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

FORM 10-K

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

For the fiscal year ended December 31, 2019
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)	*(I.R.S. Employer Identification No.)*
16767 North Perimeter Drive, Suite 110, Scottsdale, Arizona	**85260**
(Address of Principal Executive Offices)	(Zip Code)

(480) 245-5960
(Registrant's Telephone Number, Including Area Code)

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

Title Of Each Class	Trading Symbol(s)	Name Of Each Exchange On Which Registered
Common Stock, $0.001 Par Value Per Share	JYNT	The NASDAQ Capital Market LLC

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☐

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☑
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $236.4 million as of June 28, 2019 based on the closing sales price of the common stock on the NASDAQ Capital Market.

There were 13,882,932 shares of the registrant's common stock outstanding as of March 3, 2020.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement relating to its 2020 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission ("SEC") pursuant to Regulation 14A within 120 days after the registrant's fiscal year ended December 31, 2019, are incorporated by reference in Part III of this Form 10-K.

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Forward-Looking Statements and Terminology

The information in this Annual Report on Form 10-K, or this Form 10-K, including this discussion under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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, or the Exchange Act, which are subject to the "safe harbor" created by those sections. All statements, other than statements of historical facts, included or incorporated in this Form 10-K could be deemed forward-looking statements, particularly statements about our plans, strategies and prospects under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," "intend" or the negative of these terms or other comparable terminology. All forward-looking statements in this Form 10-K 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" in Item 1A of this Form 10-K. These factors, uncertainties and risks may cause our actual results to differ materially from any forward-looking statement set forth in this Form 10-K. You should carefully consider the trends, risks and uncertainties described below and other information in this Form 10-K and subsequent reports filed with or furnished 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 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;*
- *we may fail to successfully design and maintain our proprietary and third-party management information systems or implement new systems;*
- *we may fail to properly maintain the integrity of our data or to strategically implement, upgrade or consolidate existing information systems;*
- *As we increase the number of franchisee acquisitions that we make, it could disrupt our business and harm our financial condition;*
- *we may not be able to continue to sell regional developer licenses to qualified regional developers or sell franchises to qualified franchisees, and our regional developers and franchisees may not succeed in developing profitable territories and clinics;*
- *we may not be able to identify, recruit and train enough qualified chiropractors to staff our clinics;*
- *new clinics may not reach the point of profitability, and we may not be able to maintain or improve revenues and franchise fees from existing franchised clinics;*
- *the chiropractic industry is highly competitive, with many well-established independent competitors, which could prevent us from increasing our market share or result in reduction in our market share;*
- *major public health concerns, including the outbreak of the coronavirus, may adversely affect revenue at our clinics and disrupt financial markets, adversely affecting our stock price;*
- *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;*

- *our security systems may be breached, and we may face civil liability and public perception of our security measures could be diminished, either of which would negatively affect our ability to attract and retain patients;*

- *legislation, 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.

As used in this Form 10-K:

- "we," "us," and "our" refer to The Joint Corp., its variable interest entities ("VIEs"), and, its wholly owned subsidiary, The Joint Corporate Unit No. 1, LLC, collectively.

- a "clinic" refers to a chiropractic clinic operating under our "Joint" brand, which may be (i) owned by a franchisee, (ii) owned by a professional corporation or limited liability company and managed by a franchisee; (iii) owned directly by us; or (iv) owned by a professional corporation or limited liability company and managed by us.

- when we identify an "operator" of a clinic, a party that is "operating" a clinic, or a party by whom a clinic is "operated," we are referring to the party that operates all aspects of the clinic in certain jurisdictions, and to the party that manages all aspects of the clinic other than the practice of chiropractic in certain other jurisdictions.

- when we describe our acquisition or our opening of a clinic, we are referring to our acquisition or opening of the entity that operates all aspects of the clinic in certain jurisdictions, and to our acquisition or opening of the entity that manages aspects of the clinic other than the practice of chiropractic in certain other jurisdictions.

PART I

ITEM 1. BUSINESS

"Our **mission** is to **improve quality of life** through **routine** and **affordable chiropractic** care."

Overview

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

We are a rapidly growing franchisor and operator of chiropractic clinics that uses a private pay, non-insurance, cash-based model. We seek to be the leading provider of chiropractic care in the markets we serve and to become the most recognized brand in our industry through the rapid and focused expansion of chiropractic clinics in key markets throughout North America and potentially abroad. We strive to accomplish our mission by making quality care readily available and affordable in a retail setting. We have created a growing network of modern, consumer-friendly chiropractic clinics operated or managed by franchisees and by us that employ licensed chiropractors. Our model enables us to price our services below most competitors' pricing for similar services and below most insurance co-payment levels (i.e., below the patient co-payment required for an insurance-covered service).

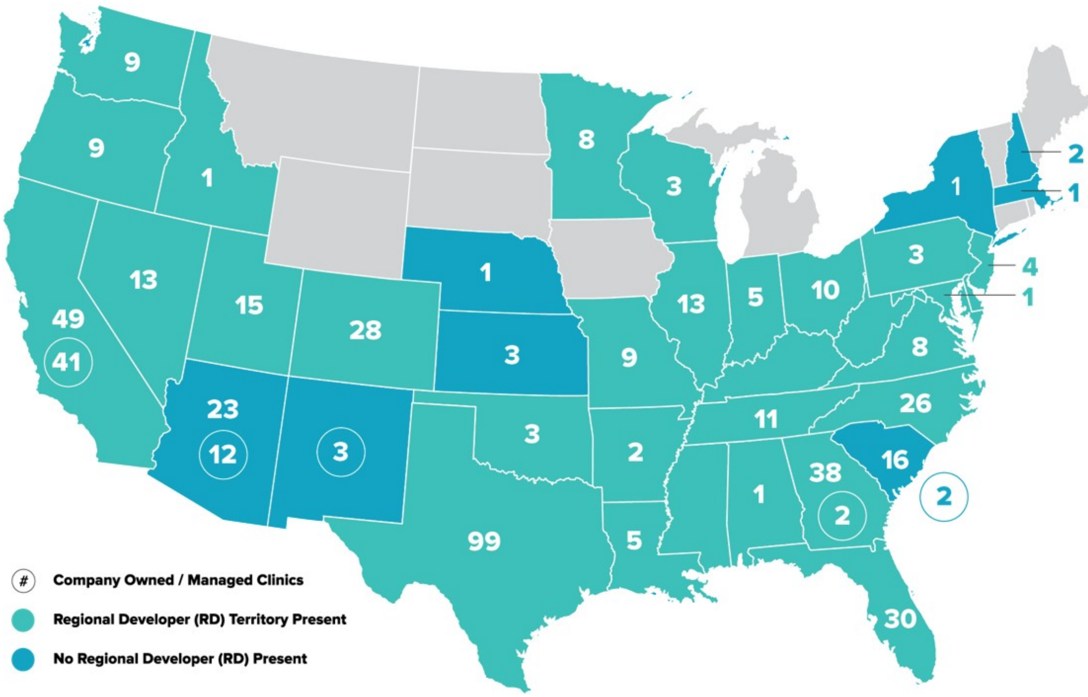
Since acquiring the predecessor to our company in March 2010, we have grown our enterprise from eight to 513 clinics in operation as of December 31, 2019, with an additional 170 franchise licenses sold but not yet developed across our network, and 34 letters-of-intent for future clinic licenses. As of December 31, 2019, 453 of our clinics were operated or managed by franchisees and 60 clinics were operated as company-owned or managed clinics. In the year ended December 31, 2019, our system registered approximately 7.7 million patient visits and generated system-wide sales of $220.3 million. Our future growth strategy remains focused on accelerating the development of our franchise base through the sale of additional franchises and through a robust regional developer network. In 2020, we plan to continue our acceleration of the expansion of our company-owned or managed portfolio through the opportunistic acquisition of select operating clinics or the development of new clinics in areas in which we already support company-owned or managed clinics. We collect a royalty of 7.0% of revenues from franchised clinics. We remit a 3.0% royalty to our regional developers on the gross sales of franchises opened within certain regional developer protected territories. We also collect a national marketing fee of 2.0% of gross sales of all franchised clinics. We receive a franchise sales fee of $39,900 for each franchise we sell directly. For each franchise sold through our network of regional developers, the regional developer typically receives up to 50% of the respective franchise fee. If a franchisee purchases additional franchise licenses, the initial franchise fee is reduced by $10,000 per additional license.

On November 14, 2014, we completed our initial public offering, or the IPO, of 3,000,000 shares of common stock at an initial price to the public of $6.50 per share, and we received net proceeds of approximately $17.1 million. Our underwriters exercised their option to purchase 450,000 additional shares of common stock to cover over-allotments on November 18, 2014, pursuant to which we received net proceeds of approximately $2.7 million. Also, in conjunction with the IPO, we issued warrants to the underwriters for the purchase of 90,000 shares of common stock, which were exercisable during the period between November 10, 2015 and November 10, 2018 at an exercise price of $8.125 per share. These warrants expired on November 10, 2018.

On November 25, 2015, we closed on our follow-on public offering of 2,272,727 shares of common stock, at a price to the public of $5.50 per share. We granted the underwriters a 45-day option to purchase up to 340,909 additional shares of common stock to cover over-allotments, if any. On December 30, 2015, our underwriters exercised their over-allotment option to purchase an additional 340,909 shares of common stock at a price of $5.50 per share. After giving effect to the over-allotment exercise, the total number of shares offered and sold in our follow-on public offering increased to 2,613,636 shares. With the over-allotment option exercise, we received aggregate net proceeds of approximately $13.0 million.

We deliver convenient, appointment-free chiropractic adjustments in an inviting, open bay environment at prices that are approximately 62% lower than the average industry cost for comparable procedures offered by traditional chiropractors, according to 2018 industry data from Chiropractic Economics. In support of our mission to offer quality, affordable and convenient care to our patients, our clinics offer a variety of customizable membership and wellness treatment plans which provide additional value pricing even as compared with our single-visit pricing schedules. These flexible plans are designed to attract patients and encourage repeat visits and routine usage as part of an overall health and wellness program.

As of December 31, 2019, we had 513 franchised or company-owned or managed clinics in operation in 34 states. The map below shows the states in which we or our franchisees operate clinics and the number of clinics open in each state as of December 31, 2019.



Our retail locations have been selected to be visible, accessible and convenient. We offer a welcoming, consumer-friendly experience that attempts to redefine the chiropractic doctor/patient relationship. Our clinics are open longer hours than many of our competitors, including weekend days, and our patients do not need appointments. We accept cash or major credit cards in return for our services. We do not accept insurance and do not provide Medicare covered services. We believe that our approach, especially our commitment to affordable pricing and our ready service delivery model, will attract existing consumers of chiropractic services and will also appeal to the growing market of consumers who seek alternative or non-invasive wellness care, but have not yet tried chiropractic. According to our patient survey conducted in early 2019 by WestGroup Research, 26% of our new patients had never tried chiropractic care before they came to The Joint. This represents an increase from 22% of patients new to chiropractic in the same survey conducted in 2017, 21% in 2016 and 16% in 2013, demonstrating our continued impact on the chiropractic market and offering validation to our thesis that we are actually expanding the overall market for chiropractic.

Our patients arrive at our clinics without appointments at times convenient to their schedules. Once a patient has joined our system and is returning for treatment, they simply swipe their membership card at a card reader at the reception desk to announce their arrival. The patient is then escorted to our open adjustment area, where they are required to remove only their outerwear to receive their adjustment. Each patient's records are digitally updated for retrieval in our proprietary data storage system by our chiropractors in compliance with all applicable medical records security and privacy regulations. The adjustment process, administered by a licensed chiropractor, takes approximately 15 - 20 minutes on average for a new patient and 5 - 7 minute on average for a returning patient.

Our consumer-focused service model targets the non-acute treatment market, which is part of the $15 billion chiropractic services market, according to IBIS market research report in February 2019. As our model does not focus on the treatment of severe or acute injury, we do not provide expensive and invasive diagnostic tools such as MRIs and X-rays. Instead we refer those with severe or acute symptoms to alternate healthcare providers, including traditional chiropractors.

Our Industry

Chiropractic care is widely accepted among individuals with a variety of medical conditions, particularly back pain. It is estimated that chiropractors treat more than 52 million Americans (adults and children) annually. A 2018 Gallup report commissioned by Palmer College of Chiropractic shows that among all U.S. adults, including those who did not have neck or back pain, 16% went to a chiropractor in the last 12 months. These numbers represent a marked increase over the 2012 National Health Interview Survey that measured chiropractic use at 8% of the population. According to the American Chiropractic Association, 80% of Americans experience back pain at least once in their lifetime. According to the same 2018 Gallup report commissioned by the Palmer College of Chiropractic, eight in 10 adults in the United States (80%) prefer to see a health care professional who is an expert in spine-related conditions for neck or back pain care instead of a general medicine professional who treats a variety of conditions (15%).

Chiropractic care is increasingly recognized as an effective treatment for pain and potentially for a variety of other conditions. The American College of Physicians (ACP) now recommends non-drug therapy such as spinal manipulation as a first line of treatment for patients with chronic low-back pain. The ACP states that treatments such as spinal manipulation are shown to improve symptoms with little risk of harm. The National Center for Complementary & Alternative Medicine of the National Institutes of Health has stated that spinal manipulation appears to benefit some people with low-back pain and also may be helpful for headaches, neck pain, upper- and lower-extremity joint conditions and whiplash-associated disorders. The Mayo Clinic has recognized chiropractic as safe when performed by trained and licensed chiropractors, and the Cleveland Clinic has stated that chiropractors are established members of the mainstream medical team.

The chiropractic industry in the United States is large and highly fragmented. The Bureau of Labor Statistics estimates that $90 billion is spent on back pain each year in the U.S. According to a report issued by IBIS World Chiropractors Market Research in February 2019, expenditures for chiropractic services in the U.S. are $15 billion annually. The United States Bureau of Labor Statistics expects employment in chiropractic to grow faster than the average for all occupations. Some of the factors that the Bureau of Labor Statistics identified as driving this growth are healthcare cost pressures, an aging population requiring more health care and technological advances, all of which are expected to increasingly shift services from inpatient facilities and hospitals to outpatient settings. We believe that the demand for our chiropractic services will continue to grow as a result of several additional drivers, such as the growing recognition of the benefits of regular maintenance therapy coupled with an increasing awareness of the convenience of our service and of our pricing at a significant discount to the cost of traditional chiropractic adjustments and, in most cases, at or below the level of insurance co-payment amounts.

Today, most chiropractic services are provided by sole practitioners, generally in medical office settings. The chiropractic industry differs from the broader healthcare services industry in that it is more heavily consumer-driven, market-responsive and price sensitive, in large measure a result of many treatment options falling outside the bounds of traditional insurance reimbursable services and fee schedules. According to a First Research report from June 2019, the top 50 companies delivering chiropractic services in the United States generated less than 10% of all industry revenue. We believe these characteristics are evidence of an underserved market with potential consumer demand that is favorable for an efficient, low-cost, consumer-oriented provider.

Most chiropractic practices are set up to accept and to process insurance-based reimbursement. While chiropractors typically accept cash payment in addition to insurance, Medicare and Medicaid, they continue to incur overhead expenses associated with maintaining the capability to process third-party reimbursement. We believe that most chiropractors who use this third-party reimbursement model would find it economically difficult to discount the prices they charge for their services to levels comparable with our pricing.

Accordingly, we believe these and certain other trends favor our business model. Among these are:

- People, most notably Millennials – the largest portion of our patient base – have increasingly active lifestyles and are living longer, requiring more medical, maintenance and preventative support;
- People are increasingly open to alternative, non-pharmacological types of care;
- Utilization of more conveniently situated, local-sited urgent-care or “mini-care” alternatives to primary care is increasing; and
- Popularity of health clubs, massage and other non-drug, non-invasive wellness maintenance providers is growing.

Our Competitive Strengths

We believe the following competitive strengths have contributed to our initial success and will position us for future growth:

Retail, consumer-driven approach. To support our consumer-focused model, we use strong, recognizable retail approaches to stimulate brand-awareness and attract patients to our clinics. We intend to continue to drive awareness of our brand by locating clinics mainly at retail centers and convenience points, displaying prominent signage and employing consistent, proven and targeted marketing tools. We offer our patients the flexibility to visit our clinics without an appointment and receive prompt attention. Additionally, most of our clinics offer extended hours of operation, including weekends, which is not typical among our competitors.

We attracted an average of 1,224 new patients per clinic (for all clinics open for the full twelve months of 2019) during the year ended December 31, 2019, as compared to the 2019 chiropractic industry average of 332 new patients per year for traditional insurance-based non-multidisciplinary or integrated practices, according to a 2019 Chiropractic Economics survey.

Quality, Empathetic Service. Across our system we have a community of approximately 1,500 fully licensed chiropractic doctors, who performed approximately 7.7 million adjustments last year alone. Our doctors provide personal and intuitive patient care focused on pain relief and ongoing wellness to promote healthy, active lifestyles. We provide our doctors one-on-one training, as well as ongoing coaching and mentoring. Our doctors continually refine their skills, as our clinics see an average of 326 patient visits per week (for clinics open for the full twelve months of 2019), as compared to the 2019 chiropractic industry average of 123 patients per week for non-multidisciplinary or integrated practices, according to a 2019 Chiropractic Economics survey. Our service offerings encourage consumer trial, repeat visits and sustainable patient relationships.

By limiting the administrative burdens of insurance processing, our model helps chiropractors focus on patient service. We believe the time our chiropractors save by not having to perform administrative duties related to insurance reimbursement allows more time to see more patients, establish and reinforce chiropractor/patient relationships, and educate patients on the benefits of chiropractic maintenance therapy.

Our approach has made us an attractive alternative for chiropractic doctors who want to spend more time treating patients than they typically do in traditional practices, which are burdened with greater overhead, personnel and administrative expense. We believe that our model helps us to recruit chiropractors who want to focus their practice principally on patient care.

Accessibility. We believe that our strongest competitive advantages are our convenience and affordability. By focusing on non-acute care in an open-bay environment and by not participating in insurance or Medicare reimbursement, we are able to offer a much less expensive alternative to traditional chiropractic services. We can do this because our clinics do not have the expenses of performing certain diagnostic procedures and processing reimbursement claims. Our model allows us to pass these savings on to our patients. According to Chiropractic Economics in 2018, the average fee for a chiropractic treatment involving spinal manipulation in a cash-based practice in the United States is approximately $77. By comparison, our average fee as of December 31, 2019 was approximately $29, approximately 62% lower than the industry average price.

We believe our pricing and service offering structure helps us to generate higher usage. The following table sets forth our average price per adjustment as of December 31, 2019 for patients who pay by single adjustment plans, multiple adjustment packages, and multiple adjustment membership plans. Our price per adjustment as of December 31, 2019 averaged approximately $29 across all three groups.

	The Joint Service Offering		
	Single Visit	**Package(s)**	**Membership(s)**
Price per adjustment	$ 39	$21—$33	$17—$20

Proven track record of opening clinics and growing revenue at the clinic level. We have grown our clinic revenue base consistently. From January 2012 through December 31, 2019, we have increased average monthly sales across our clinics from $0.4 million to $18.4 million. During this period, we increased the number of clinics in operation from 33 to 513.

We continue to be encouraged by the ability of individual clinics to generate growth. While there is significant variation in results in our system, and the results of our top-performing clinics are not representative of our system overall, we believe it is worth noting that in January 2012, the highest-performing clinic in our system was a franchise clinic which had monthly sales of approximately $45,000, and in December 2019, the highest performing clinic in our system was a franchise clinic which had monthly sales of approximately $141,000.

Strong and proven management team. Our strategic vision is directed by our president and chief executive officer, Peter D. Holt, who has more than 30 years of experience in domestic and international franchising, franchise development and operations. Under his direction, we have confirmed our commitment to the continued strengthening of operations, the continued cultivation and management of our franchise community, as well as a strong commitment to future clinic development both domestically and internationally. Mr. Holt was most recently president and chief executive officer of Tasti-D-Lite. He has also served as chief operating officer of 24seven Vending (U.S), where he directed its franchise system in the U.S., and as executive vice president of development for Mail Boxes Etc. and vice president of international for I Can't Believe It's Yogurt and Java Coast Fine Coffees. Mr. Holt directs a team of dedicated leaders who are focused on executing our business plan and implementing our growth strategy.

Mr. Holt has assembled a strong management team including Jake Singleton as chief financial officer. In addition to valuable institutional memory from his over three years serving as our corporate controller, Mr. Singleton has financial and accounting experience from his time with the public accounting firm Ernst & Young LLP.

In 2016, Eric Simon joined as vice president of franchise sales and development with over 20 years of experience in all aspects of franchising, most recently as director of franchise development for AAMCO Transmissions. Mr. Simon spent five years as a franchisee and area developer with Extreme Pita and previously spent 10 years with Mail Boxes Etc. in franchise sales roles.

In 2017, Jorge Armenteros joined as vice president of operations bringing with him more than 40 years of franchise operations and leadership experience. For 10 years prior to joining the team, Mr. Armenteros was the executive senior vice president of franchise operations and corporate development for Campero USA, a fast food restaurant chain. Prior to that, he was founder and chief executive officer of Tri-Brands Management Group, which operated franchised Dunkin' Donuts, Baskin Robbins and Togo restaurants, and was vice president of operations at Dunkin' Brands. His career also includes a period as a multi-unit franchisee of Dunkin' Donuts.

Amy Karroum was promoted to vice president of human resources in 2017, having joined us in 2015. Prior to working at The Joint, Ms. Karroum was director of human resources for Thermo Fluids, an oil recycling company, and before that, she spent five years in homebuilding with both Taylor Morrison and Pulte Homes.

In 2018, Jason Greenwood joined our management team as vice president of marketing. Mr. Greenwood spent the last 10 years at Peter Piper Pizza in progressively responsible roles, most recently as chief marketing officer. Prior to that, he was a multi-unit franchisee for Robeks Juice.

Also in 2018, Manjula Sriram joined our management team as vice president of information technology. Prior to working at The Joint, Ms. Sriram spent the last three years at Early Warning Services in progressively responsible roles, most recently as director of customer implementation and support. Prior to that, she performed various senior technical and project management roles at Vail Systems, Inc, US Foods, Walgreens and United Airlines.

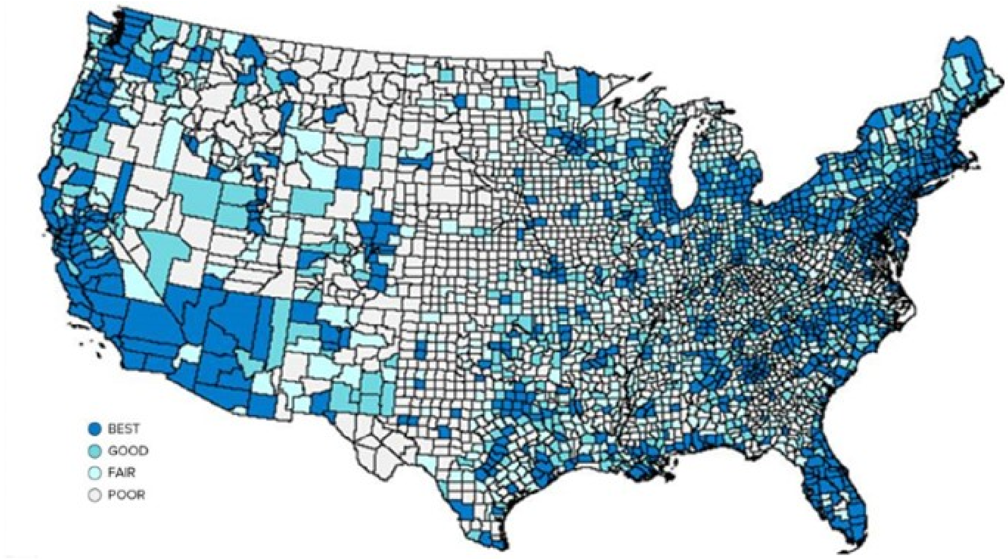
We believe that our management team's experience and demonstrated success in building and operating a robust franchise system will be a key driver of our growth and will position us well for achieving our long-term strategy.

Our Growth Strategy

Our goal is not only to capture a significant share of the existing market but also to expand the market for chiropractic care. We are accomplishing this through the rapid geographic expansion of our affordable franchising program and the opportunistic addition of company-owned or managed clinics. Accordingly, our long-term growth tactics include:

- the continued growth of system sales and royalty income;
- accelerating the opening of clinics already in development;
- the sale of additional franchises;
- the sale of additional regional developer protected territories;
- increasing the capability and capacity of our existing regional developer network;
- improving operational margins and leveraging infrastructure;
- the opportunistic acquisition of existing franchises – referred to as "buybacks"; and
- the development of company-owned clinics – referred to as "greenfields" – in clustered geographies.

Our analysis of patient records data from 513 clinics suggests that the United States market alone can support at least 1,800 of our clinics.



Continued growth of system sales.

System wide comparable same-store sales growth, or "Comp Sales," for 2019 was 25%, reflecting the growing acceptance of The Joint business model. Comp Sales refers to the amount of sales a clinic generates in the most recent accounting period, compared to the amount of sales it generated in a similar period in the past. Comp Sales include the sales from both company-owned or managed clinics and franchised clinics that in each case have been open at least 13 full months and exclude any clinics that have closed. We believe that the experience we have gained in developing and refining management systems, operating standards, training materials and marketing and customer acquisition activities has contributed to our system's revenue growth. In addition, we believe that increasing awareness of our brand has contributed to revenue growth, particularly in markets where the number and density of our clinics has made cooperative and mass media advertising attractive. We believe that our ability to leverage aggregated and general media digital advertising and search tools will continue to grow as the number and density of our clinics increases.

