsequent years is as follows:

2018 (remainder)	\$228,252
2019	456,503
2020	440,007
2021	369,286
2022	139,006
Thereafter	12,214
Total	\$1,645,268

Note 9: Debt

Notes Payable

During 2015, the Company issued 12 notes payable, which matured through February 2017, totaling \$800,350 as a portion of the consideration paid in connection with the Company’s various acquisitions. Interest rates ranged from 1.5% to 5.25%.

During 2016, the Company issued two notes payable totaling \$186,000 as a portion of the consideration paid in connection with the Company’s various acquisitions. Interest rates for both notes are 4.25% with maturities through May of 2017. There is one outstanding note which will be paid upon execution of a final settlement and release agreement between the parties.

Maturities of notes payable are as follows as of June 30, 2018:

2018 (remainder)	\$ 100,000
Total	\$ 100,000

Credit and Security Agreement

On January 3, 2017, the Company entered into a Credit and Security Agreement (the “Credit Agreement”) and signed a revolving credit note payable to the lender. Under the Credit Agreement, the Company is able to borrow up to an aggregate of \$5,000,000 under revolving loans. Interest on the unpaid outstanding principal amount of any revolving loans is at a rate equal to 10% per annum, provided that the minimum amount of interest paid in the aggregate on all revolving loans granted over the term of the Credit Agreement is \$200,000. Interest is due and payable on the last day of each fiscal quarter in an amount determined by the Company, but not less than \$25,000. The lender’s lending commitments under the Credit Agreement terminate in December 2019, unless sooner terminated in accordance with the provisions of the Credit Agreement. The Credit Agreement is collateralized by the assets in the Company’s company-owned or managed clinics. The Company is using the credit facility for general working capital needs. As of June 30, 2018, the Company had drawn \$1,000,000 of the \$5,000,000 available under the Credit Agreement.

Note 10: Equity

Stock Options

In the six months ended June 30, 2018, the Company granted 60,000 stock options to employees with exercise prices ranging from \$4.92 - \$6.85.

Upon the completion of the Company's IPO in November 2014, its stock trading price became 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, it will rely upon the volatilities from publicly traded companies with similar business models until its common stock has accumulated enough trading history for it to utilize its own historical volatility. The expected life of the options granted is based on the average of the vesting term and the contractual term of the option. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury 10-year yield curve in effect at the date of the grant.

The Company has computed the fair value of all options granted during the six months ended June 30, 2018 and 2017, using the following assumptions:

	Three Months Ended June 30,			
	2018		2017	
Expected volatility	42%	- 43%		42%
Expected dividends	None		None	
Expected term (years)	7		5.5	to 7
Risk-free rate	2.53% to	2.63%	1.98% to	2.14%
Forfeiture rate	20%		20%	

The information below summarizes the stock options activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2016	953,075	\$ 3.66	\$ 1.86	6.9
Granted at market price	295,286	4.31		
Exercised	(206,875)	1.76		
Cancelled	(37,570)	5.11		
Outstanding at December 31, 2017	1,003,916	\$ 4.18	\$ 1.87	8.1
Granted at market price	60,000	5.89		
Exercised	(78,040)	3.52		
Cancelled	(9,605)	4.46		
Outstanding at June 30, 2018	976,271	\$ 4.34	\$ 1.93	7.2
Exercisable at June 30, 2018	429,811	\$ 4.88	\$ 2.12	7.2

The intrinsic value of the Company's stock options outstanding was \$3,827,538 at June 30, 2018.

For the three and six months ended June 30, 2018, stock-based compensation expense for stock options was \$69,640 and \$208,813, respectively. For the three and six months ended June 30, 2017, stock-based compensation expense for stock options was \$84,845 and \$135,883, respectively. Unrecognized stock-based compensation expense for stock options as of June 30, 2018 was \$763,121, which is expected to be recognized ratably over the next 2.67 years.