Selling additional franchises.

We will continue to sell franchises. We believe that to secure leadership in our industry and to maximize our opportunities in our markets, it is important to gain brand equity and consumer awareness as rapidly as possible, consistent with a disciplined approach to opening clinics. We believe that continued sales of franchises in selected markets is the most effective way to drive brand awareness in the short term. As discussed below, consistent with our longer-term strategy, we will continue to open or acquire company-owned or managed clinics, and we believe that a growth strategy that includes both franchised and company-owned or managed clinics has advantages over either approach by itself.

Selling additional Regional Developer rights.

We believe that we can achieve scale faster by using a regional developer model, which is employed by many successful franchisors. We sell a regional developer the rights to open a minimum number of clinics in a defined territory. They in turn help us to identify and qualify potential new franchisees in that territory and assist us in providing field training, clinic openings and ongoing support. In return, we share part of the initial franchise fee and pay the regional developer 3% of the 7% ongoing royalties we collect from the franchisees in their protected territory. In 2018, we sold the rights to an additional four regional developer territories for a combined minimum development commitment of 111 clinics over the lifetime of their regional developer agreements. In 2019, we sold the rights to 1 additional regional developer territory for a combined minimum development commitment of 40 clinics over a ten-year period. In 2019, regional developers were responsible for 89% of the

126 franchise license sales for the year. This growth reflects the power of the regional developer program to accelerate the number of clinics opening across the country.

Opening clinics in development.

In addition to our 513 operating clinics, as of December 31, 2019, we have granted franchises, either directly or with our regional developers' support, for an additional 170 clinics that we believe will be developed in the future and executed 34 letters-of-intent for future clinic licenses. We will continue to support our franchisees and regional developers to open these clinics and to achieve sustainable performance as rapidly as possible.

Continue to improve margins and leverage infrastructure.

We believe our corporate infrastructure can support a clinic base greater than our existing footprint. As we continue to grow, we expect to drive greater efficiencies across our operations, development and marketing programs and further leverage our technology and existing support infrastructure. We believe we will be able to control corporate costs over time to enhance margins as general and administrative expenses grow at a slower rate than our clinic base and sales. As a percentage of revenue, general and administrative expenses during the year ended December 31, 2019 and 2018 were 63% and 69%, respectively, reflecting improved leverage of our operating model. At the clinic level, we expect to drive margins and labor efficiencies through continued sales growth and consistently applied operating standards as our clinic base matures and the average number of patient visits increases. In addition, we will consider introducing selected and complementary branded products such as nutraceuticals or dietary supplements and related additional services.

Acquiring existing franchises.

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 continue to pursue the acquisition of existing franchised clinics that meet our criteria for demographics, site attractiveness, proximity to other clinics and additional suitability factors. Following the completion of the IPO through December 31, 2019, we acquired 43 existing franchises, subsequently closed three, and continue to operate 40 of them as company-owned or managed clinics.

Development of company-owned or managed clinics.

We acquired our first company-owned or managed clinic on December 31, 2014. In the first full calendar quarter after that acquisition, total revenue from company-owned or managed clinics was $0.4 million, growing to approximately $7.6 million in the quarter ended December 31, 2019. Total revenue from our 60 company-owned or managed clinics was approximately $25.8 million for the year ended December 31, 2019 as compared to $19.5 million from 48 company-owned or managed clinics for the year ended December 31, 2018. Through December 31, 2019, revenue from company-owned or managed clinics consisted of revenue earned from 40 franchised clinics that we acquired, as well as 20 clinics that we developed.

Consistent with our strategies discussed above, we intend to continue to 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. We also believe that the development timeline and point of break-even for company-owned or managed clinics will be shortened as compared to our previous greenfield openings and that our revenue from company-owned or managed clinics will ultimately exceed revenue that would be generated through royalty income from a franchise-only system.

Regulatory Environment

HIPAA

In an effort to further combat healthcare fraud and protect patient confidentiality, Congress included several anti-fraud measures in the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA created a source of funding for fraud control to coordinate federal, state and local healthcare law enforcement programs, conduct investigations, provide guidance to the healthcare industry concerning fraudulent healthcare practices, and establish a national data bank to receive and report final adverse actions. HIPAA also criminalized certain forms of healthcare fraud against all public and private payors. Additionally, HIPAA mandated the adoption of standards regarding the exchange of healthcare information in an effort to ensure the privacy and security of electronic patient information. Sanctions for failing to comply with HIPAA include criminal penalties and civil sanctions. In February 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was enacted. Title XIII of ARRA, the Health Information Technology for Economic and Clinical Health Act (HITECH), included substantial Medicare and Medicaid incentives for providers to adopt electronic health records ("EHR") and grants for the development of health information exchange ("HIE") systems. Recognizing that HIE and EHR systems would not be implemented unless the public could be assured that the privacy and security of patient information in such systems is protected, HITECH also significantly expanded the scope of the privacy and security requirements under HIPAA. Most notable were mandatory breach notification requirements and a heightened enforcement scheme that included increased penalties, expanded to apply to business associates as well as to covered entities. In addition to HIPAA, a number of states have adopted laws and/or regulations applicable in the use and disclosure of individually identifiable health information that can be more stringent than comparable provisions under HIPAA and HITECH.

We believe that our operations substantially comply with applicable standards for privacy and security of protected healthcare information, but such ongoing compliance involves significant time, effort and expense.

State regulations on corporate practice of chiropractic.

In states that regulate the "corporate practice of chiropractic," chiropractic services are provided solely by legal entities organized under state laws as professional corporations, or PCs or their equivalents. Each of the PCs is wholly owned by one or more licensed chiropractors and employs or contracts with chiropractors in one or more offices. We do not own any capital stock of (or have any other ownership interest in) any such PC. We and our franchisees that are not owned by chiropractors enter into management services agreements with PCs to provide the PCs on an exclusive basis with all non-clinical administrative services needed by the chiropractic practice.

In February 2020, the State of Washington Chiropractic Quality Assurance Commission delivered notices that it was investigating complaints made against three chiropractors who own clinics, or are (or were) employed by clinics, in Washington for which our franchisees provide management services. The notices contained allegations of fee-splitting, specifically questioning a provision in our Franchise Disclosure Document providing for the payment of royalty fees based on revenue derived from the furnishing of chiropractic care. The notices requested that the chiropractors provide responses to a number of questions posed by the commission, as well as documentation describing the fee structure and related matters. The notices appear to question our business model. The investigations initiated by the commission have just begun, and we are not yet aware of the full extent of the commission's concerns. As these investigations proceed, we will assist the chiropractors in working toward a resolution.

In February 2019, a bill was introduced in the Arkansas state legislature prohibiting the ownership and management of a chiropractic corporation by a non-chiropractor. The bill was drafted by the Arkansas State Board of Chiropractic Examiners. This bill has since been withdrawn. While it is questionable whether the prohibition would have been applicable to our business model in Arkansas, the bill could have been interpreted to challenge that model if it had passed in its proposed form. We have no assurance that another bill posing a similar or greater challenge to our business model will not be introduced in the future. Previously, in 2015, the Arkansas Board had questioned whether our business model might violate Arkansas law in its response to an inquiry we made on behalf of one of our franchisees. While the Arkansas Board did not thereafter pursue the matter of a possible violation, it might choose to do so at any time in the future.

In February 2019, the North Carolina Board of Chiropractic Examiners delivered notices alleging certain violations to sixteen chiropractors working for clinics in North Carolina for which our franchisees provide management services. We retained legal counsel in this matter, and a preliminary hearing was conducted on February 21, 2019. The North Carolina Board issued its findings to each of the individual chiropractors, which generally included an overall finding that probable cause existed to show that the chiropractors violated one or more of the North Carolina Board's rules. The findings each also proposed an Informal Settlement Agreement in lieu of proceeding to a full hearing before the North Carolina Board. On April 22, 2019, each of the chiropractors, through their attorneys, delivered to the North Carolina Board notices refuting the North Carolina Board's findings and seeking revisions to the Settlement Agreement. The North Carolina Board replied with certain counter proposals, and all chiropractors have since accepted the terms. While the allegations consisted primarily of quality of care and advertising issues, it is possible that the actions of the North Carolina Board arose out of concerns related to our business model, and if so, we have no assurance that the North Carolina Board will not pursue other claims against the chiropractors in the future.

In November 2018, the Oregon Board of Chiropractic Examiners adopted changes to its rules to prohibit a chiropractor from owning or operating a chiropractic practice as a surrogate for a non-chiropractor. As in the case of the proposed Arkansas bill, the rules changes could be interpreted to challenge our business model in Oregon, although it is similarly questionable whether the prohibition would be applicable. Previously in 2018, the Oregon Board exchanged correspondence with us requesting clarification of our business model and separately with one of our franchisees alleging a violation of the rules against the corporate practice of chiropractic. We provided the requested clarification in March 2018, and the Oregon Board has not taken any additional action to date. After a further exchange of correspondence with the franchisee, the Oregon Board notified the franchisee in August 2018 that the case was closed.

In November 2015, the California Board of Chiropractic Examiners commenced an administrative proceeding to which we were not a party, in which it claimed that the doctor who owns the PC that we manage in southern California violated California's prohibition on the corporate practice of chiropractic, among other claims, because our management of the clinics operated by his PC involved the exercise of control over certain clinical aspects of his practice. The California Board of Chiropractic Examiners subsequently dismissed those claims in congruence with findings of the overseeing administrative judge.

In June 2015, the New York Attorney General announced that it had entered into an Assurance of Discontinuance with a provider of business services to independently owned dental practices in New York, pursuant to which the provider paid a substantial fine and agreed to change its business and branding practices. The Assurance of Discontinuance settled claims, among others, that the provider improperly made business decisions impacting clinical matters and engaged in fee-splitting with dental practices. While it has not done so to date, the New York Attorney General could similarly choose to challenge our contractual relationships with our affiliated PCs in New York.

The Kansas Healing Arts Board, in response to a third-party complaint about one of our franchisees, sent a letter to the franchisee in February 2015 questioning whether the franchise business model might violate Kansas law regarding the unauthorized practice of chiropractic care. At the time, we and the franchisee had several communications with the Kansas Board with respect to modifying the management agreement to address its concerns. While we have had no further communications with the Board since that time, we have also received no assurance that changes to the agreement satisfied its concerns.

While the effect of the Arkansas bill if passed, the Oregon rules changes, and the proceedings in Washington, North Carolina, California, New York and Kansas may be that our business practices in those states are under stricter scrutiny than elsewhere, we believe we are in substantial compliance with all applicable laws relating to the corporate practice of chiropractic.

Please see the risk factor in Item 1A beginning with the phrase "Our management services agreements" for a more detailed discussion of state regulations on the "corporate practice of chiropractic" as they relate to our business model.

Regulation relating to franchising

We are subject to the rules and regulations of the Federal Trade Commission and various state laws regulating the offer and sale of franchises. The Federal Trade Commission and various state laws require that we furnish a Franchise Disclosure Document or FDD containing certain information to prospective franchisees, and a number of states require registration of the FDD at least annually with state authorities. Included in the information required to be disclosed in our FDD is our business experience, material litigation, all fees due to us from franchisees, a franchisee's estimated initial investment, restrictions on sources of products and services we impose on franchisees, development and operating obligations of franchisees, whether we provide financing to franchisees, our training and support obligations and other terms and conditions of our franchise agreement. We are operating under exemptions from registration in several states based on our qualifications for exemption as set forth in those states' laws. Substantive state laws regulating the franchisor-franchisee relationship presently exist in many states. We believe that our FDD and franchising procedures comply in all material respects with both the Federal Trade Commission guidelines and all applicable state laws regulating franchising in those states in which we have offered franchises. As of December 31, 2019, we were registered to sell franchises in every state (where registrations are required); and could sell franchises in all 50 states.

Other federal, state and local regulation

We are subject to varied federal regulations affecting the operation of our business. We are subject to the U.S. Fair Labor Standards Act, the U.S. Immigration Reform and Control Act of 1986, the Occupational Safety and Health Act and various other federal and state laws governing such matters as minimum wage requirements, overtime, fringe benefits, workplace safety and other working conditions and citizenship requirements. A significant number of our clinic service personnel are paid at rates related to the applicable minimum wage and increases in the minimum wage could increase our labor costs. We are continuing to assess the impact of federal health care legislation on our health care benefit costs. Many of our smaller franchisees qualify for exemption from the requirement to either provide health insurance benefits or pay a penalty to the IRS if not provided because of their small number of employees. The imposition of any requirement that we or our franchisees provide health insurance benefits to our or their employees that are more extensive than the health insurance benefits that we currently provide to our employees or that franchisees may or may not provide, or the imposition of additional employer paid employment taxes on income earned by our employees, could have an adverse effect on our results of operations and financial position. Our distributors and suppliers also may be affected by higher minimum wage and benefit standards, which could result in higher costs for goods and services supplied to us.

A final rule issued in January 2020 by the Department of Labor (or "DOL") narrowed the meaning of "joint employer" under the Fair Labor Standards Act (FLSA), the federal law that sets minimum wage and overtime standards. The final DOL rule focuses on a potential joint employer's actual direct or indirect control over an employee, including whether the potential joint employer supervises an employee's conditions of employment to a substantial degree, and identifies certain business models, including franchising, that do not in themselves make joint employer status more or less likely. The final DOL rule reverses the more expansive definition of "joint employer," adopted in a July 2014 National Labor Relations Board (or "NLRB") action holding that McDonald's Corporation, as a joint employer, could be held jointly liable for labor and wage violations by its franchisees. Note that McDonald's Corporation was not ultimately required to admit liability or joint-employer status, following a December 2019 NLRB action which instructed an administrative law judge to approve a settlement agreement resolving complaints against McDonald's Corporation and a number of its franchisees. The affected labor union and a union-backed group have indicated that they will appeal the NLRB action. We believe that the final DOL rule will be more favorable to us by making it less likely that we will be held accountable for the actions of our franchisees. However, it is important to note that the final DOL rule only affects the joint employer standard applicable under the FLSA. The test for joint employer status may be different under other federal and state laws, although rules similarly narrowing the interpretation of "joint employer" are reportedly being worked on by the Equal Employment Opportunity Commission pertaining to workplace discrimination and have been adopted by the NLRB pertaining to collective bargaining, discussed below.

A final rule issued by the NLRB in February 2020, consistent with the DOL's rule, applies a narrow interpretation of "joint employer" in the collective bargaining context, in which a unionized joint employer has or shares an obligation to collectively bargain over those employment terms it controls or jointly controls. In a manner similar to the DOL's rulemaking with respect to the FLSA, the final NLRB rule reverses the more expansive definition of "joint employer" applied in the NLRB's 2015 decision in the case of Browning-Ferris Industries. In that case, Browning-Ferris was deemed to be a joint employer obligated to negotiate with the Teamsters union over workers supplied by a contract staffing firm within one of its recycling plants. The final NLRB rule provides that, in order to be a joint employer, among other things, a business must possess and exercise substantial direct and immediate control over one or more essential conditions of employment of another employer's employees. We believe that the final NLRB rule will be more favorable to us by making it less likely that employees of our franchisees can organize, bargain collectively, and require us to participate in collective bargaining with those employees. It is expected that the final DOL rule will be challenged in court, given that it conflicts with a December 2018 decision of the U.S. Court of Appeals for the D.C. Circuit, which partially upheld the 2015 Browning-Ferris expansive definition of "joint employer."

California adopted Assembly Bill 5, or AB-5, which took effect on January 1, 2020. This legislation codifies the standard established in California case law for determining whether workers should be classified as employees or independent contractors, with a strict test that puts the burden of proof on employers to establish that workers are not employees. The law is aimed at the so-called "gig economy" and is not a franchise-specific law, nor does it address the concept of joint employer liability. However, a significant concern exists in the franchise industry that an expansive interpretation of AB-5 could be used to hold franchisors jointly liable for the labor law violations of its franchisees, and it remains uncertain as to how the joint employer issue will ultimately be resolved. The International Franchise Association is actively lobbying in California and has been seeking an amendment to AB-5 that provides an exception for "legitimate franchisors and franchisees." Please see the risk factor in Item 1A beginning with the phrase "Past decisions by the United States National Labor Relations Board expanding the meaning of 'joint employer' and evolving state laws" for a more detailed discussion of the significance of AB-5 in the context of the franchise industry.

We are required to comply with the accessibility standards mandated by the U.S. Americans with Disabilities Act of 1990 and related federal and state statutes, which generally prohibit discrimination in accommodation or employment based on disability. We may, in the future, have to modify our clinics to provide service to or make reasonable accommodations for disabled persons. While these expenses could be material, our current expectation is that any such actions will not require us to expend substantial funds.

We are subject to extensive and varied state and local government regulation affecting the operation of our business, as are our franchisees, including regulations relating to public and occupational health and safety, sanitation, fire prevention and franchise operation. Each franchised clinic is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, environmental, building and fire agencies in the jurisdiction in which the clinic is located. We require our franchisees to operate in accordance with standards and procedures designed to comply with applicable codes and regulations. However, our or our franchisees' inability to obtain or retain health or other licenses would adversely affect operations at the impacted clinic or clinics. Although we have not experienced and do not anticipate any significant difficulties, delays or failures in obtaining required licenses, permits or approvals, any such problem could delay or prevent the opening of, or adversely impact the viability of, a particular clinic. In addition, in order to develop and construct our clinics, we need to comply with applicable zoning and land use regulations. Federal and state regulations have not had a material effect on our operations to date, but more stringent and varied requirements of local governmental bodies with respect to zoning and land use could delay or even prevent construction and increase development costs of new clinics.

Competition

The chiropractic industry is highly fragmented. According to First Research's 2019 report, the top 50 providers of chiropractic services in the United States generate less than 10% of industry revenue. Our competitors include approximately 40,000 independent chiropractic offices currently open throughout the United States, according to a 2019 Kentley Insights market research report, as well as certain multi-unit operators. We may also face competition from traditional medical practices, outpatient clinics, physical therapists, med-spas, massage therapists and sellers of devices intended for home use to address back and joint discomfort. Our three largest multi-unit competitors are HealthSource Chiropractic, ChiroOne Wellness Centers, and 100% Chiropractic, all of which are insurance-based models.

We have identified five competitors who are attempting to duplicate our cash-only, low cost, appointment-free model. Based on publicly available information, these competitors each operate fewer than 12 clinics as franchises. We anticipate that other direct competitors will join our industry as our visibility, reputation and perceived advantages become more widely known. We believe our first mover advantage, proprietary operations systems, and strong unit level economics will continue to accelerate our growth even with the spawning of additional competition.

Employees

As of December 31, 2019, we had 150 employees on a full-time basis. None of our employees are members of unions or participate in other collective bargaining arrangements.

Facilities

We lease the property for our corporate headquarters and all of the properties on which we own or manage clinics. As of December 31, 2019, we leased 65 facilities in which we operate or intend to operate clinics. We are obligated under 2 additional leases for facilities in which we have ceased clinic operations.

Our corporate headquarters are located at 16767 North Perimeter Drive, Suite 110, Scottsdale, Arizona 85260. The term of our lease for this location expires on December 31, 2025. The primary functions performed at our corporate headquarters are finance and accounting, treasury, marketing, operations, human resources, information systems support, and legal.

We are also obligated under non-cancellable leases for the clinics which we own or manage. Our clinics are on average 1,200 square feet. Our clinic leases generally have an initial term of five years, include one to two options to renew for terms of five years, and require us to pay a proportionate share of real estate taxes, insurance, common area maintenance charges and other operating costs.

As of December 31, 2019, our franchisees operated 453 clinics in 33 states. All of our franchise locations are leased.

Intellectual Property

Trademarks, trade names and service marks

"The Joint Chiropractic" is our trademark, registered in December 2016, under registration number 5095943. We have also registered "You're Back, Baby" in July 2019, under registration number 5940161, "Back-Tober" in September 2018, under registration number 5571732, "Relief Recovery Wellness" in February 2018, under registration number 5398367, "Pain Relief Is At Hand" in February 2018, under registration number 5395995, "What Life Does To Your Body, We Undo" in February 2018, under registration number 5396012, "Be Chiro-Practical" in October 2017, under registration number 5313693, "Relief. On so many levels" in December 2015, under registration number 4871809, and "The Joint" in April 2015, under registration number 4723892.

Additional trademarks previously registered include "The Joint… the Chiropractic Place" registered in February 2011, under registration number 3922558. We also registered the words, letters, and stylized form of service mark, "The Joint… the Chiropractic Place" in April 2013 under registration number 4323810.

In Canada, we have applied for the following trademarks: "The Joint" in February 2017 under application number 1825026, "The Joint Chiropractic" in February 2017 under application 1825027, the words, letters, and stylized form of trademark "The Joint Chiropractic," and "The Joint Chiropractic" in February 2017 under application 1825028.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

New clinics, once opened, may not be profitable, and the increases in average clinic sales and comparable clinic sales that we have experienced in the past may not be indicative of future results.

Our clinics continue to demonstrate increases in comparable clinic sales even as they mature. Our annual Comp Sales for the full year 2019, for clinics that have been open for greater than 48 months, was 19%. However, we cannot assure you that this will continue for our existing clinics or that clinics we open in the future will see similar results. In new markets, the length of time before average sales for new clinics stabilize is less predictable and can be longer than we expect because of our limited knowledge of these markets and consumers' limited awareness of our brand. New clinics may not be profitable and their sales performance may not follow historical patterns. In addition, our average clinic sales and comparable clinic sales for existing clinics may not increase at the rates achieved over the past several years. Our ability to operate new clinics, especially company-owned or managed clinics, profitably and increase average clinic sales and comparable clinic sales will depend on many factors, some of which are beyond our control, including:

- consumer awareness and understanding of our brand;
- general economic conditions, which can affect clinic traffic, local rent and labor costs and prices we pay for the supplies we use;
- changes in consumer preferences and discretionary spending;
- competition, either from our competitors in the chiropractic industry or our own clinics;
- the identification and availability of attractive sites for new facilities and the anticipated commercial, residential and infrastructure development near our new facilities;
- changes in government regulation; and
- other unanticipated increases in costs, any of which could give rise to delays or cost overruns.

If our new clinics do not perform as planned, our business and future prospects could be harmed. In addition, if we are unable to achieve our expected average clinics sales, our business, financial condition and results of operations could be adversely affected.

Our failure to manage our growth effectively could harm our business and operating results.

Our growth plan includes a significant number of new clinics, focused currently on franchised clinics, and the measured and opportunistic addition of company-owned or managed clinics. Our existing clinic management systems, administrative staff, financial and management controls and information systems may be inadequate to support our planned expansion. Those demands on our infrastructure and resources may also adversely affect our ability to manage our existing clinics. Managing our growth effectively will require us to continue to enhance these systems, procedures and controls and to hire, train and retain managers and team members. We may not respond quickly enough to the changing demands that our expansion will impose on our management, clinic teams and existing infrastructure which could harm our business, financial condition and results of operations. We are currently in the process of replacing and upgrading our management information systems, and we cannot provide assurances that we will accomplish this without delays, difficulties or service interruptions.

Our long-term strategy involves opening new, company-owned or managed clinics, and is subject to many unpredictable factors.

One component of our long-term growth strategy is to open new company-owned or managed clinics and to operate those clinics on a profitable basis. As of December 31, 2019, we owned or managed 60 clinics. Previously, we suspended the development of new company-owned or managed clinics from July 2016 through the first quarter of 2018 in order to stabilize our corporate clinic portfolio. We believe we have accomplished that goal, and we have resumed development of such clinics in 2019 and will continue to do so in 2020. We may not be able to open new company-owned or managed clinics as quickly as planned. In the past, we have experienced delays in opening some franchised and company-owned or managed clinics, for various reasons, including construction permitting, landlord responsiveness, and municipal approvals. Such delays could affect future clinic openings. Delays or failures in opening new clinics could materially and adversely affect our growth strategy and our business, financial condition and results of operations. As we operate more clinics, our rate of expansion relative to the size of our clinic base will eventually decline.

In addition, we face challenges locating and securing suitable new clinic sites in our target markets. Competition for those sites is intense, and other retail concepts that compete for those sites may have unit economic models that permit them to bid more aggressively for those sites than we can. There is no guarantee that a sufficient number of suitable sites will be available in desirable areas or on terms that are acceptable to us in order to achieve our growth plan. Our ability to open new clinics also depends on other factors, including:

- negotiating leases with acceptable terms;
- identifying, hiring and training qualified employees in each local market;
- identifying and entering into management agreements with suitable PCs in certain target markets;
- timely delivery of leased premises to us from our landlords and punctual commencement and completion of construction;
- managing construction and development costs of new clinics, particularly in competitive markets;
- obtaining construction materials and labor at acceptable costs, particularly in urban markets;
- unforeseen engineering or environmental problems with leased premises;
- generating sufficient funds from operations or obtaining acceptable financing to support our future development;
- securing required governmental approvals, permits and licenses (including construction permits and operating licenses) in a timely manner and responding effectively to any changes in local, state or federal laws and regulations that adversely affect our costs or ability to open new clinics; and
- the impact of inclement weather, natural disasters and other calamities.

Our expansion into new markets may be more costly and difficult than we currently anticipate which would result in slower growth than we expect.

Clinics we open in new markets may take longer to reach expected sales and profit levels on a consistent basis and may have higher construction, occupancy, marketing or operating costs than clinics we open in existing markets, thereby affecting our overall profitability. New markets may have competitive conditions, consumer tastes and discretionary spending patterns that are more difficult to predict or satisfy than our existing markets. We may need to make greater investments than we originally planned in advertising and promotional activity in new markets to build brand awareness. We may find it more difficult in new markets to hire, motivate and keep qualified employees who share our vision and culture. We may also incur higher costs from entering new markets, particularly with company-owned clinics if, for example, we hire and assign regional managers to manage comparatively fewer clinics than in more developed markets. For these reasons, both our new franchised clinics and our new company-owned or managed clinics may be less successful than our existing franchised clinics or may achieve target rates of patient visits at a slower rate. If we do not successfully execute our plans to enter new markets, our business, financial condition and results of operations could be materially adversely affected.

Opening new clinics in existing markets may negatively affect revenue at our existing clinics.

The target area of our clinics varies by location and depends on a number of factors, including population density, other available retail services, area demographics and geography. As a result, the opening of a new clinic in or near markets in which we already have clinics could adversely affect the revenues of those existing clinics. Existing clinics could also make it more difficult to build our patient base for a new clinic in the same market. Our business strategy does not entail opening new clinics that we believe will materially affect revenue at our existing clinics, but we may selectively open new clinics in and around areas of existing clinics that are operating at or near capacity to effectively serve our patients. Revenue “cannibalization” between our clinics may become significant in the future as we continue to expand our operations and could affect our revenue growth, which could, in turn, adversely affect our business, financial condition and results of operations.

Any acquisitions that we make could disrupt our business and harm our financial condition.

From time to time, we may evaluate potential strategic acquisitions of existing franchised clinics to facilitate our growth. We may not be successful in identifying acquisition candidates. In addition, we may not be able to continue the operational success of any franchised clinics we acquire or successfully integrate any businesses that we acquire. We may have potential write-offs of acquired assets and an impairment of any goodwill recorded as a result of acquisitions. Furthermore, the integration of any acquisition may divert management’s time and resources from our core business and disrupt our operations or may result in conflicts with our business. Any acquisition may not be successful, may reduce our cash reserves and may negatively affect our earnings and financial performance. We cannot ensure that any acquisitions we make will not have a material adverse effect on our business, financial condition and results of operations.

Damage to our reputation or our brand in existing or new markets could negatively impact our business, financial condition and results of operations.

We believe we have built our reputation on high quality, empathetic patient care, and we must protect and grow the value of our brand to continue to be successful in the future. Our brand may be diminished if we do not continue to make investments in areas such as marketing and advertising, as well as the day-to-day investments required for facility operations, equipment upgrades and staff training. Any incident, real or perceived, regardless of merit or outcome, that erodes our brand, such as failure to comply with federal, state or local regulations including allegations or perceptions of non-compliance or failure to comply with ethical and operating standards, could significantly reduce the value of our brand, expose us to adverse publicity and damage our overall business and reputation. Further, our brand value could suffer and our business could be adversely affected if patients perceive a reduction in the quality of service or staff.

We may be unable to maintain or improve our operating margins, which could adversely affect our financial condition and ability to grow.

If we are unable to successfully manage our growth, we may not be able to capture the efficiencies and opportunities that we expect from our expansion strategy. If we are not able to capture expected efficiencies of scale, maintain patient volumes, improve our systems and equipment, continue our cost discipline and retain appropriate chiropractors and overall labor levels, our operating margins may stagnate or decline, which could have a material adverse effect on our business, financial condition and results of operations and adversely affect the price of our common stock.

We have experienced net losses and may not achieve or sustain profitability in the future.

We have experienced periods of net losses in the past and while we have recently achieved profitability, our revenue may not grow and we may not maintain profitability in the future. Our ability to maintain profitability will be affected by the other risks and uncertainties described in this section and in Management’s Discussion and Analysis. If we are not able to sustain or increase profitability, our business will be materially adversely affected and the price of our common stock may decline.

Our marketing programs may not be successful.

We incur costs and expend other resources in our marketing efforts to attract and retain patients. Our marketing activities are principally focused on increasing brand awareness and driving patient volumes. As we open new facilities, we undertake aggressive marketing campaigns to increase community awareness about our growing presence. We plan to utilize targeted marketing efforts within local neighborhoods through channels such as radio, digital media, community sponsorships and events, and a robust online/social media presence. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenue. Our ability to market our services may be restricted or limited by federal or state law.

We will be subject to all of the risks associated with leasing space subject to long-term non-cancelable leases for clinics that we intend to operate.

We do not own, and we do not intend to own, any of the real property where our company-owned or managed clinics operate. We expect the spaces for the company-owned or managed clinics we intend to open in the future will be leased. We anticipate that our leases generally will have an initial term of five or ten years and generally can be extended only in five-year increments (at increased rates). We expect that all of our leases will require a fixed annual rent, although some may require the payment of additional rent if clinic sales exceed a negotiated amount. We expect that our leases will typically be net leases, which require us to pay all of the costs of insurance, taxes, maintenance and utilities, and that these leases will not be cancellable by us. If a future company-owned clinic is not profitable, resulting in its closure, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. In addition, we may fail to negotiate renewals as each of our leases expires, either on commercially acceptable terms or at all, which could cause us to pay increased occupancy costs or to close clinics in desirable locations. These potential increases in occupancy costs and the cost of closing company-owned or managed clinics could materially adversely affect our business, financial condition or results of operations. We have settled disputes over future rent with landlords at all of the fourteen clinics that we either closed or never opened.

Our increased reliance on sources of revenue other than from franchise and regional developer licenses exposes us to risks including the loss of revenue and reduction of working capital.

From the commencement of our operations until we began to acquire or open company-owned or managed clinics, we relied exclusively on the sale of franchises and regional developer licenses as sources of revenue until the franchises we sold began to generate royalty revenues. As our portfolio of company-owned or managed clinics matures, we have placed less reliance on these franchise sources of revenue. As we develop further company-owned or managed clinics, we will be required to use our working capital to operate our business. If the opening of our company-owned or managed clinics is delayed or if the cost of developing company-owned or managed clinics exceeds our expectations, we may experience insufficient working capital to fully implement our development plans, and our business, financial condition and results of operations could be adversely affected.

Our potential need to raise additional capital to accomplish our objectives of expanding into new markets and selectively developing company-owned or managed clinics exposes us to risks including limiting our ability to develop or acquire clinics and limiting our financial flexibility.

We resumed the selective development and acquisition of company-owned or managed clinics in the first quarter of 2018. If we do not have sufficient cash resources, our ability to develop and acquire clinics could be limited unless we are able to obtain additional capital through future debt or equity financing. Using cash to finance development and acquisition of clinics could limit our financial flexibility by reducing cash available for operating purposes. Using debt financing could result in lenders imposing financial covenants that limit our operations and financial flexibility. Using equity financing may result in dilution of ownership interests of our existing stockholders. We may also use common stock as consideration for the future acquisition of clinics. If our common stock does not maintain a sufficient market value or if prospective acquisition candidates are unwilling to accept our common stock as part of the consideration for the sale of their clinics or businesses, we may be required to use more of our cash resources or greater debt financing to complete these acquisitions.

Our dependence on the success of our franchisees exposes us to risks including the loss of royalty revenue and harm to our brand.

A substantial portion of our revenues comes from royalties generated by our franchised clinics. We anticipate that franchise royalties will represent a substantial part of our revenues in the future. As of December 31, 2019, we had franchisees operating or managing 453 clinics. Accordingly, we are reliant on the performance of our franchisees in successfully opening and operating their clinics and paying royalties to us on a timely basis. Our franchise system subjects us to a number of risks as described in the next four risk factors, any one of which could impact our ability to collect royalty payments from our franchisees, may harm the goodwill associated with our brand and may materially adversely affect our business and results of operations.

Our franchisees are independent operators over whom we have limited control.

Franchisees are independent operators, and their employees are not our employees. Accordingly, their actions are outside of our control. Although we have developed criteria to evaluate and screen prospective franchisees, we cannot be certain that our franchisees will have the business acumen or financial resources necessary to operate successful franchises in their approved locations, and state franchise laws may limit our ability to terminate or modify these franchise agreements. Moreover, despite our training, support and monitoring, franchisees may not successfully operate clinics in a manner consistent with our standards and requirements, or may not hire and adequately train qualified personnel. The failure of our franchisees to operate their franchises successfully and the actions taken by their employees could have a material adverse effect on our reputation, our brand and our ability to attract prospective franchisees, and on our business, financial condition and results of operations.

We are subject to the risk that our franchise agreements may be terminated or not renewed.

Each franchise agreement is subject to termination by us as the franchisor in the event of a default, generally after expiration of applicable cure periods, although under certain circumstances a franchise agreement may be terminated by us upon notice without an opportunity to cure. The default provisions under the franchise agreements are drafted broadly and include, among other things, any failure to meet operating standards and actions that may threaten our intellectual property. In addition, each franchise agreement has an expiration date. Upon the expiration of the franchise agreement, we or the franchisee may, or may not, elect to renew the franchise agreement. If the franchise agreement is renewed, the franchisee will receive a new franchise agreement for an additional term. Such option, however, is contingent on the franchisee's execution of the then-current form of franchise agreement (which may include increased royalty payments, advertising fees and other costs) and the payment of a renewal fee. If a franchisee is unable or unwilling to satisfy any of the foregoing conditions, we may elect not to renew the expiring franchise agreement, in which event the franchise agreement will terminate upon expiration of its term. The termination or non-renewal of a franchise agreement could result in the reduction of royalty payments we receive.

Our franchisees may not meet timetables for opening their clinics, which could reduce the royalties we receive.

Our franchise agreements specify a timetable for opening the clinic. Failure by our franchisees to open their clinics within the specified time limit would result in the reduction of royalty payments we would have otherwise received and could result in the termination of the franchise agreement. As of December 31, 2019, we had 170 active licenses which we believe to be developable and an additional 34 letters-of-intent for future clinic licenses. Of these, 35 have not met their development requirements within the time periods specified in their franchise agreements.

Our franchisees may elect bankruptcy protection and deprive us of income.

The bankruptcy of a franchisee could negatively impact our ability to collect payments due under such franchisee's franchise agreement. In a franchisee bankruptcy, the bankruptcy trustee may reject the franchisee's franchise agreement pursuant to Section 365 under the United States Bankruptcy Code, in which case we would no longer receive royalty payments from the franchisee.

Our regional developers are independent operators over whom we have limited control.

Our regional developers are independent operators. Accordingly, their actions are outside of our control. We depend upon our regional developers to sell a minimum number of franchises within their territory and to assist the purchasers of those franchises to develop and operate their clinics. The failure by regional developers to sell the specified minimum number of franchises within the time limits set forth in their regional developer license agreements would reduce the franchise fees we would otherwise receive, delay the payment of royalties to us and result in a potential event of default under the regional developer license agreement. Of our total of twenty one regional developers as of December 31, 2019, five have not met their minimum franchise sales requirements within the time periods specified in their regional developer agreements.

Our ability to operate effectively could be impaired if we fail to attract and retain our executive officers.

Our success depends, in part, upon the continuing contributions of our executive officers and key employees at the management level. Although we have employment letter agreements with renewing one-year terms with certain of our key executive officers, there is no guarantee that they will not leave. The loss of the services of any of our executive officers or the failure to attract other executive officers could have a material adverse effect on our business or our business prospects. If we lose the services of any of our key employees at the operating or regional level, we may not be able to replace them with similarly qualified personnel, which could harm our business.

A lack of qualified employees will significantly hinder our growth plans and adversely affect our results of operations.

As we grow, our ability to increase productivity and profitability will be limited by our ability to employ, train, and retain skilled personnel. There can be no assurance that we will be able to maintain an adequate skilled labor force necessary to operate efficiently, that our labor expenses will not increase as a result of a shortage in the supply of skilled personnel or that we will not have to curtail our planned internal growth as a result of labor shortages.

We may not be able to successfully recruit and retain qualified chiropractors.

Our success depends upon our continuing ability to recruit and retain qualified chiropractors. In the event we are unable to attract a sufficient number of qualified chiropractors, our growth rate may suffer.

Our clinics and chiropractors compete for patients in a highly competitive environment that may make it more difficult to increase patient volumes and revenues.

The business of providing chiropractic services is highly competitive in each of the markets in which our clinics operate. The primary bases of such competition are quality of care and reputation, price of services, marketing and advertising strategy and implementation, convenience, traffic flow and visibility of office locations and hours of operation. Our clinics compete with all other chiropractors in their local market. Many of those chiropractors have established practices and reputations in their markets. Some of these competitors and potential competitors may have financial resources, affiliation models, reputations or management expertise that provide them with competitive advantages over us, which may make it difficult to compete against them. Our three largest multi-unit competitors are HealthSource Chiropractic, which currently operates 166 units; ChiroOne Wellness Centers, which currently operates 58 units domestically; and 100% Chiropractic, which currently operates 35 units. Each of these competitors is currently operating under an insurance-based model. In addition, a number of other chiropractic franchises and chiropractic practices that are attempting to duplicate or follow our business model are currently operating in our markets and in other parts of the country and may enter our existing markets in the future.

Our success is dependent on the chiropractors who control the professional corporations, or PC owners, with whom we enter into management services agreements, and we may have difficulty locating qualified chiropractors to replace PC owners.

In states that regulate the corporate practice of chiropractic, our chiropractic services are provided by legal entities organized under state laws as professional corporations, or PCs and their equivalents. Each PC employs or contracts with chiropractors in one or more offices. Each of the PCs is wholly owned by one or more licensed chiropractors, or medical professionals as state law may require, and we do not own any capital stock of any PC. We and our franchisees that are not owned by chiropractors enter into management services agreements with PCs to provide on an exclusive basis all non-clinical services of the chiropractic practice. The PC owner is critical to the success of a clinic because he or she has control of all clinical aspects of the practice of chiropractic and the provision of chiropractic services. Upon the departure of a PC owner, we may not be able to locate one or more suitably qualified licensed chiropractors to hold the ownership interest in the PC and maintain the success of the departing PC owner.

Major public health concerns, including the outbreak of epidemic or pandemic contagious disease, such as the coronavirus, may adversely affect revenue at our clinics and disrupt financial markets.

In January 2020, the World Health Organization declared that the coronavirus outbreak, which began in China and has since spread to other areas, is a global health emergency. The expected spread of coronavirus in the United States or a similar public health threat, or fear of such an event, may negatively impact the willingness of patients to visit our clinics or the shopping centers in which they are located out of concern over exposure to contagious disease. A prolonged outbreak, resulting in reduced patient traffic and continued disruptions to capital and financial markets, could have a material adverse impact on our business, financial condition, results of operations, and the market price of our stock.

Changes in economic conditions and adverse weather and other unforeseen conditions could materially affect our ability to maintain or increase sales at our clinics or open new clinics.

Our services emphasize maintenance therapy, which is generally not a medical necessity, and should be viewed as a discretionary medical expenditure. The United States in general or the specific markets in which we operate may suffer from depressed economic activity, recessionary economic cycles, higher fuel or energy costs, low consumer confidence, high levels of unemployment, reduced home values, increases in home foreclosures, investment losses, personal bankruptcies, reduced access to credit or other economic factors that may affect consumer discretionary spending. Traffic in our clinics could decline if consumers choose to reduce the amount they spend on non-critical medical procedures. Negative economic conditions might cause consumers to make long-term changes to their discretionary spending behavior, including reducing medical discretionary spending on a permanent basis. In addition, given our geographic concentrations in the West, Southwest and mid-Atlantic regions of the United States, economic conditions in those particular areas of the country could have a disproportionate impact on our overall results of operations, and regional occurrences such as local strikes, terrorist attacks, increases in energy prices, adverse weather conditions, tornadoes, earthquakes, hurricanes, floods, droughts, fires or other natural or man-made disasters could materially adversely affect our business, financial condition and results of operations. Adverse weather conditions may also impact customer traffic at our clinics. All of our clinics depend on visibility and walk-in traffic, and the effects of adverse weather may decrease visits to malls in which our clinics are located and negatively impact our revenues. If clinic sales decrease, our profitability could decline as we spread fixed costs across a lower level of sales. Reductions in staff levels, asset impairment charges and potential clinic closures could result from prolonged negative clinic sales, which could materially adversely affect our business, financial condition and results of operations.

Our management services agreements, according to which we provide non-clinical services to affiliated PCs, could be challenged by a state or chiropractor under laws regulating the practice of chiropractic, and some state chiropractic boards have made inquiries concerning our business model.

The laws of every state in which we operate contain restrictions on the practice of chiropractic and control over the provision of chiropractic services. The laws of many states where we operate permit a chiropractor to conduct a chiropractic practice only as an individual, a member of a partnership or an employee of a PC, limited liability company or limited liability partnership. These laws typically prohibit chiropractors from splitting fees with non-chiropractors and prohibit non-chiropractic entities, such as chiropractic management services organizations, from owning or operating chiropractic clinics or engaging in the practice of chiropractic and from employing chiropractors. The specific restrictions against the corporate practice of chiropractic, as well as the interpretation of those restrictions by state regulatory authorities, vary from state to state. However, the restrictions are generally designed to prohibit a non-chiropractic entity from controlling or directing clinical care decision-making, engaging chiropractors to practice chiropractic or sharing professional fees. The form of management agreement that we utilize, and that we recommend to our franchisees that are management service organizations, explicitly prohibits the management service organization from controlling or directing clinical care decisions. However, there can be no assurance that all of our franchisees that are management service organizations will strictly follow the provisions in our recommended form of management agreement. The laws of many states also prohibit chiropractic practitioners from paying any portion of fees received for chiropractic services in consideration for the referral of a patient. Any challenge to our contractual relationships with our affiliated PCs by chiropractors or regulatory authorities could result in a finding that could have a material adverse effect on our operations, such as voiding one or more management services agreements. Moreover, the laws and regulatory environment may change to restrict or limit the enforceability of our management services agreements. We could be prevented from affiliating with chiropractor-owned PCs or providing comprehensive business services to them in one or more states.

In February 2020, the State of Washington Chiropractic Quality Assurance Commission delivered notices that it was investigating complaints made against three chiropractors who own clinics, or are (or were) employed by clinics, in Washington for which our franchisees provide management services. The notices contained allegations of fee-splitting, specifically questioning a provision in our Franchise Disclosure Document providing for the payment of royalty fees based on revenue derived from the furnishing of chiropractic care. The notices requested that the chiropractors provide responses to a number of questions posed by the commission, as well as documentation describing the fee structure and related matters. The allegations pose a threat to our business model, and unless we can resolve the commission's concerns to its satisfaction, our franchisees may be required to change their service arrangements with clinics, and we may be required to change our business model in the State of Washington.

In February 2019, a bill was introduced in the Arkansas state legislature prohibiting the ownership and management of a chiropractic corporation by a non-chiropractor. The bill was drafted by the Arkansas State Board of Chiropractic Examiners. This bill has since been withdrawn. While it is questionable whether the prohibition would have been applicable to our business model in Arkansas, the bill could have been interpreted to challenge that model if it had passed in its proposed form. We have no assurance that another bill posing a similar or greater challenge to our business model will not be introduced in the future. Previously, in 2015, the Arkansas Board had questioned whether our business model might violate Arkansas law in its response to an inquiry we made on behalf of one of our franchisees. While the Arkansas Board did not thereafter pursue the matter of a possible violation, it might choose to do so at any time in the future.

In February 2019, the North Carolina Board of Chiropractic Examiners delivered notices alleging certain violations to sixteen chiropractors working for clinics in North Carolina for which our franchisees provide management services. We retained legal counsel in this matter, and a preliminary hearing was conducted on February 21, 2019. The North Carolina Board issued its findings to each of the individual chiropractors, which generally included an overall finding that probable cause existed to show that the chiropractors violated one or more of the North Carolina Board's rules. The findings each also proposed an Informal Settlement Agreement in lieu of proceeding to a full hearing before the North Carolina Board. On April 22, 2019, each of the chiropractors, through their attorneys, delivered to the North Carolina Board notices refuting the North Carolina Board's findings and seeking revisions to the Settlement Agreement. The North Carolina Board replied with certain counterproposals, and all chiropractors have since accepted the terms. While the allegations consisted primarily of quality of care and advertising issues, it is possible that the actions of the North Carolina Board arose out of concerns related to our business model, and if so, we have no assurance that the North Carolina Board will not pursue other claims against the chiropractors in the future.

In November 2018, the Oregon Board of Chiropractic Examiners adopted changes to its rules to prohibit a chiropractor from owning or operating a chiropractic practice as a surrogate for a non-chiropractor. As in the case of the proposed Arkansas bill, it is questionable whether this prohibition is applicable to our business model in Oregon; however, depending upon how the amended rules are interpreted, they could similarly pose a threat. Since our franchisees began operating in Oregon, the Oregon Board has made several inquiries with respect to our business model. We have typically satisfied these inquiries by providing a brief response or documentation. In February 2018, the Oregon Board asked us for clarification regarding ownership of our franchise locations operating in Oregon, and we responded with the requested clarification. The Oregon Board has not taken any further action, but we have no assurance that it will not do so in the future or that we have satisfied the Oregon Board's concerns. One of our franchisees received a letter from the Oregon Board alleging a violation of the rules against the corporate practice of chiropractic, but after a further exchange of correspondence with the franchisee, the Oregon Board notified the franchisee in August 2018 that the case was closed.

In November 2015, the California Board of Chiropractic Examiners commenced an administrative proceeding to which we were not a party, in which it claimed that the doctor who owns the PC that we manage in southern California violated California's prohibition on the corporate practice of chiropractic, among other claims, because our management of the clinics operated by his PC involved the exercise of control over certain clinical aspects of his practice. The claims were subsequently dismissed congruent with the decision of the administrative law judge who conducted the proceeding; however, we cannot assure you that similar claims will not be made in the future, either against us or our affiliated PCs.

In a June 2015 Assurance of Discontinuance with the New York Attorney General, Aspen Dental Management, a provider of business support services to independently owned dental practices, agreed to settle claims that it improperly made business decisions impacting clinical matters, illegally engaged in fee-splitting with dental practices and required the dental practices to use the "Aspen Dental" trade name in a manner that had the potential to mislead consumers into believing that the "Aspen Dental"- branded offices were under common ownership with the provider. Pursuant to the settlement, Aspen Dental paid a substantial fine and agreed to change its business and branding practices, including changes to its website and marketing materials in order to make clear that the Aspen-branded dental offices were independently owned and operated. While it has not done so to date, we cannot assure you that the New York Attorney General will not similarly choose to challenge our contractual relationships with our affiliated PCs in New York and, in particular, to question whether use of The Joint trademark by our affiliated PCs misleads consumers, causing them to incorrectly conclude that we are the provider of chiropractic treatment.

The Kansas Healing Arts Board, in response to a third-party complaint about one of our franchisees, sent a letter to the franchisee in February 2015 questioning whether the franchise business model might violate Kansas law regarding the unauthorized practice of chiropractic care. At the time, we and the franchisee had several communications with the Kansas Board with respect to modifying the management agreement to address its concerns. While we have had no further communications with the Board since that time, we have also received no assurance that changes to the agreement satisfied its concerns.

Past decisions by the United States National Labor Relations Board expanding the meaning of "joint employer" and evolving state laws mean that we could have liability for employment law violations by our franchisees.

A July 2014 decision by the United States National Labor Relations Board (or NLRB) held that McDonald's Corporation could be held liable as a "joint employer" for labor and wage violations by its franchisees under the Fair Labor Standards Act (FLSA). After this decision, the NLRB issued a number of complaints against McDonald's Corporation in connection with these violations. Additionally, an August 2015 decision by the NLRB held that Browning-Ferris Industries was a "joint employer" for purposes of collective bargaining and, thus, obligated to negotiate with the Teamsters union over workers supplied by a contract staffing firm within one of its recycling plants.

Since then, in January 2020, the Department of Labor (or "DOL") issued a final rule narrowing the meaning of "joint employer" under the FLSA. Furthermore, McDonald's Corporation in the aforementioned NLRB action was not ultimately required to admit liability or joint-employer status. However, the affected labor union and a union-backed group have indicated that they will appeal the decision, and there may be other legal challenges to the DOL rule. Consistent with the DOL's rule, the NLRB issued a final rule in February 2020, narrowing the meaning of "joint employer" in the collective bargaining context. As in the case of the DOL rule, it is expected that the final NLRB rule will be challenged in court, given that it conflicts with a

December 2018 decision of the U.S. Court of Appeals for the D.C. Circuit, which partially upheld the 2015 Browning-Ferris expansive definition of "joint employer."

Should the new DOL rule narrowing the meaning of "joint employer" ultimately be rejected by the courts or replaced by rules returning to a more expansive definition of "joint employer" in a stricter regulatory climate, we could have responsibility for damages, reinstatement, back pay and penalties in connection with labor law violations by our franchisees over whom we have limited control, which could have a material adverse effect on our financial condition and results of operations. Similarly, a rollback of the NLRB rule could make it easier for our franchisees' employees to organize into unions, require us to participate in collective bargaining with those employees, provide those employees and their union representatives with bargaining power to request that we have our franchisees raise wages, and make it more expensive and less profitable to operate a franchised clinic. Additionally, notwithstanding the narrowing of the meaning of "joint employer" under the FLSA and collective bargaining rules, the test for joint employer status may be different under other federal laws and under state laws.

California adopted Assembly Bill 5, or AB-5, which took effect on January 1, 2020. This legislation codifies the standard established in a California Supreme Court case (*Dynamex Operations West v. Superior Court*) for determining whether workers should be classified as employees or independent contractors, with a strict test that puts the burden of proof on employers to establish that workers are not employees. The law is aimed at the so-called "gig economy" where workers in many industries, particularly ride-sharing industries, are treated as independent contractors, rather than employees, and lack the protections of wage and hour laws. AB-5 is not a franchise-specific law and does not address joint employer liability; however, a significant concern exists in the franchise industry that an expansive interpretation of AB-5 could be used to hold franchisors jointly liable for the labor law violations of its franchisees. Courts addressing this issue have come to differing conclusions. Two different panels of the U.S. Circuit Court of Appeals for the Ninth Circuit, in applying California law, reached contradictory conclusions, with one panel implicitly concluding that the *Dynamex* standard was applicable to joint liability claims in the franchise industry and a second panel later concluding in December 2019 that it was not applicable. In February 2020, in reviewing the case decided by the first panel, the California Supreme Court denied requests to consider whether the *Dynamex* standard applies to joint liability claims. It remains uncertain as to how the joint employer issue will ultimately be resolved.