Restricted Stock

The information below summarizes the restricted stock activity:

Restricted Stock Awards	Shares
Outstanding at December 31, 2017	63,700
Awards granted	33,012
Awards vested	(59,700)
Awards forfeited	-
Outstanding at June 30, 2018	37,012

For the three and six months ended June 30, 2018, stock-based compensation expense for restricted stock was \$69,347 and \$137,816, respectively. For the three and six months ended June 30, 2017, stock-based compensation expense for restricted stock was \$47,211 and \$91,238, respectively. Unrecognized stock-based compensation expense for restricted stock awards as of June 30, 2018 was \$244,996, the majority of which will be recognized within one year.

Note 11: Income Taxes

During the three and six months ended June 30, 2018, the Company recorded income tax expense of approximately \$6,000 and income tax benefit of approximately \$57,000, respectively. The Company's effective tax rate differs from the federal statutory tax rate due to permanent differences, state taxes and changes in the valuation allowance.

During the three and six months ended June 30, 2017, the Company recorded income tax expense of approximately \$3,000 and \$43,000, respectively, with the difference between the Company's effective tax rate and the federal statutory tax rate due to state tax expense and a valuation allowance on the Company's deferred tax assets and the impact of certain permanent differences on taxable income.

Note 12: Related Party Transactions

The Company entered into a legal agreement with certain common stockholders related to services performed for the operations and transaction related activities of the Company. Amounts paid to or for the benefit of these stockholders was approximately \$68,000 and \$116,000 for the three and six months ended June 30, 2018, respectively. Amounts paid to or for the benefit of these stockholders was approximately \$61,000 and \$113,000 for the three and six months ended June 30, 2017, respectively.

Note 13: Commitments and Contingencies

Operating Leases

The Company leases its corporate office space and the space for each of the company-owned or managed clinics in the portfolio.

Total rent expense for the three and six months ended June 30, 2018 was \$706,080 and \$1,391,757, respectively. Total rent expense for the three and six months ended June 30, 2017 was \$681,792 and \$1,426,086, respectively.

Future minimum annual lease payments are as follows:

2018 (remainder)	\$1,310,529
2019	2,512,851
2020	2,192,587
2021	2,081,451
2022	1,972,180
Thereafter	3,377,973
Total	\$13,447,571

Note 14: 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. The Corporate Clinics segment is comprised of the operating activities of the company-owned or managed clinics. As of June 30, 2018, the Company operated or managed 48 clinics under this segment. The Franchise Operations segment is comprised of the operating activities of the franchise business unit. As of June 30, 2018, the franchise system consisted of 365 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 segments.

The tables below present financial information for the Company’s two operating business segments (in thousands). The prior period comparatives have been adjusted to reflect the changes from ASC 606.

Edgar Filing: JOINT Corp - Form 10-Q

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Revenues:				
Corporate clinics	\$3,421	\$ 2,680	\$6,677	\$ 5,176
Franchise operations	4,136	3,320	7,978	6,331
Total revenues	\$7,557	\$ 6,000	\$14,655	\$ 11,507
Segment operating (loss) income:				
Corporate clinics	\$(86)	\$(438)	\$25	\$(1,455)
Franchise operations	1,974	1,445	3,789	2,678
Total segment operating (loss) income	\$1,888	\$ 1,007	\$3,814	\$ 1,223
Depreciation and amortization:				
Corporate clinics	\$245	\$ 400	\$548	\$ 844
Franchise operations	-	-	-	-
Corporate administration	160	103	244	237
Total depreciation and amortization	\$405	\$ 503	\$792	\$ 1,081
Reconciliation of total segment operating income (loss) to consolidated earnings (loss) before income taxes (in thousands):				
Total segment operating income	\$1,888	\$ 1,007	\$3,814	\$ 1,223
Unallocated corporate	(1,989)	(2,003)	(4,353)	(3,924)
Consolidated loss from operations	(101)	(996)	(539)	(2,701)
Bargain purchase gain	75	-	75	-
Other (expense) income, net	(11)	(24)	(23)	(43)
Loss before income tax expense	\$(37)	\$(1,020)	\$(487)	\$(2,744)

For the six months ended June 30, 2017, \$418,000 of loss on disposition/impairment has been reclassified from unallocated corporate to the corporate clinic segment operating loss to align with current year presentation.