AB-5 has been the subject of widespread national discussion, and it is possible that other jurisdictions may enact similar laws, which might similarly raise concerns with respect to the expansion of joint liability to the franchise industry. Furthermore, there have been private lawsuits in which parties have alleged that a franchisor and its franchisee "jointly employ" the franchisee's staff, that the franchisor is responsible for the franchisees' staff (under theories of apparent agency, ostensible agency, or actual agency), or otherwise.

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

We and our affiliated chiropractor-owned PCs are subject to complex laws, rules and regulations, compliance with which may be costly and burdensome.

We, our franchisees and the chiropractor-owned PCs to which we and our franchisees provide management services are subject to extensive federal, state and local laws, rules and regulations, including:

- state regulations on the practice of chiropractic;
- the Health Insurance Portability and Accountability Act of 1996, as amended, and its implementing regulations, or HIPAA, and other federal and state laws governing the collection, dissemination, use, security and confidentiality of patient-identifiable health and financial information;
- federal and state laws and regulations which contain anti-kickback and fee-splitting provisions and restrictions on referrals;
- the federal Fair Debt Collection Practices Act and similar state laws that restrict the methods that we and third-party collection companies may use to contact and seek payment from patients regarding past due accounts; and
- state and federal labor laws, including wage and hour laws.

Many of the above laws, rules and regulations applicable to us, our franchisees and our affiliated PCs are ambiguous, have not been definitively interpreted by courts or regulatory authorities and vary from jurisdiction to jurisdiction. Accordingly, we may not be able to predict how these laws and regulations will be interpreted or applied by courts and regulatory authorities, and some of our activities could be challenged. In addition, we must consistently monitor changes in the laws and regulatory schemes that govern our operations. Although we have tried to structure our business and contractual relationships in compliance with these laws, rules and regulations in all material respects, if any aspect of our operations were found to violate applicable laws, rules or regulations, we could be subject to significant fines or other penalties, required to cease operations in a particular jurisdiction, prevented from commencing operations in a particular state or otherwise be required to revise the structure of our business or legal arrangements. Our efforts to comply with these laws, rules and regulations may impose significant costs and burdens, and failure to comply with these laws, rules and regulations may result in fines or other charges being imposed on us.

We conduct business in a heavily regulated industry and, if we fail to comply with these laws and government regulations, we could incur penalties or be required to make significant changes to our operations.

The healthcare industry is heavily regulated and closely scrutinized by federal, state and local governments. Comprehensive statutes and regulations govern the manner in which we provide and bill for services, our contractual relationships with our physicians, vendors and customers, our marketing activities and other aspects of our operations. Failure to comply with these laws can result in civil and criminal penalties such as fines, damages, overpayment recoupment, loss of enrollment status or exclusion from government healthcare programs. The risk of our being found in violation of these laws and regulations is increased by the fact that many of them have not been fully interpreted by regulatory authorities or the courts, and their provisions are sometimes open to multiple interpretations. Any action against us for violation of these laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our managements' attention from the operation of our business.

Our chiropractors are also subject to ethical guidelines and operating standards of professional and trade associations and private accreditation agencies. Compliance with these guidelines and standards is often required by our contracts with our customers or to maintain our reputation. The laws, regulations and standards governing the provision of healthcare services may change significantly in the future. New or changed healthcare laws, regulations or standards may materially and adversely affect our business. In addition, a review of our business by judicial, law enforcement, regulatory or accreditation authorities could result in a determination that could adversely affect our operations.

Our facilities are subject to extensive federal and state laws and regulations relating to the privacy and security of individually identifiable information.

HIPAA required the United States Department of Health and Human Service, or HHS, to adopt standards to protect the privacy and security of individually identifiable health-related information, or PHI. HHS released final regulations containing privacy standards in December 2000 and published revisions to the final regulations in August 2002. The privacy regulations extensively regulate the use and disclosure of PHI. The regulations also provide patients with significant rights related to understanding and controlling how their health information is used or disclosed. The security regulations require healthcare providers to implement administrative, physical and technical practices to protect the security of individually identifiable health information that is maintained or transmitted electronically. The Health Information Technology for Economic and Clinical Health Act, or HITECH, which was signed into law in February of 2009, enhanced the privacy, security and enforcement provisions of HIPAA by, among other things, extending HIPAA's privacy and security standards to "business associates," which, like us, are independent contractors or agents of covered entities (such as the chiropractic PCs and other healthcare providers) that create, receive, maintain, or transmit PHI in connection with providing a service for or on behalf of a covered entity. HITECH also established security breach notification requirements, created a mechanism for enforcement of HIPAA by state attorneys general, and increased penalties for HIPAA violations. Violations of HIPAA or HITECH could result in civil or criminal penalties. In addition to HIPAA, there are numerous federal and state laws and regulations addressing patient and consumer privacy concerns, including unauthorized access or theft of personal information. State statutes and regulations vary from state to state. Lawsuits, including class actions and action by state attorneys general, directed at companies that have experienced a privacy or security breach also can occur. We have established policies and procedures in an effort to ensure compliance with these privacy related requirements. However, if there is a breach, we may be subject to various penalties and damages and may be required to incur costs to mitigate the impact of the breach on affected individuals.

We are subject to the data privacy, security and breach notification requirements of HIPAA and other data privacy and security laws, and the failure to comply with these rules, or allegations that we have failed to do so, can result in civil or criminal sanctions.

HIPAA required the United States Department of Health and Human Service, or HHS, to adopt standards to protect the privacy and security of certain health-related information. The HIPAA privacy regulations contain detailed requirements concerning the use and disclosure of individually identifiable health information and the grant of certain rights to patients with respect to such information by "covered entities." As a provider of healthcare who conducts certain electronic transactions, each of our facilities is considered a covered entity under HIPAA. We have taken actions to comply with the HIPAA privacy regulations and believe that we are in compliance with those regulations. Oversight of HIPAA compliance involves significant time, effort and expense.

In addition to the privacy requirements, HIPAA covered entities must implement certain administrative, physical and technical security standards to protect the integrity, confidentiality and availability of certain electronic health-related information received, maintained or transmitted by covered entities or their business associates. We have taken actions in an effort to be in compliance with these security regulations and believe that we are in compliance, however, a security incident that bypasses our information security systems causing an information security breach, loss of protected health information or other data subject to privacy laws or a material disruption of our operational systems could result in a material adverse impact on our business, along with fines. Ongoing implementation and oversight of these security measures involves significant time, effort and expense.

The Health Information Technology for Economic and Clinical Health Act, or HITECH, as implemented in part by an omnibus final rule published in the Federal Register on January 25, 2013, further requires that patients be notified of any unauthorized acquisition, access, use, or disclosure of their unsecured protected health information, or PHI, that compromises the privacy or security of such information. HHS has established the presumption that all unauthorized uses or disclosures of unsecured protected health information constitute breaches unless the covered entity or business associate establishes that there is a low probability the information has been compromised. HITECH and implementing regulations specify that such notifications must be made without unreasonable delay and in no case later than 60 calendar days after discovery of the breach. If a breach affects 500 patients or more, it must be reported immediately to HHS, which will post the name of the breaching entity on its public website. Breaches affecting 500 patients or more in the same state or jurisdiction must also be reported to the local media. If a breach involves fewer than 500 people, the covered entity must record it in a log and notify HHS of such breaches at least annually. These breach notification requirements apply not only to unauthorized disclosures of unsecured PHI to outside third parties, but also to unauthorized internal access to or use of such PHI.

HITECH significantly expanded the scope of the privacy and security requirements under HIPAA and increased penalties for violations. The amount of penalty that may be assessed depends, in part, upon the culpability of the applicable covered entity or business associate in committing the violation. Some penalties for certain violations that were not due to “willful neglect” may be waived by the Secretary of HHS in whole or in part, to the extent that the payment of the penalty would be excessive relative to the violation. HITECH also authorized state attorneys general to file suit on behalf of residents of their states. Applicable courts may award damages, costs and attorneys’ fees related to violations of HIPAA in such cases. HITECH also mandates that the Secretary of HHS conduct periodic compliance audits of a cross-section of HIPAA covered entities and business associates. Every covered entity and business associate is subject to being audited, regardless of the entity’s compliance record.

States may impose more protective privacy restrictions in laws related to health information and may afford individuals a private right of action with respect to the violation of such laws. Both state and federal laws are subject to modification or enhancement of privacy protection at any time. We are subject to any federal or state privacy-related laws that are more restrictive than the privacy regulations issued under HIPAA. These statutes vary and could impose additional requirements on us and more severe penalties for disclosures of health information. If we fail to comply with HIPAA or similar state laws, including laws addressing data confidentiality, security or breach notification, we could incur substantial monetary penalties and our reputation could be damaged.

In addition, states may also impose restrictions related to the confidentiality of personal information that is not considered “protected health information” under HIPAA. Such information may include certain identifying information and financial information of our patients. Theses state laws may impose additional notification requirements in the event of a breach of such personal information. Failure to comply with such data confidentiality, security and breach notification laws may result in substantial monetary penalties.

Our business model depends on proprietary and third-party management information systems that we use to, among other things, track financial and operating performance of our clinics, and any failure to successfully design and maintain these systems or implement new systems could materially harm our operations.

We depend on integrated management information systems, some of which are provided by third parties, and standardized procedures for operational and financial information, as well as for patient records and our billing operations. We are currently replacing and upgrading our management information systems. We may experience unanticipated delays, complications, data breaches or expenses in replacing, upgrading, implementing, integrating, and operating our systems. Our management information systems regularly require modifications, improvements or replacements that may require both substantial expenditures as well as interruptions in operations. Our ability to implement these systems is subject to the availability of skilled information technology specialists to assist us in creating, implementing and supporting these systems. Our failure to successfully design, implement and maintain all of our systems could have a material adverse effect on our business, financial condition and results of operations.

If we fail to properly maintain the integrity of our data or to strategically implement, upgrade or consolidate existing information systems, our reputation and business could be materially adversely affected.

We increasingly use electronic means to interact with our customers and collect, maintain and store individually identifiable information, including, but not limited to, personal financial information and health-related information. Despite the security measures we have in place to ensure compliance with applicable laws and rules, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of cyber terrorism, vandalism or theft, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Additionally, the collection, maintenance, use, disclosure and disposal of individually identifiable data by our businesses are regulated at the federal and state levels as well as by certain financial industry groups, such as the Payment Card Industry organization. Federal, state and financial industry groups may also consider from time to time new privacy and security requirements that may apply to our businesses. Compliance with evolving privacy and security laws, requirements, and regulations may result in cost increases due to necessary systems changes, new limitations or constraints on our business models and the development of new administrative processes. They also may impose further restrictions on our collection, disclosure and use of individually identifiable information that is housed in one or more of our databases. Noncompliance with privacy laws, financial industry group requirements or a security breach involving the misappropriation, loss or other unauthorized disclosure of personal, sensitive and/or confidential information, whether by us or by one of our vendors, could have material adverse effects on our business, operations, reputation and financial condition, including decreased revenue; material fines and penalties; increased financial processing fees; compensatory, statutory, punitive or other damages; adverse actions against our licenses to do business; and injunctive relief whether by court or consent order.

If our security systems are breached, we may face civil liability and public perception of our security measures could be diminished, either of which would negatively affect our ability to attract and retain patients.

Techniques used to gain unauthorized access to corporate data systems are constantly evolving, and we may be unable to anticipate or prevent unauthorized access to data pertaining to our patients, including credit card and debit card information and other personally identifiable information. Our systems, which are supported by our own systems and those of third-party vendors, are vulnerable to computer malware, trojans, viruses, worms, break-ins, phishing attacks, denial-of-service attacks, attempts to access our servers in an unauthorized manner, or other attacks on and disruptions of our and third-party vendor computer systems, any of which could lead to system interruptions, delays, or shutdowns, causing loss of critical data or the unauthorized access to personally identifiable information. If an actual or perceived breach of security occurs on our systems or a vendor's systems, we may face civil liability and reputational damage, either of which would negatively affect our ability to attract and retain patients. We also would be required to expend significant resources to mitigate the breach of security and to address related matters.

We may not be able to effectively control the unauthorized actions of third parties who may have access to the patient data we collect. Any failure, or perceived failure, by us to maintain the security of data relating to our patients and employees, and to comply with our posted privacy policy, laws and regulations, rules of self-regulatory organizations, industry standards and contractual provisions to which we may be bound, could result in the loss of confidence in us, or result in actions against us by governmental entities or others, all of which could result in litigation and financial losses, and could potentially cause us to lose patients, revenue and employees.

We are subject to a number of risks related to credit card and debit card payments we accept.

We accept payments through credit and debit card transactions. For credit and debit card payments, we pay interchange and other fees, which may increase over time. An increase in those fees would require us to either increase the prices we charge for our services, which could cause us to lose patients and revenue, or absorb an increase in our operating expenses, either of which could harm our operating results.

If we or any of our processing vendors have problems with our billing software, or the billing software malfunctions, it could have an adverse effect on patient satisfaction and could cause one or more of the major credit card companies to disallow our continued use of their payment products. In addition, if our billing software fails to work properly, and as a result, we do not automatically process monthly membership fees to our patients' credit cards on a timely basis or at all, or there are issues with financial insolvency of our third-party vendors or other unanticipated problems or events, we could lose revenue, which would harm our operating results.

We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it more difficult for us to comply. We are not currently accredited against, and in compliance with, the Payment Card Industry Data Security Standard, or PCI DSS, the payment card industry's security standard for companies that collect, store or transmit certain data regarding credit and debit cards, credit and debit card holders and credit and debit card transactions. Once compliant, there is no guarantee that we will maintain PCI DSS compliance. Our failure to comply fully with PCI DSS in the future could violate payment card association operating rules, federal and state laws and regulations and the terms of our contracts with payment processors and merchant banks. Such failure to comply fully also could subject us to fines, penalties, damages and civil liability and could result in the suspension or loss of our ability to accept credit and debit card payments. Further, there is no guarantee that PCI DSS compliance will prevent illegal or improper use of our payment systems or the theft, loss, or misuse of data pertaining to credit and debit cards, credit and debit card holders and credit and debit card transactions.

If we fail to adequately control fraudulent credit card transactions, we may face civil liability, diminished public perception of our security measures and significantly higher credit card-related costs, each of which could adversely affect our business, financial condition and results of operations. If we are unable to maintain our chargeback or refund rates at acceptable levels, credit and debit card companies may increase our transaction fees, impose monthly fines until resolved or terminate their relationships with us. Any increases in our credit and debit card fees could adversely affect our results of operations, particularly if we elect not to raise our rates for our service to offset the increase. The termination of our ability to process payments on any major credit or debit card would significantly impair our ability to operate our business.

We, along with our affiliated PCs and their chiropractors, are subject to malpractice and other similar claims and may be unable to obtain or maintain adequate insurance against these claims.

The provision of chiropractic services by chiropractors entails an inherent risk of potential malpractice and other similar claims. While we do not have responsibility for compliance by affiliated PCs and their chiropractors with regulatory and other requirements directly applicable to chiropractors, claims, suits or complaints relating to services provided at the offices of our franchisees or affiliated PCs may be asserted against us. As we develop company-owned or managed clinics, our exposure to malpractice claims will increase. We have experienced a number of malpractice claims since our founding in March, 2010, which we have defended or are vigorously defending and do not expect their outcome to have a material adverse effect on our business, financial condition or results of operations. The assertion or outcome of these claims could result in higher administrative and legal expenses, including settlement costs or litigation damages. Our current minimum professional liability insurance coverage required for our franchisees, affiliated PCs and company-owned clinics is $1.0 million per occurrence and $3.0 million in annual aggregate. In addition, we have a corporate business owner's policy with coverage of $2.0 million per occurrence and $4.0 million in annual aggregate. If we are unable to obtain adequate insurance or if there is an increase in the future cost of insurance to us and the chiropractors who provide chiropractic services or an increase in the amount we have to self-insure, there may be a material adverse effect on our business and financial results.

We could be party to litigation that could adversely affect us by distracting management, increasing our expenses or subjecting us to material monetary damages and other remedies.

In addition to malpractice claims, we are also subject to a variety of other claims arising in the ordinary course of our business, including personal injury claims, contract claims and claims alleging violations of federal and state law regarding workplace and employment matters, equal opportunity, harassment, discrimination and similar matters, and we could become subject to class action or other lawsuits related to these or different matters in the future. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our performance. A judgment in excess of our insurance coverage for any claims could materially and adversely affect our financial condition and results of operations. Any adverse publicity resulting from these allegations may also materially and adversely affect our reputation or prospects, which in turn could materially adversely affect our business, financial condition and results of operations.

We are subject to the risk that our current insurance may not provide adequate levels of coverage against claims.

Our current insurance policies may not be adequate to protect us from liabilities that we incur in our business. Additionally, in the future, our insurance premiums may increase, and we may not be able to obtain similar levels of insurance on reasonable terms, or at all. Any substantial inadequacy of, or inability to obtain insurance coverage could materially adversely affect our business, financial condition and results of operations.

Furthermore, there are types of losses we may incur that cannot be insured against or that we believe are not economically reasonable to insure. Such losses could have a material adverse effect on our business and results of operations. Failure to obtain and maintain adequate directors' and officers' insurance would likely adversely affect our ability to attract and retain qualified officers and directors.

Events or rumors relating to our brand names or our ability to defend successfully against intellectual property infringement claims by third parties could significantly impact our business.

Recognition of our brand names, including "THE JOINT CHIROPRACTIC", and the association of those brands with quality, convenient and inexpensive chiropractic maintenance care, are an integral part of our business. The occurrence of any events or rumors that cause patients to no longer associate the brands with quality, convenient and inexpensive chiropractic maintenance care may materially adversely affect the value of the brand names and demand for chiropractic services at our franchisees or their affiliated PCs.

Our ability to compete effectively depends in part upon our intellectual property rights, including but not limited to our trademarks. Our use of contractual provisions, confidentiality procedures and agreements, and trademark, copyright, unfair competition, trade secret and other laws to protect our intellectual property rights may not be adequate. Litigation may be necessary to enforce our intellectual property rights, or to defend against claims by third parties that the conduct of our businesses or our use of intellectual property infringes upon such third party's intellectual property rights. Any intellectual property litigation or claims brought against us, whether or not meritorious, could result in substantial costs and diversion of our resources, and there can be no assurances that favorable final outcomes will be obtained in all cases. Our business, financial condition or results of operations could be adversely affected as a result.

We present Adjusted EBITDA as a supplemental measure to help us describe our operating performance. Adjusted EBITDA is a non-GAAP financial measure commonly used in our industry and should not be construed as an alternative to net income or as a better indicator of operating performance.

Adjusted EBITDA consists of net income before interest, income taxes, depreciation and amortization, acquisition related expenses, stock-based compensation expense, bargain purchase gain, and loss on disposition or impairment. We present Adjusted EBITDA as a supplemental measure to help us describe our operating performance. Adjusted EBITDA is a non-GAAP financial measure commonly used in our industry and should not be construed as an alternative to net income (as determined in accordance with generally accepted accounting principles in the United States, or GAAP) or as a better indicator of operating performance. You should not consider Adjusted EBITDA as a substitute for operating profit, as an indicator of our operating performance or as an alternative to cash flows from operating activities as a measure of liquidity. We may calculate Adjusted EBITDA differently from other companies.

In addition, in the future we may incur expenses similar to those excluded when calculating Adjusted EBITDA. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because not all companies calculate Adjusted EBITDA in the same manner.

Our management does not consider Adjusted EBITDA in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of Adjusted EBITDA is that it excludes significant expenses and income that are required by GAAP to be recorded in our financial statements. Some of these limitations are: (i) Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments; (ii) Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; (iii) Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debts, and although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future; (iv) Adjusted EBITDA does not reflect any cash requirements for such replacements; (v) Adjusted EBITDA does not reflect the bargain purchase gain, which represents the excess of the fair value of net assets acquired over the purchase consideration; and (vi) Adjusted EBITDA does not reflect the loss on disposition or impairment, which represents the impairment of assets as of the reporting date. We do not consider these to be indicative of our ongoing operations.

The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act, may strain our resources, increase our costs and distract management, and we may be unable to comply with these requirements in a timely or cost-effective manner.

As a public company with listed equity securities, we need to comply with certain laws, regulations and requirements, including corporate governance provisions of the Sarbanes-Oxley Act, related regulations of the SEC, and the requirements of The Nasdaq Stock Market LLC. Complying with these statutes, regulations and requirements occupies a significant amount of time of our Board of Directors and management and has significantly increased our costs and expenses. We will continue to:

- institute more comprehensive corporate governance and compliance functions;
- design, establish, evaluate and maintain a system of internal control over financial reporting in compliance with the requirements of Section 404(a) of the Sarbanes-Oxley Act and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board;
- comply with rules promulgated by The Nasdaq Stock Market LLC;
- prepare and distribute periodic public reports in compliance with our obligations under the federal securities laws;
- establish new internal policies, such as those relating to disclosure controls and procedures and insider trading; and
- involve and retain outside counsel and accountants in the above activities.

Risks Related to Our Public Offerings and Listing of Our Common Stock on the NASDAQ Capital Market

Our stock price could be volatile and could decline.

The price at which our common stock will trade could be extremely volatile and may fluctuate substantially due to the following factors, some of which are beyond our control:

- variations in our operating results;
- variations between our actual operating results and the expectations of securities analysts, investors and the financial community;
- announcements of developments affecting our business or expansion plans by us or others; and
- regulations, conditions, and trends in the chiropractic industry.

As a result of these and other factors, investors in our common stock may not be able to resell their shares at or above their purchase price.

In the past, securities class action litigation often has been instituted against companies following periods of volatility in the market price of their securities. This type of litigation, if directed at us, could result in substantial costs and a diversion of management's attention and resources.

Provisions of Delaware law could discourage a takeover that stockholders may consider favorable.

As a Delaware corporation, we have elected to be subject to the Delaware anti-takeover provisions contained in Section 203 of the Delaware General Corporation Law. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the Board of Directors has approved the transaction. Our Board of Directors could rely on this provision to prevent or delay an acquisition of us.

Future sales of our common stock may depress our stock price and our share price may decline due to the large number of shares eligible for future sale or exchange.

Sales of substantial amounts of our common stock in the public market by our officers, directors or significant shareholders may adversely affect the market price of our common stock. Shares issued upon the exercise of outstanding options may be sold in the public market. Such sales could create the perception to the public of difficulties or problems with our business. As a result, these sales might make it more difficult for us to sell securities in the future at a time and price that we deem necessary or appropriate.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, might also make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. As of December 31, 2019, we had 13,882,932 outstanding shares of common stock and are authorized to sell up to 20,000,000 shares of common stock. The trading volume of shares of our common stock averaged 151,527 shares per day during the year ended

December 31, 2019. Accordingly, sales of even small amounts of shares of our common stock by existing stockholders may drive down the trading price of our common stock.

If securities analysts do not publish research or reports about our business or if they downgrade our company or our sector, the price of our common stock could decline.

The trading market for our common stock depends in part on the research and reports that industry or financial analysts publish about us or our business. We do not influence or control the reporting of these analysts. If one or more of the analysts who cover us downgrade or provide a negative outlook on our company or our industry, or the stock of any of our competitors, the price of our common stock could decline. If one or more of these analysts ceases coverage of our company, we could lose visibility in the market, which in turn could cause the price of our common stock to decline.

Our actual results may differ from forecasts.

It is difficult to accurately forecast our revenues, operating expenses and results, and operating data. The inability by us or the financial community to accurately forecast our operating results could cause our net income in a given quarter to be less than expected or our net losses in a given quarter to be greater than expected, which could cause a decline in the trading price of our common stock. We base our current and forecasted expense and cash expenditure levels on our operating plans and estimates of future revenues, which are dependent on the growth of the number of patients and the demand for our services. As a result, we may be unable to make accurate financial forecasts or to adjust our spending in a timely manner to compensate for any unexpected shortfalls in revenues. We believe that these difficulties in forecasting are even greater for financial analysts that may publish their own estimates of our financial results.

We do not intend to pay dividends. You will not receive funds without selling shares, and you may lose the entire amount of your investment.

We have never declared or paid any cash dividends on our capital stock and do not intend to pay dividends in the foreseeable future. We intend to invest our future earnings, if any, to fund our growth. We cannot assure you that you will receive a positive return on your investment when you subsequently sell your shares or that you will not lose the entire amount of your investment.

Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.

Our amended and restated certificate of incorporation and bylaws provide that we will indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law. In addition, we have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and other employees as determined by our Board of Directors. Under the terms of such indemnification agreements, we are required to indemnify each of our directors and officers, to the fullest extent permitted by the laws of the state of Delaware, if the basis of the indemnitee's involvement was by reason of the fact that the indemnitee is or was a director or officer of the Company or any of its subsidiaries or was serving at the Company's request in an official capacity for another entity. We must indemnify our officers and directors against all reasonable fees, expenses, charges and other costs of any type or nature whatsoever, including any and all expenses and obligations paid or incurred in connection with investigating, defending, being a witness in, participating in (including on appeal), or preparing to defend, be a witness or participate in any completed, actual, pending or threatened action, suit, claim or proceeding, whether civil, criminal, administrative or investigative, or establishing or enforcing a right to indemnification under the indemnification agreement. The indemnification agreements also require us, if so requested, to advance within 30 days of such request all reasonable fees, expenses, charges and other costs that such director or officer incurred, provided that such person will return any such advance if it is ultimately determined that such person is not entitled to indemnification by us. Any claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims and may reduce the amount of money available to us.

If our internal controls over financial reporting are not considered effective, our business and stock price could be adversely affected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate the effectiveness of our internal controls over financial reporting as of the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in our Form 10-K for that fiscal year. Section 404 also requires our independent registered public accounting firm to attest to, and report on, our internal controls over financial reporting. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud involving a company have been, or will be, detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become ineffective because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We cannot assure you that we or our independent registered public accounting firm will not identify a material weakness in our internal controls in the future. A material weakness in our internal controls over financial reporting, such as described below, would require management and our independent registered public accounting firm to consider our internal controls as ineffective. If our internal controls over financial reporting are not considered effective, we may experience a loss of public confidence, which could have an adverse effect on our business and on the market price of our common stock.

Our management concluded that our internal controls over financial reporting were not effective as of December 31, 2019, and our auditors expressed an adverse opinion on the Company's internal control over financial reporting as of December 31, 2019, due to a material weakness related to ineffective information technology general controls. We cannot provide assurances that a material weakness will be effectively remediated or that additional material weaknesses will not occur in the future. If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results, prevent fraud, or maintain investor confidence.

Internal controls related to the operation of technology systems are critical to maintaining adequate internal control over financial reporting. As discussed in Part II, Item 9A of this report, management identified a material weakness in internal control related to ineffective information technology general controls (ITGCs) in the areas of user access, information security policies, and program change-management over certain information technology (IT) systems that support the Company's financial reporting processes. As a result, management concluded that our internal control over financial reporting was not effective as of December 31, 2019. We are implementing remedial measures and, while there can be no assurance that our efforts will be successful, we plan to remediate the material weakness during fiscal year 2020 and we plan to monitor these changes throughout the year to ensure that new controls are operating effectively. These measures will result in additional technology and other expenses. If we are unable to remediate the material weakness, or are otherwise unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare financial statements within required time periods, could be adversely affected, which could subject us to litigation or investigations requiring management resources and payment of legal and other expenses, which could negatively affect investor confidence in our financial statements and adversely impact our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease the property for our corporate headquarters and all of the properties on which we own or manage clinics. As of December 31, 2019, we leased 65 facilities in which we operate or intend to operate clinics.

Our corporate headquarters are located at 16767 North Perimeter Drive, Suite 110, Scottsdale, Arizona 85260. The term of our lease for this location expires on December 31, 2025. The primary functions performed at our corporate headquarters are financial, accounting, treasury, marketing, operations, human resources, information systems support and legal.

We are also obligated under non-cancellable leases for the clinics which we own or manage. Our clinics are on average 1,200 square feet. Our clinic leases generally have an initial term of five years, include one to two options to renew for terms of five years, and require us to pay a proportionate share of real estate taxes, insurance, common area maintenance charges and other operating costs.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, we are party to litigation from time to time. We maintain insurance to cover certain actions and believe that resolution of such litigation will not have a material adverse effect on the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Beginning November 11, 2014, our common stock is traded on the NASDAQ Capital Market under the symbol "JYNT."

Holders

As of December 31, 2019, there were approximately 10 holders of record of our common stock and 13,882,932 shares of our common stock outstanding.

Dividends

Since our initial public offering, we have not declared nor paid dividends on our common stock, and we do not expect to pay cash dividends on our common stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,	
	2019	2018
Consolidated Statement of Operations Data:		**(as adjusted)**
(in thousands, except per share data)		
Total revenues	$ 48,451	$ 36,662
Cost of revenues	5,566	4,310
Selling, general and administrative expense	39,356	31,614
Income from operations	3,415	143
Net income	3,324	147
Basic earnings per share	$ 0.24	$ 0.01
Diluted earnings per share	$ 0.23	$ 0.01
Weighted average shares outstanding used in computing		
Basic earnings per share	13,819,149	13,669,107
Diluted earnings per share	14,467,567	14,031,717
Non-GAAP Financial Data:		
Net income	3,324	147
Net interest	62	47
Depreciation and amortization expense	1,899	1,556
Tax expense (benefit)	49	(38)
EBITDA	5,334	1,712
Stock compensation expense	721	628
Acquisition related expenses	47	4
Loss on disposition or impairment	114	595
Bargain purchase gain	(19)	(13)
Adjusted EBITDA	$ 6,197	$ 2,926

	As of December 31,	
	2019	2018
Consolidated Balance Sheet Data:		**(as adjusted)**
(in thousands)		
Cash and cash equivalents	$ 8,456	$ 8,717
Property and equipment	6,582	3,658
Deferred franchise costs	4,393	3,489
Goodwill and intangible assets	7,370	4,859
Operating lease right-of-use asset	12,487	—
Other assets	4,418	2,705
Total assets	43,706	23,428
Deferred revenue	18,304	16,139
Operating lease liability - current and non-current	14,214	—
Other liabilities	5,467	6,561
Total liabilities	37,985	22,700
Stockholders' equity	$ 5,721	$ 728

(1) Adjusted EBITDA consists of net income before interest, income taxes, depreciation and amortization, acquisition related expenses, stock-based compensation expense, bargain purchase gain, and loss on disposition or impairment. We have provided Adjusted EBITDA because it is a non-GAAP measure of financial performance commonly used for comparing companies in our industry. You should not consider Adjusted EBITDA as a substitute for operating profit as an indicator of our operating performance or as an alternative to cash flows from operating activities as a measure of liquidity. We may calculate Adjusted EBITDA differently from other companies.

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

Our management does not consider Adjusted EBITDA in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of Adjusted EBITDA is that it excludes significant expenses and income that are required by GAAP to be recorded in our financial statements. Some of these limitations are:

a. Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

b. Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

c. Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;

d. Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

e. Adjusted EBITDA does not reflect the bargain purchase gain, which represents the excess of the fair value of net assets acquired over the purchase consideration; and

f. Adjusted EBITDA does not reflect the loss on disposition or impairment, which represents the impairment of assets as of the reporting date. We do not consider this to be indicative of our ongoing operations

Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally. You should review the reconciliation of net income to Adjusted EBITDA above and not rely on any single financial measure to evaluate our business. The table above reconciles net income to Adjusted EBITDA for the years ended December 31, 2019 and 2018.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations and financial condition of The Joint Corp. for the years ended December 31, 2019 and 2018 should be read in conjunction with the consolidated financial statements and the notes thereto, and other financial information contained elsewhere in this Form 10-K.

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

Key Performance Measures. We receive monthly performance reports from our system and our clinics which include key performance indicators per clinic including gross sales, same-store Comp Sales, number of new patients, conversion percentage, and member attrition. In addition, we review monthly reporting related to clinic openings, clinic license sales, and various earnings metrics in the aggregate and per clinic. We believe these indicators provide us with useful data with which to measure our performance and to measure our franchisees' and clinics' performance.

Key Clinic Development Trends. As of December 31, 2019, we and our franchisees operated 513 clinics, of which 453 were operated by franchisees and 60 were operated as company-owned or managed clinics. Of the 60 company-owned or managed clinics, 20 were constructed and developed by us, and 40 were acquired from franchisees.

Our current strategy is to grow through the sale and development of additional franchises, build upon our regional developer strategy, and continue to expand our corporate clinic portfolio within clustered locations in a deliberate and measured manner. The number of franchise licenses sold for the year ended December 31, 2019 increased to 126 licenses, up from 99 and 37 licenses for the years ended December 31, 2018 and 2017, respectively. We ended 2019 with 21 regional developers who were responsible for 89% of the 126 licenses sold during the year. The growth reflects the power of the regional developer program to accelerate the number of clinics sold, and eventually opened, across the country.

In addition, we believe that we can accelerate the development of, and revenue generation from, company-owned or managed clinics through the further selective acquisition of existing franchised clinics and opening of greenfield units. 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 to progress toward sustained profitability.

For the year ended December 31, 2019:

- Comp Sales of clinics that have been open for at least 13 full months increased 25%.
- Comp Sales for mature clinics open 48 months or more increased 19%.
- System-wide sales for all clinics open for any amount of time grew 33%.

We saw over 585,000 new patients in 2019, an increase of 26% from our new patient count in 2018, with approximately 26% of those new patients having never been to a chiropractor before. We are not only increasing our percentage of market share, but expanding the chiropractic market. These factors, along with continued leverage of our operating expenses, drove improvement in our bottom line.

On February 4, 2019, we entered into an agreement under which we repurchased the right to develop franchises in various counties in South Carolina and Georgia. The total consideration for the transaction was $681,500. We carried a deferred revenue balance associated with these transactions of $44,334, representing license fees collected upon the execution of the regional developer agreements. We accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price.

On March 4, 2019, we entered into a regional developer agreement for a number of counties in the states of Virginia, Pennsylvania and West Virginia for $290,000. The development schedule requires a minimum of 40 clinics open over a ten-year period.

For the year ended December 31, 2019, we acquired eight clinics for approximately $3.1 million and constructed and developed five new corporate clinics.

Factors Affecting Our Performance

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

Significant Accounting Polices and Estimates

The preparation of consolidated financial statements requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. We base our accounting estimates on historical experience and other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. We have discussed the development and selection of significant accounting policies and estimates with our Audit Committee. In addition, we have restated prior period financial statements as discussed below.

Intangible Assets

Intangible assets consist primarily of re-acquired franchise and regional developer rights and customer relationships. We amortize 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 three years to eight years. In the case of regional developer rights, we amortize the acquired regional developer rights over the remaining contractual terms at the time of the acquisition, which range from three to 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, we perform 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 years ended December 31, 2019 and 2018.

Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. We look primarily to estimated undiscounted future cash flows in its assessment of whether or not long-lived assets are recoverable. No impairments of long-lived assets were recorded for the year ended December 31, 2019. We recorded an impairment of approximately $343,000 in long-lived assets for the year ended December 31, 2018.

Stock-Based Compensation

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

Revenue Recognition

We generate revenue primarily through our company-owned and managed clinics, royalties, franchise fees, advertising fund, and through IT related income and computer software fees.

Revenues from Company-Owned or Managed Clinics. We earn revenue from clinics that we own and operate or manage throughout the United States. In those states where we own and operate the clinic, revenues are recognized when services are performed. We offer a variety of membership and wellness packages which feature discounted pricing as compared with our single-visit pricing. Amounts collected in advance for membership and wellness packages are recorded as deferred revenue and recognized when the service is performed. We recognize a contract liability (or a deferred revenue liability) related to the prepaid treatment plans for which we have an ongoing performance obligation. We recognize this contract liability, and recognize revenue, as the patient consumes his or her visits related to the package and we perform the services. Based on a historical lag analysis and an evaluation of legal obligation by jurisdiction, we concluded that any remaining contract liability that exists after 12 to 24 months from transaction date will be deemed breakage. Breakage revenue is recognized only at that point, when the likelihood of the patient exercising his or her remaining rights becomes remote.

Royalties and Advertising Fund Revenue. We collect 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 our 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. We require 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. Our services under the franchise agreement include: training of franchisees and staff, site selection, construction/vendor management and ongoing operations support. We provide no financing to franchisees and offer no guarantees on their behalf. The services we provide are highly interrelated with the franchise license and as such are considered to represent a single performance obligation.

Software Fees. We collect a monthly fee for use of our proprietary or selected chiropractic or customer relationship management software, computer support, and internet services support. These fees are recognized ratably on a straight-line basis over the term of the respective franchise agreement.

Regional Developer Fees. During 2011, we established a regional developer program to engage independent contractors to assist in developing specified geographical regions. Under the original 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 developer fees are non-refundable and are recognized as revenue ratably on a straight-line basis over the term of the regional developer agreement, which is considered to begin upon the execution of the agreement. Our 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 we provide are highly interrelated with the development of the territory and the resulting franchise licenses sold by the regional developer and as such are considered to represent a single performance obligation. In addition, regional developers receive fees which are funded by the initial franchise fees collected from franchisees upon the sale of franchises within their exclusive geographical territory and a royalty of 3% of sales generated by franchised clinics in their exclusive geographical territory. Fees related to the sale of franchises within their exclusive geographical territory are initially deferred as deferred franchise costs and are recognized as an expense in franchise cost of revenues when the respective revenue is recognized, which is generally over the term of the related franchise agreement.

Royalties of 3% of sales generated by franchised clinics in their regions are also recognized as franchise cost of revenues as franchisee clinic level sales occur.

Leases

We adopted, effective the first quarter of 2019, accounting guidance related to leases. The new guidance, among other changes, requires lessees to recognize a right-of-use ("ROU") asset and a lease liability in the balance sheet for most leases, but retains an expense recognition model similar to the previous guidance. The lease liability is measured at the present value of the fixed lease payments over the lease term and the ROU asset is measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee's initial direct costs. Determining the lease term and amount of lease payments to include in the calculation of the ROU asset and lease liability for leases containing options requires the use of judgment to determine whether the exercise of an option is reasonably certain and if the optional period and payments should be included in the calculation of the associated ROU asset and liability. In making this determination, all relevant economic factors are considered that would compel us to exercise or not exercise an option. When available, we use the rate implicit in the lease to discount lease payments; however, the rate implicit in the lease is not readily determinable for substantially all of our leases. In such cases, we estimate our incremental borrowing rate as the interest rate we would pay to borrow an amount equal to the lease payments over a similar term, with similar collateral as in the lease, and in a similar economic environment. We estimate these rates using available evidence such as rates imposed by third-party lenders in recent financings or observable risk-free interest rate and credit spreads for commercial debt of a similar duration, with credit spreads correlating to our estimated creditworthiness.

For operating leases that include rent holidays and rent escalation clauses, we recognize lease expense on a straight-line basis over the lease term from the date we take possession of the leased property. Pre-opening costs are recorded as incurred in general and administrative expenses. We record the straight-line lease expense and any contingent rent, if applicable, in general and administrative expenses on the consolidated statements of operations. Many of our leases also require us to pay real estate taxes, common area maintenance costs and other occupancy costs which are also included in general and administrative expenses on the consolidated statements of operations.

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.

Prior Period Financial Statement Correction of Immaterial Error

Certain states in which we manage 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. The PCs are variable interest entities ("VIEs") as defined by Accounting Standards Codification 810, Consolidations ("ASC 810"). During the first quarter of 2019, we reassessed the governance structure and operating procedures of the PCs and determined that we have the power to control certain significant non-clinical activities of the PCs, as defined by ASC 810. Therefore, we are the primary beneficiary of the VIEs, and per ASC 810, must consolidate the VIEs. Prior to 2019, we did not consolidate the PCs. We concluded the previous accounting policy to not consolidate the PCs was an immaterial error and determined that the PCs should be consolidated. The adjustments resulted in an increase to revenues from company clinics and a corresponding increase to general and administrative expenses. The adjustments had no impact on net income, except when the PC had sold treatment packages and wellness plans. Revenue from these treatment packages and wellness plans are now deferred and will be recognized when patients use their visits. Please see Note 1, "Nature of Operations and Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements included in Item 8 of this report for further discussion. We corrected these immaterial errors by restating the 2018 consolidated financial statements as presented below.

Total Revenues

Components of revenues for the year ended December 31, 2019, as compared to the year ended December 31, 2018, are as follows:

	Year Ended December 31, 2019	2018	Change from Prior Year	Percent Change from Prior Year
Revenues:		(as adjusted)		
Revenues from company-owned or managed clinics	$ 25,807,584	$ 19,545,276	$ 6,262,308	32.0 %
Royalty fees	13,557,170	10,141,036	3,416,134	33.7 %
Franchise fees	1,791,545	1,688,039	103,506	6.1 %
Advertising fund revenue	3,884,055	2,862,244	1,021,811	35.7 %
Software fees	1,865,779	1,290,135	575,644	44.6 %
Regional developer fees	803,849	599,370	204,479	34.1 %
Other revenues	740,918	535,560	205,358	38.3 %
Total revenues	$ 48,450,900	$ 36,661,660	$ 11,789,240	32.2 %

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

Consolidated Results

- Total revenues increased by $11.8 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 from company-owned or managed clinics increased, primarily due to improved same-store sales growth, as well as due to the expansion of our corporate-owned or managed clinics portfolio.

Franchise Operations

- Royalty fees and advertising fund revenue increased, due to an increase in the number of franchised clinics in operation along with continued sales growth in existing franchised clinics. As of December 31, 2019, and 2018, there were 453 and 394 franchised clinics in operation, respectively.

- Franchise fees increased due to an increase in executed franchise agreements, as these fees are recognized ratably over the term of the respective franchise agreement. For the year ended December 31, 2019, there were 126 executed franchise license sales or letters-of-intent, compared to 99 for the year ended December 31, 2018.

- Regional developer fees increased due to the sale of additional developer territories and the related revenue recognition over the life of the regional developer agreements. We sold three new regional developer territories in 2019 and four new territories in 2018. Given the ratable recognition of the revenue, the agreements executed during the course of 2018 now have a full year of recognition in 2019.

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

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

Cost of Revenues

	Year Ended December 31, 2019	2018	Change from Prior Year	Percent Change from Prior Year
Cost of Revenues	5,565,917	4,310,249	$ 1,255,668	29.1 %

For the year ended December 31, 2019, as compared with the year ended December 31, 2018, the total cost of revenues increased primarily due to an increase in regional developer royalties of $1.0 million, which is in line with an increase in franchise royalty revenues of 34% coupled with a larger portion of our franchise base operating in regional developer territories.

Selling and Marketing Expenses

	Year Ended December 31,		Change from	Percent Change
	2019	2018	Prior Year	from Prior Year
Selling and Marketing Expenses	6,913,709	4,819,555	$ 2,094,154	43.5 %

Selling and marketing expenses increased $2.1 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018, driven by an increase in advertising fund expenditures from a larger franchise base and increased local marketing expenditures by the company-owned or managed clinics.

Depreciation and Amortization Expenses

	Year Ended December 31,		Change from	Percent Change
	2019	2018	Prior Year	from Prior Year
Depreciation and Amortization Expenses	1,899,257	1,556,240	$ 343,017	22.0 %

Depreciation and amortization expenses increased for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily due to the amortization of intangibles related to the 2019 acquisitions.

General and Administrative Expenses

	Year Ended December 31,		Change from	Percent Change
	2019	2018	Prior Year	from Prior Year
		(as adjusted)		
General and Administrative Expenses	30,543,030	25,238,121	$ 5,304,909	21.0 %

General and administrative expenses increased during the year ended December 31, 2019, compared to the year ended December 31, 2018, primarily due to an increase in payroll and related expenses, as well as operating expenses to support continued clinic count and revenue growth in both operating segments. As a percentage of revenue, general and administrative expenses during the year ended December 31, 2019 and 2018 were 63% and 69%, respectively, reflecting improved leverage of our operating model.

Income from Operations

	Year Ended December 31,		Change from	Percent Change
	2019	2018	Prior Year	from Prior Year
		(as adjusted)		
Income from Operations	3,414,635	142,561	$ 3,272,074	2,295.2 %

Consolidated Results

Consolidated income from operations increased by $3.3 million for the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily driven by a $2.9 million improvement in operating income in the franchise operations segment and an increase in operating income from the corporate clinic segment of $1.9 million, partially offset by an increase in unallocated corporate segment of $1.5 million discussed below.

Corporate Clinics

Our corporate clinics segment had income from operations of $3.4 million for the year ended December 31, 2019, an increase of $1.9 million compared to income from operations of $1.5 million for the year ended December 31, 2018. This increase was primarily due to:

- An increase in revenues of $6.3 million from company-owned or managed clinics; partially offset by
- A $4.4 million increase in operating expenses, primarily in general and administrative expenses. The increase in general and administrative expenses is primarily driven by an increase in payroll-related expenses due to a higher head count to support the expansion of our corporate clinic portfolio.

Franchise Operations

Our franchise operations segment had income from operations of $11.0 million for the year ended December 31, 2019, an increase of $2.9 million, compared to income from operations of $8.1 million for the year ended December 31, 2018. This increase was primarily due to:

- An increase of $5.5 million in total revenues; partially offset by
- An increase of $1.2 million in cost of revenues primarily due to an increase in regional developer royalties and an increase of $1.4 million in operating expenses, primarily due to an increase in selling and marketing expenses resulting from a larger franchise base.

Income Tax Expense (Benefit)

	Year Ended December 31,		Change from Prior Year	Percent Change from Prior Year
	2019	2018		
Income Tax Expense (Benefit)	48,706	(37,728)	$ 86,434	(229.1)%

For the years ended December 31, 2019 and 2018, the effective tax rates were 1.4% and (34.6)%, respectively. The increase in our effective tax rate is primarily due to changes in pre-tax income and the decrease to the valuation allowance during the year ended December 31, 2019, as compared to year ended December 31, 2018. Please see Note 11, “Income Taxes” in the Notes to Consolidated Financial Statements included in Item 8 of this report for further discussion.

Liquidity and Capital Resources

Sources of Liquidity

From 2012 until November 2014, when we completed an initial public offering (“IPO”), we financed our business primarily through existing cash on hand and cash flows from operations.

On November 14, 2014, we completed our IPO of 3,000,000 shares of common stock at a price to the public of $6.50 per share. As a result of the IPO, we received aggregate net proceeds, after deducting underwriting discounts, commissions and other offering expenses, of approximately $17.1 million. On November 18, 2014, our underwriters exercised their option to purchase 450,000 additional shares of common stock to cover over-allotments, pursuant to which we received aggregate net proceeds of approximately $2.7 million.

On November 25, 2015, we completed our follow-on public offering of 2,272,727 shares of our common stock at a price to the public of $5.50 per share. On December 30, 2015, our underwriters exercised their over-allotment option to purchase an additional 340,909 shares of common stock to cover over-allotments pursuant to which we received aggregate net proceeds of approximately $13.0 million.

We have used a significant amount of the net proceeds from our public offerings for the development of company-owned or managed clinics. We accomplished this by developing new clinics and by repurchasing existing franchises. In addition, we have used proceeds from our offerings to repurchase existing regional developer licenses and to continue to expand our franchised clinic business. We are holding the remaining net proceeds in cash or short-term bank deposits.

As of December 31, 2019, we had cash and short-term bank deposits of $8.5 million. We generated $7.5 million of cash flow from operating activities in the year ended December 31, 2019. We will continue to preserve cash, and while we have resumed the acquisition and development of company-owned or managed clinics, we have progressed, and plan to continue to progress, at a measured pace, targeting geographic clusters where we are able to increase efficiencies through a consolidated real estate penetration strategy, leverage cooperative advertising 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 of up to $5.0 million, of which we drew $1.0 million during 2017. This balance remained outstanding during 2018 and most of 2019, which was repaid in full on December 20, 2019.

In February 2020, we executed a line of credit agreement which provides a credit facility of up to $7.5 million, including a $2.0 million revolver and $5.5 million development line of credit. Please see Note 14, "Subsequent Events" in the Notes to Consolidated Financial Statements included in Item 8 of this report for further discussion.

In addition to $8.5 million of unrestricted cash on hand as of December 31, 2019 and the available borrowings on the new line of credit, our principal sources of liquidity are expected to be cash flows from operations, proceeds from debt financings or equity issuances, and/or proceeds from the sale of assets. We expect our available cash and cash flows from operations, debt financings or equity issuances, or proceeds from the sale of assets to be sufficient to fund our short-term working capital requirements. Our long-term capital requirements, primarily for acquisitions and other corporate initiatives, could be dependent on our ability to access additional funds through the debt and/or equity markets. From time to time, we consider and evaluate transactions related to our portfolio and capital structure including debt financings, equity issuances, purchases and sales of assets, and other transactions. There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to obtain the capital necessary to meet our short and long-term capital requirements.

Analysis of Cash Flows

Net cash provided by operating activities was $7.5 million for the year ended December 31, 2019, compared to net cash provided by operating activities of $5.5 million for the year ended December 31, 2018. The change was attributable primarily to improved operating income over the prior year.

Net cash used in investing activities was $7.1 million and $1.2 million during the years ended December 31, 2019 and 2018, respectively. For the year ended December 31, 2019, this included acquisition of business of $3.1 million, purchases of property and equipment of $3.5 million, and reacquisition and termination of regional developer rights of $0.7 million, partially offset by payments received on notes receivable of $0.1 million. For the year ended December 31, 2018, this included acquisition of business of $0.1 million, purchases of property and equipment of $1.1 million, and reacquisition and termination of regional developer rights of $0.3 million, partially offset by payments received on notes receivable of $0.2 million.

Net cash (used in) provided by financing activities was ($0.6) million and $0.3 million during the years ended December 31, 2019 and 2018, respectively. For the year ended December 31, 2019, this included proceeds from exercise of stock options of $0.5 million, which was more than offset by purchases of treasury stock under employee stock plans of approximately $21,000, payments of finance lease obligation of approximately $22,000, and repayments on notes payable of $1.1 million. For the year ended December 31, 2018, this included proceeds from exercise of stock options of $0.3 million partially offset by purchases of treasury stock under employee stock plans of approximately $5,000.

Recent Accounting Pronouncements

Please see Note 1, "Nature of Operations and Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in Item 8 of this report for information regarding recently issued accounting pronouncements that may impact our financial statements.

Contractual Obligations and Risk

The following table summarizes our contractual obligations at December 31, 2019 and the effect that such obligations are expected to have on our liquidity and cash flows in future periods:

	Payments Due by Fiscal Year						
	Total	2020	2021	2022	2023	2024	Thereafter
Operating leases	$ 17,794,374	3,376,830	3,545,186	3,430,110	2,716,465	2,096,333	2,629,450

Off-Balance Sheet Arrangements

During the year ended December 31, 2019, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of The Joint Corp. and Subsidiary and Affiliates

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of The Joint Corp. and subsidiary and affiliates (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the years in the two year period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 6, 2020 expressed an adverse opinion thereon.