	June 30, 2018	December 31, 2017 (as adjusted)
Segment assets:		
Corporate clinics	\$8,533	\$ 8,998
Franchise operations	4,015	3,888
Total segment assets	\$12,548	\$ 12,886
Unallocated cash and cash equivalents and restricted cash	\$4,708	\$ 4,320
Unallocated property and equipment	846	765
Other unallocated assets	686	465
Total assets	\$18,788	\$ 18,436

“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 15: Subsequent Events

On August 7, 2018, the Board of Directors approved a change in strategy as it relates to our previously internally developed IT platform. The Company will move away from internal development and utilize a 3rd party software-as-a-service CRM platform as the basis for its IT infrastructure. Based on this decision, the Company expects to record an impairment of approximately \$500,000 of previously capitalized software development costs during the third quarter of 2018.

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, 2017 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 Item 1A of our Form 10-K for the year ended December 31, 2017. 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 Item 1A of our Form 10-K for the year ended December 31, 2017 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:

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, 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;

any acquisitions that we make could disrupt our business and harm our financial condition;

we may not be able to continue to sell franchises to qualified franchisees;

we may not be able to identify, recruit and train enough qualified chiropractors to staff our clinics;

new clinics may not be profitable, 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 competitors;

recent administrative actions and rulings regarding the corporate practice of medicine and joint employer responsibility may jeopardize our business model;

we may face 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;

legislation and regulations, as well as new medical procedures and techniques, could reduce or eliminate our competitive advantages; and

we face increased costs as a result of being a public company.

Additionally, there may be other risks that are otherwise described from time to time in the reports that we file with the Securities and Exchange Commission. Any forward-looking statements in this report should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others.

Overview

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

We strive to be the leading provider of chiropractic care in the markets we serve and to increase brand recognition in our industry through the expansion of chiropractic clinics in key markets throughout North America and abroad.

Key Performance Measures. We receive both weekly and monthly performance reports from our clinics which include key performance indicators including gross clinic sales, total royalty income, and patient office visits. We believe these indicators provide us with useful data with which to measure our performance and to measure our franchisees' and clinics' performance.

Key Clinic Development Trends. As of June 30, 2018, we and our franchisees operated 413 clinics. Of the 48 company-owned or managed clinics, 16 were constructed and developed by us, and 32 were acquired from franchisees.

Our current strategy is to grow through the sale and development of additional franchises and to foster the growth of acquired and developed clinics that we own and manage. In addition, we believe that we can accelerate the development of, and revenue generation from, company-owned or managed clinics through 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.

We believe that The Joint has a sound concept, benefiting 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 strong 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.

Significant Events and/or Recent Developments

We continue to deliver on our strategic initiatives and continued our progress to sustained profitability. In 2018, we believe that we are well positioned to accelerate growth by implementing three key strategies: (1) continue to accelerate franchise sales; (2) continue to build upon our regional developer strategy; and (3) expand our corporate clinics portfolio within clustered locations. Following these strategic initiatives, for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017, we saw gross system-wide sales grow by 29%, system-wide comp sales – or “same store” retail sales of clinics that have been open for at least 13 full months – increase by 25%, and our revenue grow by 26%. These factors drove improvement in our bottom line, and we continue to drive toward sustainable profitability with our net loss decreasing by \$2.4 million to \$0.4 million for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. Further, cash and cash equivalents increased to \$4.6 million at June 30, 2018 compared to \$4.2 million at December 31, 2017.

Factors Affecting Our Performance

Our operating results may fluctuate significantly as a result of a variety of factors, including the timing of new clinic openings, markets in which they are contained and related expenses, general economic conditions, consumer confidence in the economy, consumer preferences, and competitive factors.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, “*Revenue from Contracts with Customers*,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard also calls for additional disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU replaced most existing revenue recognition guidance in U.S. GAAP. We adopted the new standard effective January 1, 2018. We expect the adoption of this standard to negatively impact 2018 consolidated franchise fee revenues by approximately \$0.2 million, favorably impact regional developer fees revenue by approximately \$0.2 million, and favorably decrease franchise cost of revenue by approximately \$0.1 million as compared to forecasted amounts under previous GAAP.