Adoption of New Accounting Standards

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method for accounting for leases in 2019 due to the adoption of the new lease standard. The Company adopted the new lease standard using a modified retrospective approach.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2013.
Denver, Colorado

March 6, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of The Joint Corp. and Subsidiary and Affiliates

Opinion on Internal Control Over Financial Reporting

We have audited The Joint Corp and subsidiary and affiliates (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria").In our opinion, because of the material weakness described below on the achievement of objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiary and affiliates as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as "the consolidated the financial statements") and our report dated March 6, 2020, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

There were ineffective information technology general controls (ITGCs) in the areas of logical access, user administration, program change and information security policies over certain information technology (IT) systems that support the Company's financial reporting processes. As a result, certain business process automated and manual controls that were dependent on the affected ITGCs were ineffective because they could have been adversely impacted.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 financial statements, and this report does not affect our report dated March 6, 2020, on those financial statements.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Plante & Moran, PLLC

Denver, Colorado

March 6, 2020

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THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
ASSETS		**(as adjusted)**
Current assets:		
Cash and cash equivalents	$ 8,455,989	$ 8,716,874
Restricted cash	185,888	138,078
Accounts receivable, net	2,645,085	806,350
Income taxes receivable	—	268
Notes receivable, net - current portion	128,724	149,349
Deferred franchise costs - current portion	765,508	611,047
Prepaid expenses and other current assets	1,122,478	882,022
Total current assets	13,303,672	11,303,988
Property and equipment, net	6,581,588	3,658,007
Operating lease right-of-use asset	12,486,672	—
Notes receivable net - net of current portion	—	128,723
Deferred franchise costs, net of current portion	3,627,225	2,878,163
Intangible assets, net	3,219,791	1,634,060
Goodwill	4,150,461	3,225,145
Deposits and other assets	336,258	599,627
Total assets	$ 43,705,667	$ 23,427,713
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,525,838	$ 1,253,274
Accrued expenses	216,814	266,322
Co-op funds liability	185,889	104,057
Payroll liabilities	2,844,107	2,035,658
Notes payable - current portion	—	1,100,000
Deferred rent - current portion	—	136,550
Operating lease liability - current portion	2,313,109	—
Finance lease liability - current portion	24,253	—
Deferred franchise and regional developer fee revenue - current portion	2,740,954	2,370,241
Deferred revenue from company clinics	3,196,664	2,529,497
Other current liabilities	518,686	477,528
Total current liabilities	13,566,314	10,273,127
Deferred rent, net of current portion	—	721,730
Operating lease liability - net of current portion	11,901,040	—
Finance lease liability - net of current portion	34,398	—
Deferred franchise and regional developer fee revenue, net of current portion	12,366,322	11,239,221
Deferred tax liability	89,863	76,672
Other liabilities	27,230	389,362
Total liabilities	37,985,167	22,700,112
Commitments and contingencies		
Stockholders' equity:		
Series A preferred stock, $0.001 par value; 50,000 shares authorized, 0 issued and outstanding, as of December 31, 2019 and 2018	—	—
Common stock, $0.001 par value; 20,000,000 shares authorized, 13,898,694 shares issued and 13,882,932 shares outstanding as of December 31, 2019 and 13,757,200 shares issued and 13,742,530 outstanding as of December 31, 2018	13,899	13,757
Additional paid-in capital	39,454,937	38,189,251
Treasury stock 15,762 shares as of December 31, 2019 and 14,670 shares as of December 31, 2018, at cost	(111,041)	(90,856)
Accumulated deficit	(33,637,395)	(37,384,651)

Total The Joint Corp. stockholders' equity	5,720,400	727,501
Non-controlling Interest	100	100
Total equity	5,720,500	727,601
Total liabilities and stockholders' equity	$ 43,705,667	$ 23,427,713

Note: The Consolidated Balance Sheet as of December 31, 2018 has been derived from the audited consolidated financial statements, restated to reflect the consolidation of variable interest entities. In addition, during the quarter ended December 31, 2019, the Company recorded a correction of an immaterial error related to the adoption of ASC 606. The error was not material to the Company's Consolidated Financial Statements for any quarterly or annual period. See Note 1 of "Notes to Consolidated Financial Statements" under the heading "Prior Period Financial Statement Correction of Immaterial Error" for more details. The accompanying notes are an integral pat of these consolidated financial statements.

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2019	Year Ended December 31, 2018 (as adjusted)
Revenues:		
Revenues from company-owned or managed clinics	$ 25,807,584	$ 19,545,276
Royalty fees	13,557,170	10,141,036
Franchise fees	1,791,545	1,688,039
Advertising fund revenue	3,884,055	2,862,244
Software fees	1,865,779	1,290,135
Regional developer fees	803,849	599,370
Other revenues	740,918	535,560
Total revenues	48,450,900	36,661,660
Cost of revenues:		
Franchise cost of revenues	5,159,778	3,956,530
IT cost of revenues	406,139	353,719
Total cost of revenues	5,565,917	4,310,249
Selling and marketing expenses	6,913,709	4,819,555
Depreciation and amortization	1,899,257	1,556,240
General and administrative expenses	30,543,030	25,238,121
Total selling, general and administrative expenses	39,355,996	31,613,916
Net loss on disposition or impairment	114,352	594,934
Income from operations	3,414,635	142,561
Other income (expense):		
Bargain purchase gain	19,298	13,198
Other (expense), net	(61,515)	(46,791)
Total other (expense)	(42,217)	(33,593)
Income before income tax expense (benefit)	3,372,418	108,968
Income tax expense (benefit)	48,706	(37,728)
Net income and comprehensive income	$ 3,323,712	$ 146,696
Less: income attributable to the non-controlling interest	$ —	$ —
Net income attributable to The Joint Corp. stockholders	$ 3,323,712	$ 146,696
Earnings per share:		
Basic earnings per share	$ 0.24	$ 0.01
Diluted earnings per share	$ 0.23	$ 0.01
Basic weighted average shares	13,819,149	13,669,107
Diluted weighted average shares	14,467,567	14,031,717

Note: The Consolidated Statement of Operations for the year ended December 31, 2018 has been restated to reflect the consolidation of variable interest entities. In addition, during the quarter ended December 31, 2019, the Company recorded a correction of an immaterial error related to the adoption of ASC 606. The error was not material to the Company's Consolidated Financial Statements for any quarterly or annual period. See Note 1 of "Notes to Consolidated Financial

Statements" under the heading "Prior Period Financial Statement Correction of Immaterial Error" for more details. The accompanying notes are an integral part of these consolidated financial statements.

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock			Treasury Stock					
	Shares	Amount	Additional Paid In Capital	Shares	Amount	Accumulated Deficit	Total The Joint Corp. stockholder's equity	Non-controlling Interest	Total
Balances, December 31, 2017	13,600,338	$ 13,600	$ 37,229,869	14,084	$ (86,045)	$ (37,531,347)	$ (373,923)	$ 100	$ (373,823)
Stock-based compensation expense	—	—	628,430	—	—	—	628,430	—	628,430
Issuance of vested restricted stock	61,700	62	(62)	—	—	—	—	—	—
Exercise of stock options	95,162	95	331,014	—	—	—	331,109	—	331,109
Purchases of treasury stock under employee stock plans	—	—	—	586	(4,811)	—	(4,811)	—	(4,811)
Net income	—	—	—	—	—	146,696	146,696	—	146,696
Balances, December 31, 2018 (as adjusted)	13,757,200	$ 13,757	$ 38,189,251	14,670	$ (90,856)	$ (37,384,651)	$ 727,501	$ 100	$ 727,601
Correction of immaterial error related to ASC 606 adoption	—	—	—	—	—	423,544	423,544	—	423,544
Stock-based compensation expense	—	—	720,651	—	—	—	720,651	—	720,651
Issuance of vested restricted stock	38,289	38	(38)	—	—	—	—	—	—
Exercise of stock options	103,205	104	545,073	—	—	—	545,177	—	545,177
Purchases of treasury stock under employee stock plans	—	—	—	1,092	(20,185)	—	(20,185)	—	(20,185)
Net income	—	—	—	—	—	3,323,712	3,323,712	—	3,323,712
Balances, December 31, 2019	13,898,694	$ 13,899	$ 39,454,937	15,762	$ (111,041)	$ (33,637,395)	$ 5,720,400	$ 100	$ 5,720,500

Note: The Consolidated Statement of Changes in Stockholders' Equity has been restated to reflect the consolidation of variable interest entities. In addition, during the quarter ended December 31, 2019, the Company recorded a correction of an immaterial error related to the adoption of ASC 606. The error was not material to the Company's Consolidated Financial Statements for any quarterly or annual period. See Note 1 of "Notes to Consolidated Financial Statements" under the heading "Prior Period Financial Statement Correction of Immaterial Error" for more details. The accompanying notes are an integral part of these consolidated financial statements.

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

	Year Ended December 31, 2019	Year Ended December 31, 2018 (as adjusted)
Cash flows from operating activities:		
Net income	$ 3,323,712	$ 146,696
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,899,257	1,556,240
Net loss on disposition or impairment	114,352	594,934
Net franchise fees recognized upon termination of franchise agreements	(113,944)	(227,950)
Bargain purchase gain	(19,298)	(13,198)
Deferred income taxes	1,781	(77,020)
Stock based compensation expense	720,651	628,430
Changes in operating assets and liabilities:		
Accounts receivable	(1,838,735)	(78,716)
Prepaid expenses and other current assets	(240,188)	(339,948)
Deferred franchise costs	(882,672)	(802,990)
Deposits and other assets	268,369	38,983
Accounts payable	75,893	63,567
Accrued expenses	(64,758)	177,768
Payroll liabilities	808,449	1,168,228
Deferred revenue	853,184	2,647,123
Other liabilities	2,615,896	(29,879)
Net cash provided by operating activities	7,521,949	5,452,268
Cash flows from investing activities:		
Acquisition of business	(3,122,332)	(100,000)
Purchase of property and equipment	(3,483,578)	(1,111,117)
Reacquisition and termination of regional developer rights	(681,500)	(278,250)
Payments received on notes receivable	149,348	245,713
Net cash used in investing activities	(7,138,062)	(1,243,654)
Cash flows from financing activities:		
Payments of finance lease obligation	(21,954)	—
Purchases of treasury stock under employee stock plans	(20,185)	(4,811)
Proceeds from exercise of stock options	545,177	331,109
Repayments on notes payable	(1,100,000)	—
Net cash (used in) provided by financing activities	(596,962)	326,298
(Decrease) increase in cash	(213,075)	4,534,912
Cash and restricted cash, beginning of period	8,854,952	4,320,040
Cash and restricted cash, end of period	$ 8,641,877	$ 8,854,952

During the years ended December 31, 2019 and 2018, cash paid for income taxes was $65,064 and $29,522, respectively. During the years ended December 31, 2019 and 2018, cash paid for interest was $96,978 and $100,000, respectively.

Supplemental disclosure of non-cash activity:

As of December 31, 2019, accounts payable and accrued expenses include property and equipment purchases of $196,671, and $15,250, respectively. As of December 31, 2018, accounts payable and accrued expenses include property and equipment purchases of $121,038, and $1,595, respectively.

In connection with the acquisitions during the year ended December 31, 2019, the Company acquired $173,521 of property and equipment and intangible assets of $1,999,469, in exchange for $3,127,332 (of which $5,000 was in accounts payable as of December 31, 2019) to the sellers. Additionally, at the time of these transactions, the Company carried net deferred revenue of $40,805, representing unrecognized net franchise fees collected upon the execution of the franchise agreement. The Company netted this amount against the purchase price of the acquisitions (Note 2).

In connection with the Company's reacquisition and termination of regional developer rights during the year ended December 31, 2019, the Company had deferred revenue of $44,334 representing unrecognized license fees collected upon the execution of the regional developer agreements. The Company netted these amounts against the aggregate purchase price of the acquisitions (Note 8).

Note: The Consolidated Statements of Cash Flows has been restated to reflect the consolidation of variable interest entities. See Note 1 of "Notes to Consolidated Financial Statements" under the heading "Prior Period Financial Statement Correction of Immaterial Error" for more details. The accompanying notes are an integral part of these consolidated financial statements.

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Presentation

These financial statements represent the consolidated financial statements of The Joint Corp. (“The Joint”), its variable interest entities (“VIEs”), and its wholly owned subsidiary, The Joint Corporate Unit No. 1, LLC (collectively, the “Company”). The 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 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 and accounting for leases, see Note 3, "Revenue Disclosures" and Note 12, "Commitments and Contingencies", respectively.

Prior Period Financial Statement Correction of Immaterial Error

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. The PCs are VIEs as defined by Accounting Standards Codification 810, Consolidations (“ASC 810”). During the first quarter of 2019, the Company reassessed the governance structure and operating procedures of the PCs and determined that the Company has the power to control certain significant non-clinical activities of the PCs, as defined by ASC 810. Therefore, the Company is the primary beneficiary of the VIEs, and per ASC 810, must consolidate the VIEs. Prior to 2019, the Company did not consolidate the PCs. The Company concluded the previous accounting policy to not consolidate the PCs was an immaterial error and determined that the PCs should be consolidated. The adjustments resulted in an increase to revenues from company clinics and a corresponding increase to general and administrative expenses. The adjustments had no impact on net income, except when the PCs had sold treatment packages and wellness plans. Revenue from these treatment packages and wellness plans are now deferred and will be recognized when patients use their visits. The Company corrected this immaterial error by restating the 2018 consolidated financial statements and related notes included herein.

The immaterial impacts of this error correction for the fiscal year ended December 31, 2018 were as follows:

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2018 (as reported)	Adjustments Due To VIE Consolidation	Year Ended December 31, 2018 (as adjusted)
Revenues:			
Revenues from company-owned or managed clinics	$ 14,672,865	$ 4,872,411	$ 19,545,276
Total revenues	31,789,249	4,872,411	36,661,660
General and administrative expenses	20,304,131	4,933,990	25,238,121
Total selling, general and administrative expenses	26,679,926	4,933,990	31,613,916
Income from operations	204,139	(61,578)	142,561
Other income (expense):			
Bargain purchase gain	58,006	(44,808)	$ 13,198
Total other income (expense)	11,215	(44,808)	$ (33,593)
Income before income tax (benefit) expense	215,354	(106,386)	$ 108,968
Net income and comprehensive income	$ 253,082	(106,386)	$ 146,696
Earnings per share:			
Basic earnings per share	$ 0.02	(0.01)	$ 0.01
Diluted earnings per share	$ 0.02	(0.01)	$ 0.01
Basic weighted average shares	13,669,107	—	$ 13,669,107
Diluted weighted average shares	14,031,717	—	$ 14,031,717

THE JOINT CORP. AND SUBSIDIARY AND AFFILIATES
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2018 (as reported)	Adjustments Due To VIE Consolidation	December 31, 2018 (as adjusted)
Current assets:			
Accounts receivable, net	1,213,707	(407,357)	806,350
Total current assets	11,711,345	(407,357)	11,303,988
Goodwill	2,916,426	308,719	3,225,145
Total assets	$ 23,526,352	$ (98,639)	$ 23,427,713
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Deferred revenue from company clinics	994,493	1,535,004	2,529,497
Total current liabilities	8,738,123	1,535,004	10,273,127
Total liabilities	21,165,108	1,535,004	22,700,112
Commitments and contingencies			
Equity:			
The Joint Corp. stockholders' equity:			
Accumulated deficit	(35,750,908)	(1,633,743)	(37,384,651)
Total The Joint Corp. stockholders' equity	2,361,244	(1,633,743)	727,501
Non-controlling Interest	—	100	100
Total equity	2,361,244	(1,633,643)	727,601
Total liabilities and equity	$ 23,526,352	$ (98,639)	$ 23,427,713

Correction of Immaterial Error - Effect of change in accounting principle

During the quarter ended December 31, 2019, the Company determined that it had improperly calculated the effect of change in accounting principle related to the adoption of Accounting Standards Codification 606 - Revenue from Contracts with Customers ("ASC 606"), which the Company adopted on January 1, 2018. This resulted in an overstatement of deferred franchise revenue and an understatement of deferred franchise costs. As a result, the Company recorded a $150 thousand reduction to franchise fee revenue and $70 thousand increase to franchise cost of revenue with a corresponding adjustment to deferred franchise revenue and deferred franchise costs related to the prior year and current year correction of an immaterial error related to the adoption of ASC 606.The error was not material to the Company's consolidated financial statements for any quarterly or annual period.

Nature of Operations

The Joint Corp., 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.

The following table summarizes the number of clinics in operation under franchise agreements and as company-owned or managed for the years ended December 31, 2019 and 2018:

Franchised clinics:	Year Ended December 31, 2019	2018
Clinics open at beginning of period	394	352
Opened during the period	71	47
Sold during the period	(8)	(1)
Closed during the period	(4)	(4)
Clinics in operation at the end of the period	453	394

Company-owned or managed clinics:	Year Ended December 31, 2019	2018
Clinics open at beginning of period	48	47
Opened during the period	5	—
Acquired during the period	8	1
Closed during the period	(1)	—
Clinics in operation at the end of the period	60	48
Total clinics in operation at the end of the period	513	442
Clinic licenses sold but not yet developed	170	136
Executed letters of intent for future clinic licenses	34	19

Principles of Consolidation

The accompanying 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. The Company consolidates VIEs in which the Company is the primary beneficiary in accordance with ASC 810. Non-controlling interests represent third-party equity ownership interests in VIEs.

All significant inter-affiliate accounts and transactions between The Joint and its VIEs have been eliminated in consolidation. Certain balances were reclassified from regional developer fees to other revenues for the year ended December 31, 2018 to conform to the current year presentation.

Comprehensive Income

Net income and comprehensive income are the same for the years ended December 31, 2019 and 2018.

Variable Interest Entities

An entity deemed to hold the controlling interest in a voting interest entity or deemed to be the primary beneficiary of a VIE is required to consolidate the VIE in its financial statements. An entity is deemed to be the primary beneficiary of a VIE if it has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb the majority of losses of the VIE or the right to receive the majority of benefits from the VIE.

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. In these states, the Company has entered into management services agreements with PCs under which the Company provides, on an exclusive basis, all non-clinical services of the chiropractic practice. Such PCs are VIEs, as fees paid by the PCs to the Company as its management service provider are considered variable interests because they are liabilities on the PC's books and the fees do not meet all the following criteria: 1) The fees are compensation for services provided and are commensurate with the level of effort required to provide those services; 2) The decision maker or service provider does not hold other interests in the VIE that individually, or in the aggregate, would absorb more than an insignificant amount of the VIE's expected losses or receive more than an insignificant amount of the VIE's expected residual returns; 3) The service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length. During the first quarter of 2019, the Company reassessed the governance structure and operating procedures of the PCs and determined that the Company has the power to control certain significant non-clinical activities of the PCs, as defined by ASC 810, Therefore, the Company is the primary beneficiary of the VIEs, and per ASC 810, must consolidate the VIEs. The carrying amount of VIE assets and liabilities are immaterial as of December 31, 2019.

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 December 31, 2019 and 2018.

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 primarily represent amounts due from franchisees for royalty fees. The Company considers a reserve for doubtful accounts based on the creditworthiness of the entity. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on specific identification and historical performance that the Company tracks on an ongoing basis. Actual losses ultimately could differ materially in the near term from the amounts estimated in determining the allowance. As of December 31, 2019, and 2018, 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 license. These costs are recognized as an expense, in franchise cost of revenues when the respective revenue is recognized, which is generally over the term of the related franchise agreement.

Property and Equipment

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

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

Capitalized Software

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

Leases

The Company adopted the guidance of Accounting Standards Codification 842 – Leases (“ASC 842”) on January 1, 2019 which requires lessees to recognize a right-of-use ("ROU") asset and lease liability for all leases. The Company elected the package of transition practical expedients for existing contracts, which allowed the Company to carry forward its historical assessments of whether contracts are or contain leases, lease classification and determination of initial direct costs.

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

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

Intangible Assets

Intangible assets consist primarily of re-acquired franchise and regional developer rights and customer relationships. The Company amortizes the fair value of re-acquired franchise rights over the remaining contractual terms of the re-acquired franchise rights at the time of the acquisition, which generally range from three to eight years. In the case of regional developer rights, the Company generally amortizes the re-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 years ended December 31, 2019 and 2018.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to estimated undiscounted future cash flows in its assessment of whether or not long-lived assets are recoverable. No impairments of long-lived assets were recorded for the year ended December 31, 2019. The Company recorded an impairment of approximately $343,000 in long-lived assets for the year ended December 31, 2018.

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 is2% of clinic sales. The Company segregates the marketing funds collected which are included in restricted cash on its consolidated balance sheets. As amounts are expended from the fund, the Company recognizes a related expense.

Co-Op Marketing Funds

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

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

Royalties and Advertising Fund Revenue. The Company collects royalties, 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.

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.

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

The Company entered into one regional developer agreement for the year ended December 31, 2019 and four regional developer agreements for the year ended December 31, 2018 for which it received approximately $0.3 million and $0.9 million, respectively, which was deferred as of the respective transaction dates and will be 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. Certain of these regional developer agreements resulted in the regional developer acquiring the rights to existing royalty streams from clinics already open in the respective territory. In those instances, the revenue associated from the sale of the royalty stream is being recognized over the remaining life of the respective franchise agreements.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $2,292,628 and $1,558,662, for years ended December 31, 2019 and 2018, respectively.

Income Taxes

Deferred income taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate principally to depreciation of property and equipment and treatment of revenue for franchise fees and regional developer fees collected. Deferred tax assets and liabilities represent the future tax consequence for those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

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 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 December 31, 2019 and 2018, respectively. Interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expenses.

With exceptions due to the generation and utilization of net operating losses or credits, as of December 31, 2019, the Company is no longer subject to federal and state examinations by taxing authorities for tax years before 2016 and 2015, respectively.

Earnings per Common Share

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

	Year Ended December 31,	
	2019	**2018**
		(as adjusted)
Net income	$ 3,323,712	$ 146,696
Weighted average common shares outstanding - basic	13,819,149	13,669,107
Effect of dilutive securities:		
Unvested restricted stock and stock options	648,418	362,610
Weighted average common shares outstanding - diluted	14,467,567	14,031,717
Basic earnings per share	$ 0.24	$ 0.01
Diluted earnings per share	$ 0.23	$ 0.01

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

	Year Ended December 31,	
	2019	**2018**
Unvested restricted stock	—	6,896
Stock options	39,286	236,205

Stock-Based Compensation

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

Retirement Benefit Plan

Employees of the Company are eligible to participate in a defined contribution retirement plan, the Joint Corp. 401(k) Retirement Plan (“401(k) Plan”), under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, employees may contribute their eligible compensation, not to exceed the annual limits set by the IRS. The 401(k) Plan allows the Company to match participants’ contributions in an amount determined at the sole discretion of the Company. The Company matched participants’ contributions during fiscal years 2019 and 2018, up to a maximum of 2% of the employee’s eligible compensation. Employer contributions totaled $103,745 and $61,157, for fiscal years 2019 and 2018, respectively.

Use of Estimates

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

Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

On January 1, 2019, the Company adopted ASC 842, which requires lessees to recognize a ROU asset and lease liability on their balance sheet for all leases with terms beyond twelve months. The new standard also requires enhanced disclosures that provide more transparency and information to financial statement users about lease portfolios. Effective January 1, 2019, the Company adopted the requirements of ASC 842 using the modified retrospective approach using the optional transition method and elected to apply the provisions of the standard as of the adoption date rather than the earliest date presented. The consolidated financial statements for the period ended December 31, 2019 are presented under the new standard, while comparative periods presented have not been adjusted and continue to be reported in accordance with the previous standard.

During the process of adoption, the Company made the following elections:

- The Company elected the package of practical expedients which allowed the Company to not reassess:
    - Whether existing or expired contracts contain leases under the new definition of a lease;
    - Lease classification for existing or expired leases; and
    - Initial direct costs for any expired or existing leases to determine if they would qualify for capitalization under ASC 842.

- The Company did not elect the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of operating lease assets.
- The Company did not elect the land easement practical expedient, which permits an entity to continue applying its current policy for accounting for land easements that existed as of, or expired before, the effective date of ASC 842.
- The Company elected to make the accounting policy election for short-term leases, permitting the Company to not apply the recognition requirements of ASC 842 to short-term leases with terms of 12 months or less.

The adoption of ASC 842 does not materially impact the Company's results of operations other than recognition of the operating lease ROU asset and lease liability. See Note 12 for additional disclosures required by ASC 842.

Newly Issued Accounting Standards Not Yet Adopted

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: Acquisitions

On March 18, 2019, the Company entered into an Asset and Franchise Purchase Agreement under which (i) the Company repurchased from the seller one operating franchise in West Covina, California and (ii) the parties agreed to terminate a second franchise agreement for an operating franchise. The Company operates the remaining franchise as a company-managed clinic. The total purchase price for the transaction was $30,000, less $3,847 of net deferred revenue resulting in total purchase consideration of $26,153.

On July 9, 2019, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller one operating franchise in Phoenix, Arizona. The Company operates the franchise as a company-owned clinic. The total purchase price for the transaction was $400,000, less $9,835 of net deferred revenue resulting in total purchase consideration of $390,165.

On July 17, 2019, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller three operating franchises in Savannah, Georgia, Pooler, Georgia and Bluffton, South Carolina. The Company operates the franchises as company-owned clinics. The total purchase price for the transaction was $1,604,918, less $13,449 of net deferred revenue resulting in total purchase consideration of $1,591,469.

On August 1, 2019, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller one operating franchise in Sayebrook, South Carolina. The Company operates the franchise as a company-owned clinic. The total purchase price for the transaction was $727,414, less $5,236 of net deferred revenue resulting in total purchase consideration of $722,178.