Significant Accounting Policies and Estimates

There were no changes in our significant accounting policies and estimates during the six months ended June 30, 2018 from those set forth in “Significant Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2017, except as outlined in Note 1, *Nature of Operations and Summary of Significant Accounting Policies*, to our condensed consolidated financial statements included in this report as it relates to revenue recognition under ASC 606.

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, 2018

Components of revenues for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017, are as follows:

	Three Months Ended June 30,		Change from Prior Year	Percent Change from Prior Year
	2018	2017		
Revenues:				
Revenues and management fees from company clinics	\$3,420,685	\$2,679,937	\$740,748	27.6 %
Royalty fees	2,421,185	1,854,087	567,098	30.6 %
Franchise fees	449,144	363,834	85,310	23.4 %
Advertising fund revenue	687,752	621,578	66,174	10.6 %
IT related income and software fees	315,910	282,525	33,385	11.8 %
Regional developer fees	137,412	98,741	38,671	39.2 %
Other revenues	124,744	99,348	25,396	25.6 %
Total revenues	\$7,556,832	\$6,000,050	\$1,556,782	25.9 %

The reasons for the significant changes in our components of total revenues were as follows:

Consolidated Results

Total revenues increased by \$1.6 million, primarily due to the continued revenue growth of our company-owned or managed clinics portfolio and continued expansion and revenue growth of our franchise base.

Corporate Clinics

Revenues and management fees from company-owned or managed clinics increased, primarily due to improved same-store sales growth.

Franchise Operations

Royalty fees have 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. As of June 30, 2018, and 2017, there were 365 and 336 franchised clinics in operation, respectively.

Franchise fees increased due to an increase in franchise agreements executed since June 30, 2017.

Regional developer fees increased due to the sale of additional regional developer territories in previous periods, and the related revenue recognition over the life of the regional developer agreement.

Software fees and advertising fund revenue increased due to an increase in our franchise clinic base as described above.

Total Revenues – Six Months Ended June 30, 2018

Components of revenues for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017 are as follows:

	Six Months Ended June 30,		Change from Prior Year	Percent Change from Prior Year
	2018	2017		
Revenues:				
Revenues and management fees from company clinics	\$6,677,309	\$5,176,271	\$1,501,038	29.0 %
Royalty fees	4,695,173	3,560,160	1,135,013	31.9 %
Franchise fees	797,481	659,374	138,107	20.9 %
Advertising fund revenue	1,346,782	1,220,014	126,768	10.4 %
Software fees	623,385	549,538	73,847	13.4 %
Regional developer fees	272,423	162,887	109,536	67.2 %
Other revenues	242,194	178,953	63,241	35.3 %
Total revenues	\$14,654,747	\$11,507,197	\$3,147,550	27.4 %

The reasons for the significant changes in our components of total revenues were as follows:

Consolidated Results

Total revenues increased by \$3.1 million, primarily due to the continued revenue growth of our company-owned or managed clinics portfolio and continued expansion and revenue growth of our franchise base.

Corporate Clinics

Revenues and management fees from company-owned or managed clinics increased, primarily due to improved same-store sales growth.

Franchise Operations

Royalty fees have 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. As of June 30, 2018, and 2017, there were 365 and 336 franchised clinics in operation, respectively.

Franchise fees increased due to an increase in franchise agreements executed since June 30, 2017.

Regional developer fees increased due to the sale of additional regional developer territories in previous periods, and the related revenue recognition over the life of the regional developer agreement.

Software fees and advertising fund revenue increased due to an increase in our franchise clinic base as described above.

Cost of Revenues

Cost of Revenues	2018	2017	Change from Prior Year	Percent Change from Prior Year
Three Months Ended June 30,	\$1,051,584	\$766,438	\$285,146	37.2 %
Six Months Ended June 30,	2,023,916	1,460,154	563,762	38.6 %

For the three months ended June 30, 2018, as compared with the three months ended June 30, 2017, the total cost of revenues increased due to an increase in regional developer royalties of \$0.2 million triggered by an increase in franchise royalty revenues of approximately 31%.

For the six months ended June 30, 2018, as compared with the six months ended June 30, 2017, the total cost of revenues increased due to an increase in regional developer royalties of \$0.5 million triggered by an increase in franchise royalty revenues of approximately 32%.

Selling and Marketing Expenses

Selling and Marketing Expenses	2018	2017	Change from Prior Year	Percent Change from Prior Year
Three Months Ended June 30,	\$1,293,663	\$1,058,224	\$235,439	22.2 %
Six Months Ended June 30,	2,395,967	2,016,930	379,037	18.8 %

Selling and marketing expenses increased for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, driven by an increase in local marketing expenditures by the company-owned or managed clinics.

Selling and marketing expenses increased for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, driven by an increase in local marketing expenditures by the company-owned or managed clinics.

Depreciation and Amortization Expenses

	2018	2017	Change from Prior Year	Percent Change from Prior Year
Depreciation and Amortization Expenses				
Three Months Ended June 30,	\$404,975	\$503,226	\$(98,251)	(19.5)%
Six Months Ended June 30,	792,392	1,081,212	(288,820)	(26.7)%

Depreciation and amortization expenses decreased for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, primarily due to assets reaching the end of their estimated depreciable lives during the period.

Depreciation and amortization expenses decreased for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily due to the sale or closure of 14 company-owned or managed clinics.

General and Administrative Expenses

	2018	2017	Change from Prior Year	Percent Change from Prior Year
General and Administrative Expenses				
Three Months Ended June 30,	\$4,656,308	\$4,667,688	\$(11,380)	(0.2)%
Six Months Ended June 30,	9,731,234	9,231,765	499,469	5.4 %

General and administrative expenses decreased during the three months ended June 30, 2018 compared to the three months ended June 30, 2017, primarily due to a decrease in tax expense of \$0.1 million offset by an increase in payroll related and legal expenses of \$0.1 million.

General and administrative expenses increased during the six months ended June 30, 2018 compared to the six months ended June 30, 2017, primarily due to an increase of approximately \$0.5 million in payroll related expenses due to wage merit increases and accrued bonus for the 2018 period.

Loss from Operations - Three Months Ended June 30, 2018

	2018	2017	Change from Prior Year	Percent Change from Prior Year
Loss from Operations				
Three Months Ended June 30,	\$(100,402)	\$(995,526)	\$895,124	(89.9)%

Consolidated Results

Consolidated loss from operations decreased by \$0.9 million for the period ended June 30, 2018 compared to the period ended June 30, 2017, primarily driven by the \$0.5 million improvement in operating income (loss) in franchised operations discussed below, and a decrease in loss of operations of \$0.4 million in the corporate clinic segment discussed below.

Corporate Clinics

Our corporate clinics segment (i.e., company-owned or managed clinics) had a loss from operations of \$0.1 million for the period ended June 30, 2018, an improvement of \$0.4 million compared to a loss from operations of \$0.5 million for the same period last year. This improvement was primarily due to:

- An increase in revenues of approximately \$0.7 million from company-owned or managed clinics; partially offset by
- A \$0.3 million loss from disposition or impairment due to lease exits in the three months ended June 30, 2018.

Franchise Operations

Our franchise operations segment had net income from operations of \$2.0 million for the three months ended June 30, 2018, an increase of \$0.5 million, compared to net income from operations of \$1.4 million for the same period ended June 30, 2017. This increase was primarily due to:

- An increase of approximately \$0.8 million in total revenues (net of advertising fund contributions), due primarily to an approximately 31% increase in franchise royalty revenues; offset by
- An increase of approximately \$0.3 million in regional developer royalties.

Loss from Operations - Six Months Ended June 30, 2018

	2018	2017	Change from Prior Year	Percent Change from Prior Year
Loss from Operations				
Six Months Ended June 30,	(539,466)	(2,700,835)	2,161,369	(80.0)%

Consolidated Results

Consolidated loss from operations decreased by \$2.2 million for the period ended June 30, 2018 compared to the period ended June 30, 2017, primarily driven by the \$1.5 million improvement in operating income (loss) in the corporate clinic segment discussed below, and an increase in net income from franchised operations of \$1.1 million discussed below, offset by an increase in unallocated corporate overhead of \$0.4 million.