On August 15, 2019, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller one operating franchise in Chula Vista, California. The Company operates the franchise as a company-managed clinic. The total purchase price for the transaction was $310,000, less $4,328 of net deferred revenue resulting in total purchase consideration of $305,672.

On October 28, 2019, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller one operating franchise in Redlands, California. The Company operates the franchise as a company-managed clinic. The total purchase price for the transaction was $55,000, less $4,110 of net deferred revenue resulting in total purchase consideration of $50,890. As of December 31, 2019, $5,000 of remaining consideration was outstanding, which was paid in February 2020.

Purchase Price Allocation

The following summarizes the aggregate estimated fair values of the assets acquired and liabilities assumed during 2019 as of the acquisition date:

Property and equipment	$ 173,521
Operating lease right-of-use asset	1,283,608
Intangible assets	1,999,469
Total assets acquired	3,456,598
Goodwill	925,315
Deferred revenue	(140,861)
Operating lease liability - current portion	(256,601)
Operating lease liability - net of current portion	(867,216)
Deferred tax liability	(11,410)
Bargain purchase gain	(19,298)
Net purchase price	$ 3,086,527

Intangible assets in the table above consist of reacquired franchise rights of $1,488,494 amortized over an estimated useful life of approximatelythree years and customer relationships of $510,975 amortized over an estimated useful life oftwo years.

Goodwill was established due primarily to synergies and benefits expected to be gained from leveraging the Company's existing operations and infrastructures, as well as the expected associated revenue and cash flow projections. Goodwill has been allocated to the Company's Corporate Clinics segment based on such expected benefits. Goodwill related to the acquisitions is expected to be deductible for income tax purposes over the next 15 years. The purchase price allocations are preliminary, and the Company expects to finalize the allocations during fiscal year 2020.

Pro Forma Results of Operations (Unaudited)

The following table summarizes selected unaudited pro forma consolidated statements of operations data for the years ended December 31, 2019 and 2018 as if the acquisition in 2019 had been completed on January 1, 2018.

	Pro Forma for the Year Ended	
	December 31, 2019	**December 31, 2018**
Revenues, net	$ 50,399,700	$ 39,774,609
Net income (loss)	$ 3,241,918	$ (77,662)

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 acquisition 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 2018 and 2019 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 2019, this information includes actual data recorded in the Company's financial statements for the period subsequent to the date of the acquisition. The Company's consolidated statement of operations for the year ended December 31, 2019 includes net revenue and net income of approximately $1,529,000 and $218,000, 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, 2018. The pro forma earnings do not include adjustments related to acquisition-related costs incurred in 2019, which were not material.

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. Revenues are recognized when services are performed. The Company offers a variety of membership and wellness packages which feature discounted pricing as compared with its single-visit pricing. Amounts collected in advance for membership and wellness packages are recorded as deferred revenue and recognized when the service is performed or in accordance with the Company's breakage policy as discussed in Note 1, Revenue Recognition.

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

The Company currently franchises its concept across 33 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 are recognized when the franchisee's sales occur. Depending on timing within a fiscal period, the recognition of revenue results in either what is considered a contract asset (unbilled receivable) or, once billed, accounts receivable, on the balance sheet.

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

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

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

Regional Developer Fees

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

The transaction price in a standard regional developer arrangement primarily consists of the initial 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 consolidated statements of operations appropriately reflect the disaggregation of its revenue by major type for the years ended December 31, 2019 and 2018. Other revenues primarily consist of merchant income associated with credit card transactions.

Rollforward of Contract Liabilities and Contract Assets

Changes in the Company's contract liability for deferred franchise and regional development fees during the year ended December 31, 2019 and 2018 were as follows (in thousands):

	Deferred Revenue short and long-term
Balance at December 31, 2017	$ 11,547
Recognized as revenue during the year ended December 31, 2018	(2,287)
Fees received and deferred during the year ended December 31, 2018	4,349
Balance at December 31, 2018	$ 13,609
Recognized as revenue during the year ended December 31, 2019	(2,595)
Fees received and deferred, net	4,093
Balance at December 31, 2019	$ 15,107

Changes in the Company's contract assets for deferred franchise costs during the year ended December 31, 2019 and 2018 were as follows (in thousands):

	Deferred Franchise Costs short and long-term
Balance at December 31, 2017	$ 2,811
Recognized as cost of revenue during the year ended December 31, 2018	(631)
Costs incurred and deferred during the year ended December 31, 2018	1,309
Balance at December 31, 2018	$ 3,489
Recognized as cost of revenue during the year ended December 31, 2019	(812)
Costs incurred and deferred, net	1,716
Balance at December 31, 2019	$ 4,393

The following table illustrates revenues expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) as of December 31, 2019 (in thousands):

Contract liabilities expected to be recognized in	Amount
2020	$ 2,741
2021	2,626
2022	2,240
2023	1,907
2024	1,477
Thereafter	4,116
Total	$ 15,107

Note 4: Restricted Cash

The table below reconciles the cash and cash equivalents balance and restricted cash balances from the Company’s consolidated balance sheets to the amount of cash reported on the consolidated statements of cash flows:

	December 31,	
	2019	2018
Cash and cash equivalents	$ 8,455,989	$ 8,716,874
Restricted cash	185,888	138,078
Total cash, cash equivalents and restricted cash	$ 8,641,877	$ 8,854,952

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 secured 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 secured 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 was secured by the regional developer rights in the territory. The note was paid in full on September 28, 2018.

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, maturing on October 24, 2020. The note is secured by the regional developer rights in the territory.

Effective April 26, 2019, the Company entered into a promissory note valued at $31,086. The note bears interest at 0% per annum for 36 months and requires monthly principal payments over 36 months, beginning May 15, 2019 and maturing on May 15, 2022.

The net outstanding balances of the notes as of December 31, 2019, and 2018 were $155,810 and $278,072, respectively. Allowance reserve on the outstanding notes as of December 31, 2019 was $27,086. Maturities of notes receivable as of December 31, 2019 are as follows:

2020	$ 137,124
2021	9,600
2022	$ 9,086
Total	$ 155,810

Note 6: Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2019	2018
Office and computer equipment	$ 1,594,364	$ 1,243,104
Leasehold improvements	7,154,156	5,407,915
Software developed	1,193,007	1,145,742
Finance lease assets	80,604	—
	10,022,131	7,796,761
Accumulated depreciation and amortization	(5,671,366)	(4,909,002)
	4,350,765	2,887,759
Construction in progress	2,230,823	770,248
Property and Equipment, net	$ 6,581,588	$ 3,658,007

Depreciation expense was $823,679 and $1,049,942 for the years ended December 31, 2019 and 2018, respectively.

Amortization expense related to finance lease assets was $24,675 for the year ended December 31, 2019.

Construction in progress at December 31, 2019 and 2018 principally relate to development costs for a software to be used by clinics for operations and by the Company for the management of operations.

In August 2018, the Board of Directors approved a change in strategy as it relates to the development of the Company's IT platform. The Company ceased its related internal development, and as a result, the Company recorded an impairment of approximately $343,000 of previously capitalized software development costs during the year ended December 31, 2018.

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 December 31, 2019, and 2018, the Company did not have any financial instruments that are measured on a recurring basis as Level 1, 2 or 3.

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

Note 8: Intangible Assets and Goodwill

On February 4, 2019, the Company entered into an agreement under which it repurchased the right to develop franchises in various counties in South Carolina and Georgia. The total consideration for the transaction was $681,500. The Company carried a deferred revenue balance associated with these transactions of $44,334, representing unrecognized portion of the license fees collected upon the execution of the regional developer agreements. The Company accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price.

Intangible assets consisted of the following:

	December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization:			
Reacquired franchise rights	$ 3,246,494	$ 1,400,086	$ 1,846,408
Customer relationships	1,255,975	865,478	390,497
Reacquired development rights	2,050,481	1,067,595	982,886
	$ 6,552,950	$ 3,333,159	$ 3,219,791

	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization:			
Reacquired franchise rights	$ 1,758,000	$ 921,138	$ 836,862
Customer relationships	745,000	717,498	27,502
Reacquired development rights	1,413,316	643,620	769,696
	$ 3,916,316	$ 2,282,256	$ 1,634,060

Amortization expense related to the Company's intangible assets was $1,050,903 and $506,298 for the years ended December 31, 2019 and 2018, respectively.

Estimated amortization expense for 2020 and subsequent years is as follows:

2020	$ 1,409,962
2021	1,212,703
2022	539,750
2023	57,376
Total	$ 3,219,791

The changes in the carrying amount of goodwill were as follows:

	Corporate Clinic Segment
Balance as of December 31, 2018	
Goodwill, gross	$ 3,280,139
Accumulated impairment losses	(54,994)
Goodwill, net	3,225,145
2019 acquisitions	925,316
Balance as of December 31, 2019	
Goodwill, gross	4,205,455
Accumulated impairment losses	(54,994)
Goodwill, net	$ 4,150,461

There were no changes in the carrying amount of goodwill during the year ended December 31, 2018.

Note 9: Debt

Notes Payable

During 2016, the Company issued two notes payable totaling $186,000 as a portion of the consideration paid in connection with the Company'svarious acquisitions. Interest rates for both notes were 4.25% with maturities through May 2017. There wasone outstanding note as of December 31, 2018 with a balance of $100,000 which was paid in February 2019.

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 was 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 was 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 was 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 Credit Agreement was collateralized by the assets in the Company's company-owned or managed clinics. The Company used the credit facility for general working capital needs. During 2019, the Company had drawn $1,000,000 of the $5,000,000 available under the Credit Agreement which was repaid in full on December 20, 2019. The Credit Agreement was terminated in December 2019 in accordance with the provisions of the Credit Agreement. During 2019, the Company was in compliance with all applicable financial and non-financial covenants under the Credit Agreement. The Company recorded interest expense of $96,978 and $100,000 in the years ended December 31, 2019 and 2018 related to this Credit Agreement, respectively.

In February 2020, the Company executed a line of credit agreement which provides a credit facility up to $7,500,000, including a $2,000,000 revolver and $5,500,000 development line of credit. Please see Note 14, "Subsequent Events" in the Notes to Consolidated Financial Statements for further discussion.

Note 10: Stock-Based Compensation

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

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

Stock Options

The Company's closing price on the date of grant is the basis of fair value of its common stock used in determining the value of share-based awards. To the extent the value of the Company's share-based awards involves a measure of volatility, the Company historically relied on the volatilities from publicly-traded companies with similar business models as its common stock lacked enough trading history for it to utilize its own historical volatility. Effective July 1, 2019, the Company uses available historical volatility of the Company's common stock over a period of time corresponding to the expected stock option term. The Company uses the simplified method to calculate the expected term of stock option grants to employees as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term of stock options granted to employees. Accordingly, the expected life of the options granted is based on the average of the vesting term, which is generally four years and the contractual term, which is generally ten years. The Company will continue to evaluate the appropriateness of utilizing such method. The risk-free interest rate is based on United States Treasury yields in effect at the date of grant for periods corresponding to the expected stock option term.

The Company has computed the fair value of all options granted using the Black-Scholes-Merton model during the years ended December 31, 2019 and 2018, using the following assumptions:

	Year Ended December 31,	
	2019	2018
Expected volatility	35% to 55%	35%
Expected dividends	None	None
Expected term (years)	7	7
Risk-free rate	1.89% to 2.61%	2.53% to 2.90%
Forfeiture rate	20%	20%

The information below summarizes the stock options:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2017	1,003,916	$ 4.18	8.1
Granted at market price	145,792	7.00	
Exercised	(95,162)	3.48	
Cancelled	(67,855)	3.37	
Outstanding at December 31, 2018	986,691	$ 4.72	6.8
Granted at market price	65,759	12.31	
Exercised	(103,205)	5.28	
Cancelled	—	—	
Outstanding at December 31, 2019	949,245	$ 5.19	6.5
Exercisable at December 31, 2019	592,265	$ 4.54	5.9

The aggregate intrinsic value of the Company's stock options exercised during 2019 and 2018 was $1,236,099 and $412,952, respectively.

The aggregate intrinsic value of the Company’s stock options outstanding and expected to vest was $9,788,395 at December 31, 2019.

The aggregate intrinsic value of the Company’s stock options exercisable was $6,872,930 at December 31, 2019.

The weighted-average grant-date fair value of the Company's stock options granted during 2019 and 2018 was $5.21 and $2.95, respectively.

The aggregate fair value of the Company's stock options vested during 2019 and 2018 was $388,672 and $509,729, respectively.

For the years ended December 31, 2019 and 2018, stock-based compensation expense for stock options was $418,301 and $363,568, respectively.

Unrecognized stock-based compensation expense for stock options as of December 31, 2019 was $729,263, which is expected to be recognized ratably over the next 2.5 years.

Restricted Stock

Restricted stock awards granted to employees generally vest in four equal annual installments. Restricted stock awards granted to non-employee directors vest on the earlier of (i) one year from the grant date and (ii) the date of the next annual meeting of the shareholders of the Company occurring after the date of grant.

The information below summaries the restricted stock activity:

Restricted Stock Awards	Shares	Weighted Average Grant-Date Fair Value per Award
Non-vested at December 31, 2018	51,134	$ 7.64
Granted	26,131	$ 14.30
Vested	(38,289)	$ 7.44
Cancelled	—	$ —
Non-vested at December 31, 2019	38,976	$ 12.31

For the years ended December 31, 2019 and 2018, stock-based compensation expense for restricted stock was $302,350 and $264,862, respectively. Unrecognized stock-based compensation expense for restricted stock awards as of December 31, 2019 was $321,031 to be recognized ratably over 2.1 years.

Warrants

In conjunction with the IPO, the Company issued warrants to the underwriters for the purchase of 90,000 shares of common stock, which were exercisable between November 10, 2015 and November 10, 2018 at an exercise price of $8.125 per share. The fair value of the warrants was determined using the Black-Scholes-Merton option valuation model. The unexercised warrants expired on November 10, 2018.

Note 11: Income Taxes

Income tax provision (benefit) reported in the consolidated statements of operations is comprised of the following (rounded to hundreds):

	December 31, 2019	December 31, 2018
Current provision (benefit):		
Federal	$ —	$ —
State, net of state tax credits	47,200	39,300
Total current provision (benefit)	47,200	39,300
Deferred provision (benefit):		
Federal	800	(90,000)
State	1,000	13,000
Total deferred provision (benefit)	1,800	(77,000)
Total income tax provision (benefit)	$ 49,000	$ (37,700)

The following are the components of the Company's deferred tax assets (liabilities) for federal and state income taxes (rounded to hundreds):

	December 31, 2019	December 31, 2018 (as adjusted)
Deferred income tax assets:		
Accrued expenses	$ 515,800	$ 361,100
Deferred revenue	4,435,400	3,092,500
Deferred rent	—	237,900
Lease abandonment	—	96,500
Lease liability	3,782,800	—
Goodwill - component 2	55,300	52,500
Restricted stock compensation	3,900	—
Nonqualified stock options	198,900	184,400
Net operating loss carryforwards	3,585,700	6,175,600
Tax credits	33,800	14,000
Charitable contribution carryover	—	15,500
Asset basis difference related to property and equipment	214,000	458,600
Intangibles	595,800	435,900
Total deferred income tax assets	13,421,400	11,124,500
Deferred income tax liabilities:		
Lease right-of-use asset	(3,267,900)	—
Deferred franchise costs	(406,500)	(574,100)
Goodwill - component 1	(245,500)	(194,700)
Restricted stock compensation	—	(30,800)
Total deferred income tax liabilities	(3,919,900)	(799,600)
Valuation allowance	(9,591,400)	(10,401,600)
Net deferred tax liability	$ (89,900)	$ (76,700)

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the lack of sustained profitability over the three-year period ended December 31, 2019. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, as of December 31, 2019, a valuation allowance of $9,591,400 has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth. If and when the Company determines the valuation allowance should be released (i.e., reduced), the adjustment would result in a tax benefit reported in that period's consolidated statement of operations, the effect of which would be an increase in reported net income. The amount of any such tax benefit associated with release of the Company's valuation allowance in a particular reporting period may be material.

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 34% 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 finalized the effects of the 2017 Tax Act and recorded the impact in its financial statements as of December 22, 2018 under Staff Accounting Bulletin No. 118 (SAB 118). The company recorded a tax benefit for the impact of the 2017 Tax Act of approximately $120,000 in 2018. This amount is a remeasurement of federal net deferred tax assets resulting from the permanent reduction in the U.S. statutory corporate tax rate to 21% from 34%.

At December 31, 2019, The Joint Corp., without the VIE, had federal and state net operating losses of approximately $13,262,000 and $17,728,000, respectively. These net operating losses are available to offset future taxable income and will begin to expire in 2035 for federal purposes and 2025 for state purposes. The Joint Corp. has research and development credits of $14,000 that will begin to expire in 2031 and $20,000 California alternative minimum tax credits that do not expire.

The following is a reconciliation of the statutory federal income tax rate applied to pre-tax accounting net income, compared to the income tax provision (benefit) in the consolidated statement of operations (rounded to hundreds):

	For the Years Ended December 31,			
	2019		2018 (as adjusted)	
	Amount	Percent	Amount	Percent
Expected federal tax expense (benefit)	$ 731,600	21.0 %	$ 22,900	21.0 %
State tax provision, net of federal benefit	315,800	9.1 %	(63,600)	(58.4)%
Change in valuation allowance	(810,200)	(23.3)%	51,600	47.4 %
Other permanent differences	41,700	1.2 %	13,200	12.1 %
Stock compensation	(232,600)	(6.7)%	(40,800)	(37.4)%
Bargain purchase gain	(5,100)	(0.1)%	(16,100)	(14.8)%
Return to provision adjustments	7,800	0.2 %	(4,900)	(4.5)%
Provision (benefit)	$ 49,000	1.4 %	$ (37,700)	(34.6)%

Changes in the Company's income tax expense relate primarily to changes in pretax income during the year ended December 31, 2019, as compared to year ended December 31, 2018, and the effective tax rate was 1.4% and (34.6)%, respectively. For the years ended December 31, 2019 and December 31, 2018, the difference between the statutory federal income tax rate and the Company's effective tax rate was primarily due to state taxes, the valuation allowance, VIE permanent differences, and stock-based compensation.

For the years ended December 31, 2019 and December 31, 2018, the Company had no uncertain tax positions or interest and penalties related to uncertain tax positions. Interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expenses, if any.

With exceptions due to the generation and utilization of net operating losses or credits, as of December 31, 2019, the Company is no longer subject to federal and state examinations by taxing authorities for tax years before 2016 and 2015, respectively.

Note 12: Commitments and Contingencies

Operating Leases

The table below summarizes the components of lease expense and income statement location for the year ended December 31, 2019:

	Line Item in the Company's Consolidated Statements of Operations	Year Ended December 31, 2019
Finance lease costs:		
Amortization of assets	Depreciation and amortization	$ 24,675
Interest on lease liabilities	Other expense, net	6,832
Total finance lease costs		$ 31,507
Operating lease costs	General and administrative expenses	$ 3,005,124
Total lease costs		$ 3,036,631

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

		December 31, 2019
Operating Leases:		
Operating lease right-of -use asset	$	12,486,672
Operating lease liability - current portion		2,313,109
Operating lease liability - net of current portion		11,901,040
Total operating lease liability	$	14,214,149
Finance Leases:		
Property and equipment, at cost		80,604
Less accumulated amortization		(24,675)
Property and equipment, net	$	55,929
Finance lease liability - current portion		24,253
Finance lease liability - net of current portion		34,398
Total finance lease liabilities	$	58,651
Weighted average remaining lease term (in years):		
Operating leases		5.4
Finance lease		2.3
Weighted average discount rate:		
Operating leases		8.7 %
Finance leases		10.0 %

Supplemental cash flow information related to leases is as follows:

		Year Ended December 31, 2019
Cash paid for amounts included in measurement of liabilities:		
Operating cash flows from operating leases	$	2,834,903
Operating cash flows from finance leases		6,832
Financing cash flows from finance leases		21,954
Non-cash transactions: ROU assets obtained in exchange for lease liabilities		
Operating lease	$	1,350,090
Finance lease		80,604

Maturities of lease liabilities as of December 31, 2019 are as follows:

	Operating Leases	Finance Lease
2020	$ 3,376,830	$ 28,786
2021	3,545,186	28,786
2022	3,430,110	7,676
2023	2,716,465	—
2024	2,096,333	—
Thereafter	2,629,450	—
Total lease payments	17,794,374	65,248
Less: Imputed interest	(3,580,225)	(6,597)
Total lease obligations	14,214,149	58,651
Less: Current obligations	(2,313,109)	(24,253)
Long-term lease obligation	$ 11,901,040	$ 34,398

The future minimum obligations under operating leases in effect as of December 31, 2018 having a noncancelable term in excess of one year as determined prior to the adoption of ASC 842 are as follows:

	Operating Leases
2020	$ 2,630,443
2021	2,406,645
2022	2,299,887
2023	2,195,077
2024	1,474,396
Thereafter	2,772,575
Total	$ 13,779,023

Total rent expense for the years ended December 31, 2019 and 2018 was $3,381,825 and $2,844,010, respectively.

During the fourth quarter of 2019, the Company entered into various operating leases for its new corporate clinics' space that have not yet commenced. These leases are expected to result in additional ROU asset and liability of approximately $1.3 million. These leases are expected to commence during the first quarter of 2020, with a lease term of five to ten years.

Litigation

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

Note 13: 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 December 31, 2019, the Company operated or managed 60 clinics under this segment. The Franchise Operations segment is comprised of the operating activities of the franchise business unit. As of December 31, 2019, the franchise system consisted of 453 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’stwo operating business segments (in thousands).

	Year Ended December 31, 2019	Year Ended December 31, 2018 (as adjusted)
Revenues:		
Corporate clinics	$ 25,808	$ 19,545
Franchise operations	22,643	17,116
Total revenues	$ 48,451	$ 36,661
Segment operating income:		
Corporate clinics	$ 3,365	$ 1,475
Franchise operations	10,975	8,083
Total segment operating income	$ 14,340	$ 9,558
Depreciation and amortization:		
Corporate clinics	$ 1,708	$ 1,105
Franchise operations	—	—
Corporate administration	191	451
Total depreciation and amortization	$ 1,899	$ 1,556
Reconciliation of total segment operating income to consolidated earnings before income taxes:		
Total segment operating income	$ 14,340	$ 9,558
Unallocated corporate	(10,925)	(9,415)
Consolidated income from operations	3,415	143
Bargain purchase gain	19	13
Other (expense), net	(62)	(47)
Income before income tax expense	$ 3,372	$ 109

	December 31, 2019	December 31, 2018 (as adjusted)
Segment assets:		
Corporate clinics	$ 25,625	$ 8,828
Franchise operations	5,770	4,455
Total segment assets	$ 31,395	$ 13,283
Unallocated cash and cash equivalents and restricted cash	$ 8,642	$ 8,855
Unallocated property and equipment	2,555	487
Other unallocated assets	1,114	803
Total assets	$ 43,706	$ 23,428

“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 14: Subsequent Events

On February 28, 2020, the Company entered into a Credit Agreement (the "Credit Agreement"), with JPMorgan Chase Bank, N.A., individually, and as Administrative Agent and Issuing Bank ("JPMorgan Chase" or the "Lender"). The Credit Agreement provides for senior secured credit facilities (the "Credit Facilities") in the amount of $7,500,000, including a $2,000,000 revolver (the "Revolver") and $5,500,000 development line of credit (the "Line of Credit"). The Revolver includes amounts available for letters of credit of up to $1,000,000 and an uncommitted additional amount of $2,500,000 All outstanding principal and interest on the Revolver are due on February 28, 2022. Principal and interest outstanding on the Line of Credit at the end of the first year are converted to a term loan payable in 36 monthly payments with a final maturity date of March 31, 2024. Principal and interest outstanding on the Line of Credit at the end of the second year are converted to a second term loan payable in 36 monthly payments with a final maturity date of March 31, 2025. Borrowings under the Credit Facilities bear interest at a rate equal to an applicable margin, which is a one-, three- or six-month reserve adjusted Eurocurrency rate plus 2.00% or, at the election of the Company, an alternative base rate, plus1.00%. The alternative base rate is the greatest of the prime rate, the Federal Reserve Bank of New York rate plus 0.50% and the one-month reserve adjusted Eurocurrency plus 1.00%. Unused portions of the Credit Facilities bear interest at a rate equal to 0.25% per annum. If the current Eurocurrency rate is no longer available or representative, the loan agreement provides a mechanism for replacing that benchmark rate. The Credit Facilities are pre-payable at any time without penalty, other than customary breakage fees, and any voluntary repayments made by the Company would reduce the future required repayment amounts.

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

The Company granted a security interest to the Lender in all assets of the Company, including the assets in the Company's company-owned or managed clinics, and all proceeds thereof, pursuant to a pledge and security agreement.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2019. Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures that are designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The evaluation of our disclosure controls and procedures included a review of the control objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Annual Report on Form 10-K. After conducting this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as defined by Rule 13a-15(e) under the Exchange Act, were not effective as of December 31, 2019 due to a material weakness in internal control over financial reporting, described below.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). Internal control over financial reporting is the process designed under the Chief Executive Officer's and the Chief Financial Officer's supervision, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, an effective control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019, as required by Exchange Act Rule 13a-15(c). In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 2013 Internal Control - Integrated Framework (2013 Framework). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We identified a material weakness in internal control related to ineffective information technology general controls (ITGCs) in the areas of user access, information security policies, and program change-management over certain information technology (IT) systems that support the Company's financial reporting processes. We believe that these control deficiencies were a result of: IT control processes lacking sufficient documentation; and risk-assessment processes inadequate to identify and assess changes in IT environments that could impact internal control over financial reporting. The material weakness did not result in any identified misstatements to the financial statements. Based on this material weakness, the Company's management concluded that as of December 31, 2019, the Company's internal control over financial reporting was not effective.