Corporate Clinics

Our corporate clinics segment (i.e., company-owned or managed clinics) had income from operations of approximately \$25,000 for the period ended June 30, 2018, an improvement of \$1.5 million, compared to a loss from operations of \$1.5 million for the same period last year. This improvement was primarily due to:

- An increase in revenues of approximately \$1.5 million from company-owned or managed clinics; and

A decrease of approximately \$0.2 million of loss from disposition or impairment due to lease exits in the six months ended June 30, 2017 of \$0.4 million as compared to \$0.2 million in the six months ended June 30, 2018. The decrease was offset by an increase of approximately \$0.2 million in selling and marketing expenses related to increased local marketing expenditures by the company-owned or managed clinics.

Franchise Operations

Our franchise operations segment had net income from operations of \$3.8 million for the six months ended June 30, 2018, an increase of \$1.1 million, compared to net income from operations of \$2.7 million for the same period ended June 30, 2017. This increase was primarily due to:

- An increase of approximately \$1.6 million in total revenues (net of advertising fund contributions), due primarily to an approximately 32% increase in franchise royalty revenues; offset by
- An increase of approximately \$0.5 million in regional developer royalties.

Liquidity and Capital Resources

Sources of Liquidity

As of June 30, 2018, we had cash and short-term bank deposits of approximately \$4.6 million. We provided approximately \$613,210 of cash flow from operating activities in the six months ended June 30, 2018. We will continue to preserve cash, and while we have resumed the acquisition and development of company-owned or managed clinics, we intend to progress at a measured pace and target geographic clusters where we are able to increase efficiencies through a consolidated real estate penetration strategy, leverage cooperative advertisement and marketing and attain general corporate and administrative operating efficiencies.

In January 2017, we executed a Credit and Security Agreement which provided a credit facility up to \$5.0 million. We have drawn \$1.0 million under the credit facility. See Note 9 to our condensed consolidated financial statements included in this report for additional discussion of the credit facility.

Analysis of Cash Flows

Net cash provided by (used in) operating activities changed by \$1,401,844 to \$613,210 for the six months ended June 30, 2018 compared to (\$788,634) for the six months ended June 30, 2017. The change was attributable primarily to decreased expenses caused by decreased operating losses and working capital requirements of our company-owned or managed clinics.

Net cash used in investing activities was \$366,933 and \$80,428 for the six months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018, this includes an acquisition of \$100,000, of which \$20,000 was held in accounts payable as of June 30, 2018, purchases of property and equipment of \$370,757 and payments received on notes receivable of \$83,824. For the six months ended June 30, 2017, this includes purchases of property and equipment of \$106,254 and payments received on notes receivable of \$25,826.

Net cash provided by financing activities was \$141,607 and \$851,995 for the six months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018, this includes proceeds from exercise of stock options of \$274,888, of which \$133,281 was held in accounts receivable as of June 30, 2018. For the six months ended June 30, 2017, this includes borrowings of \$1,000,000 on our revolving line of credit, \$83,495 from the exercise of stock options and (\$231,500) for repayments on notes payable.

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, 2018, 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, 2018. 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 their 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, 2018, 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

During the first quarter of 2018, we implemented new controls in connection with our adoption of the Accounting Standards Updates related to Topic 606, *Revenue from Contracts with Customers*. No other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the six months ended June 30, 2018 that has materially affected, or is 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, the Company is party to litigation from time to time.

ITEM 1A. RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this item.

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

Use of Proceeds from Registered Securities

None.

ITEM 6. EXHIBITS

The Exhibit Index immediately following the Signatures to this Form 10-Q is hereby incorporated by reference into this Form 10-Q.

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 10, 2018 By: /s/ Peter D. Holt
Peter D. Holt
President and
Chief Executive
Officer
(Principal
Executive Officer
and Principal
Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description of Document
<u>31.1</u>	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934. (filed herewith).</u>
<u>32</u>	<u>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).</u>
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.