Our independent registered public accounting firm, Plante Moran, PLLC has issued an adverse opinion with respect to the effectiveness of the Company's internal control over financial reporting, which appears in Item 8 of this Form 10-K. Following identification of the material weakness and prior to filing this Form 10-K, we completed substantive procedures for the year ended December 31, 2019. Based on these procedures, management believes that our consolidated financial statements included in this Form 10-K have been prepared in accordance with U.S. GAAP. Our Chief Executive Officer and Chief Financial Officer have certified that, based on their knowledge, the financial statements, and other financial information included in this Form 10-K, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Form 10-K. Plante Moran, PLLC has issued an unqualified opinion on our financial statements, which is included in Item 8 of this Form 10-K.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

Management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. The remediation actions include: (i) updating our IT policies addressing ITGCs; (ii) educating control owners concerning the principles and requirements of each control, with a focus on those related to user access and change-management over IT systems impacting financial reporting; (iii) developing and maintaining documentation underlying ITGCs; (iv) developing enhanced risk assessment procedures and controls related to changes in IT systems; and (v) enhanced quarterly reporting on the remediation measures to the Audit Committee of the Board of Directors. We believe that these actions will remediate the material weakness. The weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed during fiscal 2020 and we plan to monitor these changes throughout the year to ensure that new controls are operating effectively.

Changes in Internal Controls over Financial Reporting

During the first quarter of 2019, we implemented new controls in connection with our adoption of ASC 842. Other than the material weakness in our internal control over financial reporting described above, 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 year ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be included in our Proxy Statement to be filed pursuant to Regulation 14A within 120 days after our year ended December 31, 2019 in connection with our 2020 Annual Meeting of Stockholders, or the 2020 Proxy Statement, and is incorporated herein by reference.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to employees, officers and directors, including our executive management team, such as our Chief Executive Officer and Chief Financial Officer. This Code of Business Conduct and Ethics is posted on our website at www.thejoint.com. We intend to satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of amendments to, or waivers from, provisions of the Code of Business Conduct and Ethics by posting such information on our website.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report.

(1) *Financial Statements*. The consolidated financial statements listed on the index to Item 8 of this Annual Report on Form 10-K are filed as a part of this Annual Report.

(2) *Financial Statement Schedules.* All financial statement schedules have been omitted since the information is either not applicable or required or is included in the financial statements or notes thereof.

(3) *Exhibits.* Those exhibits marked with a (X) refer to exhibits filed or furnished herewith. The other exhibits are incorporated herein by reference, as indicated in the following list. Those exhibits marked with a (#) refer to management contracts or compensatory plans or arrangements. Portions of the exhibits marked with a (Ω) are the

subject of a Confidential Treatment Request under 17 C.F.R. §§ 200.80(b)(4), 200.83 and 240.24b-2. Omitted material for which confidential treatment has been requested has been filed separately with the SEC.

EXHIBIT INDEX

		Incorporated by Reference				
Exhibit Number	**Description**	Form	File No.	Exhibit(s)	Filing Date	Provided Herewith
3.1	Amended and Restated Certificate of Incorporation of Registrant.	S-1	333-198860	3.2	9/19/2014	
3.2	Amended and Restated Bylaws of Registrant, plus amendments.	8-K	001-36724	3(ii).1	3/7/2016	
3.3	Second Amended and Restated Bylaws of The Joint Corp.	8-K	001-36724	3.(II)1	8/9/2018	
4.1	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934					X
10.1#	Form of Indemnification Agreement between Registrant and each of its directors and officers and related schedule.	S-1	333-198860	10.1	9/19/2014	
10.2#	Indemnification Agreement between Registrant and former director Fred Gerretzen.	S-1	333-198860	10.18	9/19/2014	
10.3#	Indemnification Agreement between Registrant and former officer Ronald Record.	S-1	333-198860	10.19	9/19/2014	
10.4#	2012 Stock Plan.	S-1	333-198860	10.2	9/19/2014	
10.5#	Amended and Restated 2014 Incentive Stock Plan.	S-1	333-207632	10.3	10/27/2015	
10.6#	Amendment to Amended and Restated 2014 Incentive Stock Plan					X
10.7#	Form of Incentive Stock Option Agreement under 2014 Stock Plan.	S-1	333-207632	10.4	10/27/2015	
10.8#	Form of Incentive Stock Option Agreement under Amended and Restated 2014 Stock Plan	8-K	333-207632	10.1	4/3/2019	
10.9#	Amended Form of Incentive Stock Option Agreement under Amended and Restated 2014 Stock Plan					X
10.10#	Form of Nonstatutory Stock Option Agreement under 2014 Stock Plan.	S-1	333-207632	10.5	10/27/2015	
10.11#	Form of Nonstatutory Stock Option Agreement under Amended and Restated 2014 Stock Plan	8-K	333-207632	10.2	4/3/2019	
10.12#	Amended Form of Nonstatutory Stock Option Agreement under Amended and Restated 2014 Stock Plan					X
10.13#	Form of Nonstatutory Stock Option Agreement under 2014 Stock Plan for Article 7, Annual Option Grants.	S-1	333-207632	10.6	10/27/2015	
10.14#	Form of Restricted Stock Award.	10-K	001-36724	10.54	3/9/2018	
10.15#	Form of Restricted Stock Award Agreement under Amended and Restated 2014 Stock Plan	8-K	333-207632	10.3	4/3/2019	
10.16#	Amended Form of Restricted Stock Award Agreement under Amended and Restated 2014 Stock Plan					X
10.17#	2017 Executive Short-Term Incentive Plan	10-K	001-36724	10.53	3/9/2018	
10.18#	2018 Executive Short-Term Incentive Plan	10-K	001-36724	10.11	3/11/2019	
10.19	Executive Short-Term Incentive Plan (approved March 6, 2019)	10-K	001-36724	10.12	3/11/2019	
10.20	Lease Agreement dated May 17, 2019 between Registrant and Terra Verde Owner LLC for Registrant's office located at 16767 North Perimeter Drive, Suite 110, Scottsdale, Arizona 85260					X

10.21	Form of Registrant's Franchise Disclosure Document.	S-1	333-198860	10.13	9/19/2014	
10.22	Form of Registrant's Regional Developer License Agreement.	S-1	333-198860	10.14	9/19/2014	
10.23	Form of Registrant's Franchise Agreement.	S-1	333-198860	10.15	9/19/2014	
10.24	Asset Purchase Agreement dated July 17, 2019, by and among The Joint Corp., TJ of Savannah – Twelve Oaks, LLC, a Georgia limited liability company, TJ of Pooler, LLC, a Georgia limited liability company, and TJ of Bluffton, LLC, a Georgia limited liability company , Robyn Meglin and Allen Meglin, as amended	8-K	001-36724	10.1	7/23/2019	
10.25	Asset and Franchise Purchase Agreement, dated August 1, 2019, among the Company, RJJ, LLC a South Carolina limited liability company, Robin Willey and Judy Willey	8-K	001-36724	10.1	8/5/2019	
10.26	Asset and Franchise Agreement Purchase Agreement, dated August 15, 2019, among the Company, Well Adjusted Ventures, LLC, a California limited liability company, and Jim Burbach	8-K	001-36724	10.1	8/19/2019	
10.27	Credit and Security Agreement dated as of January 3, 2017, by and between The Joint Corp/, a Delaware corporation, and Tower 7 Partnership LLC, and Ohio limited liability company	8-K	001-36724	10.1	1/9/2017	
10.28	Revolving Credit Note, dated January 3, 2017, by The Joint Corp., a Delaware corporation in favor of Tower 7 Partnership LLC	8-K	001-36274	10.2	1/9/2017	
10.29	Revolving Credit Note, dated January 3, 2017, by The Joint Corp., a Delaware corporation in favor of Tower 7 Partnership LLC	8-K	001-36274	10.2	1/9/2017	
10.30#	Employment Letter Agreement between The Joint Corp. and Jake Singleton dated November 6, 2018	8-K	001-36724	10.1	11/8/2018	
10.31#	Confidentiality, Noncompetition and Nonsolicitation Agreement between The Joint Corp. and Jake Singleton dated November 6, 2018	8-K	001-36724	10.2	11/8/2018	
10.32#	Amendment to Employment Letter Agreement between The Joint Corp. and Jake Singleton dated November 6, 2018					X
10.33#	Employment Agreement dated April 27, 2016, between The Joint Corp. and Peter Holt	8-K	001-36724	10.1	5/3/2016	
10.34#	Amended and Restated Employment Agreement dated January 3, 2017, between The Joint Corp., a Delaware corporation, and Peter Holt	8-K	001-36274	10.3	1/9/2017	
10.35#	Employment Letter Agreement between The Joint Corp. and Peter Holt dated December 11, 2018	8-K	001-36724	10.1	12/6/2018	
10.36#	Confidentiality, Noncompetition and Nonsolicitation Agreement between The Joint Corp. and Peter Holt dated December 11, 2018	10-K	001-36724	10.4	3/11/2019	
16	Letter from EKS&H to the U.S. Securities and Exchange Commission dated October 4, 2018 regarding change in certifying accountant	8-K	001-36724	16.1	10/4/2018	
21	List of subsidiaries of The Joint Corp.	S-1	333-198860	21.1	9/19/2014	
23.1	Consent of Plante & Moran, PLLC					X
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X

31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X
32**	Certification by 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	X
101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Extension Schema Document	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X

Management contract or compensatory plan or arrangement

** Furnished, not filed

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on March 6, 2020.

The Joint Corp.

By: /s/ Jake Singleton

Jake Singleton Chief Financial Officer
(Principal Financial Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter D. Holt and Jake Singleton, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Peter D. Holt	President, Chief Executive Officer and Director	March 6, 2020
Peter D. Holt	(Principal Executive Officer) and Director	
/s/ Jake Singleton	Chief Financial Officer	March 6, 2020
Jake Singleton	(Principal Financial Officer)	
/s/ Matthew E. Rubel	Lead Director	March 6, 2020
Matthew E. Rubel		
/s/ James H. Amos, Jr.	Director	March 6, 2020
James H. Amos, Jr.		
/s/ Ronald V. DaVella	Director	March 6, 2020
Ronald V. DaVella		
/s/ Suzanne M. Decker	Director	March 6, 2020
Suzanne M. Decker		
/s/ Abe Hong	Director	March 6, 2020
Abe Hong		
/s/ Glenn J. Krevlin	Director	March 6, 2020
Glenn J. Krevlin		

Exhibit 4.1

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The Joint Corporation (the "Company") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): common stock, par value $0.001 per share (the "common stock"). The common stock is listed on The NASDAQ Capital Market under the symbol "JYNT."

DESCRIPTION OF COMMON STOCK

The following summary description sets forth some of the general terms and provisions of the common stock. Because this is a summary description, it does not contain all of the information that may be important to you. For a more detailed description of the common stock, you should refer to the provisions of the Company's amended and restated certificate of incorporation (the "certificate of incorporation") and second amended and restated bylaws (the "bylaws"), as each may be amended from time to time and each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.3 is a part.

Authorized Capital Stock
Under the certificate of incorporation, the Company is authorized to issue up to 20,000,000 shares of common stock with a par value of $0.001 per share and up to 50,000 shares of preferred stock with a par value of $0.001 per share (the "preferred stock"). The shares of common stock currently outstanding are fully paid and nonassessable. No shares of preferred stock are currently outstanding.

No Preemptive, Redemption or Conversion Rights
Holders of common stock have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the common stock.

Voting Rights
Holders of shares of common stock have one vote per share in all elections of directors and on all other matters submitted to a vote of stockholders of the Company. Holders of shares of common stock do not have cumulative voting rights. Matters are decided by the affirmative vote of a majority in voting power of the shares present in person or by proxy and entitled to vote on such matters at a meeting at which a quorum is present, except with respect to the election of directors and as otherwise required by the certificate of incorporation or bylaws, applicable law, the rules or regulations of any stock exchange applicable to the Company or any regulation applicable to the Company or its securities. The rights, preferences, and privileges of holders of common stock are subject to, and may be impacted by, the rights of the holders of shares of any series of preferred stock that the Company may designate and issue in the future.

Board of Directors
The Company's board of directors (the "board of directors") is not classified. The board of directors currently consists of seven members, with the exact number (not to exceed nine) to be fixed from time to time by a duly adopted resolution of the board of directors or stockholders of the Company. To be elected in an uncontested election for board members, a director nominee must receive more votes "for" than "against" by shares present in

person or by proxy and entitled to vote. In a contested election for board members, the board members are elected by a plurality of shares present in person or by proxy and entitled to vote.

Action by Stockholder Written Consent

Action by the written consent of stockholders of the Company without a meeting is not prohibited by either the certificate of incorporation or the bylaws.

Power to Call Special Stockholder Meeting

Pursuant to the bylaws, special meetings of the stockholders of the Company may be called for any purpose or purposes by (i) the chairman of the board of directors, (ii) the president and chief executive officer or (iii) the secretary of the Company at the direction of the board of directors at any time.

Proxy Access Nominations

Under the bylaws, a stockholder (or a group of up to 20 stockholders) who has held at least 3% of the common stock for three years or more may nominate a director and have that nominee included in the Company's proxy statement for its annual meeting of stockholders, provided that the stockholder and nominee satisfy the requirements specified in the bylaws. The number of stockholder-nominated candidates appearing in the Company's annual proxy materials cannot exceed twenty percent (20%) of the number of directors then serving on the board of directors, rounded down to the nearest whole number, subject to reduction in certain circumstances, including when the board itself nominates the stockholder nominee.

Advance Notice Requirements

Stockholders of the Company wishing to nominate persons for election to the board of directors at an annual meeting (other than through proxy access addressed above) or to propose any business to be considered by the stockholders at an annual meeting must comply with certain procedures and requirements set forth in the bylaws.

Dividend Rights

Subject to the preferences applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive dividends, if any, as and when declared, from time to time, by the board of directors out of funds legally available therefor.

Liquidation, Dissolution or Similar Rights

Subject to the preferences applicable to any outstanding shares of preferred stock, upon liquidation, dissolution or winding up of the affairs of the Company, the holders of common stock will be entitled to participate equally and ratably, in proportion to the number of shares held, in the net assets of the Company available for distribution to holders of stock of the Company.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is Continental Stock Transfer and Trust Company.

Anti-Takeover Effects of Various Provisions of Delaware Law, the Certificate of Incorporation and the Bylaws

Provisions of Delaware law, the certificate of incorporation, and the bylaws, summarized below, could delay or discourage some transactions involving an actual or potential change in control of the Company or its management.

Delaware Anti-Takeover Law

The Company is subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law.
In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless the "business combination" or the transaction in which the person became an interested stockholder is approved by the board of directors in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own, 15% or more of a corporation's voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by the stockholders.

Requirements for Inclusion of Stockholder Nominations in the Company's Proxy Materials and for Advance Notification of Stockholder Nominations and Proposals
See disclosures under the headings "Proxy Access Nominations" and "Advance Notice Requirements."

Stockholder Meetings
Pursuant to the bylaws, stockholders of the Company may not call special meetings.

No Cumulative Voting
The certificate of incorporation and bylaws do not provide for cumulative voting in the election of directors.

Board of Director Vacancies
Only the board of directors is authorized to fill vacant directorships created by a director's resignation, death or removal, including newly created seats. Each director so elected holds office for the balance of the term for which he was elected.

Undesignated Preferred Stock
The authorization of undesignated preferred stock makes it possible for the board of directors without stockholder approval to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to obtain control of the Company. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of the Company.

Amendments to Bylaws
Under the bylaws, the board of directors has the authority to adopt, alter, amend or repeal the bylaws. The stockholders of the Company also may adopt, alter, amend or repeal our bylaws by the requisite vote of the stockholders.

Supermajority Vote to Amend Certain Provisions of the Certificate of Incorporation
Certain amendments to the certificate of incorporation generally require the approval of sixty-six and two-thirds percent (66 2/3%) of the then outstanding voting stock of the Company, including provisions concerning the following:

- the required vote to amend the certificate of incorporation with respect to supermajority vote requirements;
- management of the business by the board of directors;
- number of directors and vacancies on the board of directors;
- personal liability of directors to the Company or its stockholders; and

- indemnification of the Company’s directors, officers or employees.

Exhibit 10.6

Amendment to The Joint Corp. Amended and Restated 2014 Incentive Stock Plan

(effective with respect to Awards issued on or after March 3, 2020)

1. Article 8 of the Amended and Restated 2014 Incentive Stock Plan (the "Plan") is hereby deleted in its entirety and replaced with the following, effective for Awards issued on or after March 3, 2020:

Article 8Change of Control; Dissolution or Liquidation

The following shall apply to Awards to the extent not otherwise provided in the applicable Award Agreement or individual severance or employment agreement to which a Participant is a party (and except as is necessary to satisfy the requirements for exemption under Section 409A or the requirements of §409A of the Code to the extent applicable):

8.1 **Treatment of Outstanding Awards in Event of a Change of Control that is Not a Corporate Transaction**

(a) In the event of a Change of Control that is not also a Corporate Transaction, all of a Participant's outstanding Awards shall become fully vested and exercisable, and all vesting conditions on the shares underlying Restricted Stock Awards of a Participant shall lapse, upon the occurrence of both:

(i) A Change of Control; and

(ii) (x) Termination by the Company of such Participant for a reason other than Cause during the Window Period; *or* (y) a Termination by the Participant for Good Reason during the Window Period (the date upon which both (1) and either (2)(x) or 2(y) have occurred shall be referred to as the "Double Trigger Date").

(b) Notwithstanding subsection (a) above, any Award (or portion of an Award) that is conditioned on the attainment of one or more Performance Goals shall vest, if at all, on the basis, of actual satisfaction of the Performance Goals as of a date reasonably proximal to the Double Trigger Date (based on pro-rated performance metrics through such date), as determined by the Committee, in its sole discretion. If an Award contains multiple performance periods, any accelerated vesting provided for hereunder shall apply only to that portion of an outstanding Award applicable to the incomplete performance period within which the Double Trigger Date has occurred. Any performance-based Award (or portion of such Award) that does not vest in accordance with the foregoing, including when the Committee, in its sole discretion, determines that actual performance is not reasonably determinable, shall be forfeited. In the case of any adjustment in an Award hereunder, the shares subject to the Award will be rounded down to the nearest whole share.

8.2 **Treatment of Outstanding Awards in Event of a Change of Control that is a Corporate Transaction**

(a) In the Event of a Change of Control that is also a Corporate Transaction, and contingent upon the consummation of the Corporate Transaction, the Committee may, in its sole discretion at or after grant of an Award and without the consent of any Participant, provide for (i) the assumption of outstanding Awards by the acquiror or successor entity (or its parent), (ii) the substitution of new awards of comparable value covering shares of an acquiror or successor entity (or its parent), with appropriate adjustments as to the number and kind of shares and purchase price, (iii) the continuation of the Awards by the Company (if the Company is the surviving corporation), or (iv) the cancellation of the Awards in accordance with subsection (b) below. Outstanding Awards do not have to be uniformly treated for all Participants.

(b) If and to the extent that there is no assumption, substitution or continuation of Awards, then all outstanding Awards shall become fully vested and exercisable, and all vesting conditions on shares underlying Restricted Stock Awards shall lapse. Notwithstanding the forgoing, if and to the extent that there is no assumption, substitution or continuation of an Award (or portion of an Award) that is conditioned on the attainment of one or more Performance Goals, then such Award shall vest, if at all, in accordance with Section 8.1(b).

(c) With respect to any outstanding vested and nonforfeitable Awards that are not assumed, substituted or continued, and effective only immediately before (and conditioned upon) the consummation of the Corporate Transaction:

(i)The Committee shall take either (or both) of the following actions:

1. allow Participants to exercise any Awards of Options and SARs within a reasonable period prior to the consummation of the Corporate Transaction and cancel any outstanding Options or SARs that remain unexercised upon consummation of the Corporate Transaction; or

2. cancel any or all of such outstanding Awards in exchange for a payment with respect to each vested share subject to such canceled Award in (a) cash, (b) stock of the Company or of a corporation or other business entity that is a party to the Corporate Transaction, or (c) other property which, in any such case, shall be in an amount having a fair market value equal to the fair market value of the consideration to be paid per share of common stock in the Corporate Transaction, reduced (but not below zero) by the exercise or purchase price per share, if any, under such Award.

(ii) In the event that an Award has an exercise or purchase price per share equal to or greater than the fair market value of the consideration to be paid per share of stock in the Corporate Transaction, then such Award shall be canceled without the payment of any consideration and shall cease to be outstanding.

(d) Prior to any payment contemplated under this section, and pursuant to any purchase or merger agreement or other applicable transaction agreement, the Committee may require each Participant to (i) represent and warrant as to the unencumbered title to the Participant's Awards; (ii) bear such Participant's pro rata share of any post-closing indemnity obligations and be subject to the same post-closing purchase price adjustments, escrow terms, offset rights, holdback terms, and similar conditions as the other holders of common stock, subject to any limitations or reductions as may be necessary to comply with §409A of the

Code; and (iii) deliver customary transfer documentation as reasonably determined by the Committee.

(e) If and to the extent that Awards are continued, assumed or replaced under subsection (a) above and a Participant holding such an Award experiences a Termination by the Company for a reason other than Cause during the Window Period or there is a Termination by Participant for Good Reason during the Window Period, then all of such Participant's outstanding Awards shall become fully vested and exercisable, and all vesting conditions on the shares underlying Restricted Stock Awards of such Participant shall lapse. Notwithstanding this subsection (e), any Award (or portion of an Award) that is conditioned on the attainment of one or more Performance Goals shall vest, if at all, in accordance with Section 8.1(b).

8.3 **Treatment of Outstanding Awards in Event of a Dissolution or Liquidation of the Company**

In the event of a proposed dissolution or liquidation of the Company (other than in connection with a Corporate Transaction), the Committee will notify Participants as soon as practicable prior to such dissolution or liquidation and provide them with the opportunity to exercise any outstanding Awards to the extent vested as of the date immediately prior to such dissolution or liquidation. Awards (or the portions thereof) that are vested but remain unexercised thereafter or that are unvested or subject to forfeiture conditions shall be canceled and cease to be outstanding. Notwithstanding the foregoing, the Committee may, in its sole discretion, cause some or all outstanding Awards to become fully vested, exercisable and/or no longer subject to forfeiture. In the event that an Award has an exercise or purchase price per share equal to or greater than the fair market value of a share of the Company's stock (as determined by the Committee in its sole discretion), then such Award shall be canceled without notice to or payment of any consideration to the Participant and shall cease to be outstanding. The exercise, cancellation or acceleration of vesting of an Award hereunder shall be effective only immediately before the proposed dissolution or liquidation and conditioned upon its consummation.

8.4 **Definitions**

A "Change of Control" means an event or the last of a series of related events by which:

(a) any Person (as that term is used in sections 13(d) and 14(d) of the Exchange Act, together with all of that person's "affiliates" and "associates" as those terms are defined in Rule 12b-2 under the Exchange Act) directly or indirectly acquires or otherwise becomes entitled to vote stock having more than 50% of the voting power in elections for Directors; or

(b) during any 24-month period, a majority of the members of the Board ceases to consist of Qualifying Directors. A Director shall be considered a "Qualifying Director" if he or she falls into any one of the following five categories:

(1) a Director at the beginning of the period ("continuing Directors"); or

(2) a Director elected to office after the start of the period by the Board with the approval of two-thirds of the incumbent continuing Directors (an "appointed Director"); or

(3) a Director elected to office after the start of the period by the Company's stockholders following nomination for election by the Board with the approval of two-thirds of the incumbent continuing and appointed Directors (an "elected Director"); or

(4) a Director elected to office after the start of the period by the Board with the approval of two-thirds of the incumbent continuing, appointed and elected Directors; or

(5) a Director elected to office after the start of the period by the Company's stockholders following nomination for election by the Board with the approval of two-thirds of the incumbent continuing, appointed and elected Directors; or

(c) A Corporate Transaction is consummated, unless, immediately following such Corporate Transaction, holders of the Company's voting securities immediately prior to such Corporate Transaction beneficially own, directly or indirectly, more than 50% of the voting power of the outstanding securities of the surviving or acquiring entity resulting from such Corporate Transaction (including beneficial ownership through the ultimate parent of such entity) in substantially the same proportions as their ownership immediately prior to such Corporate Transaction.

"Cause" means any one or more of the following: (i) the commission of any crime involving dishonesty, breach of trust or physical harm to any person, (ii) willfully engaging in conduct that is in bad faith or injurious to the Company or its business (including, for example, fraud or embezzlement), (iii) gross misconduct, whether personal or professional, which could cause harm to the business or reputation of the Company, (iv) failure to comply with the significant provisions of the Company's policies as specified in the Employee Handbook or Code of Ethics, or as otherwise adopted by the board of directors then in effect, (v) willful and material failure to perform or observe, or gross negligence in the performance of, the Participant's job, including the failure to follow the reasonable written directions of the person to whom the Participant reports, or (vi) any breach of covenants of confidentiality, non-competition, non-solicitation or other covenants the Participant has agreed to with the Company.

"Corporate Transaction" means (i) a sale or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, or (ii) a merger, consolidation, share exchange or similar transaction involving the Company, regardless of whether the Company is the surviving entity.

"Good Reason" means one or more of the following: (i) a material reduction during the Window Period of the Participant's compensation where the Company has not implemented an across-the-board reduction in compensation, or in the case of Outside Directors, an across-the-board reduction in compensation of the Board; (ii) other than with respect to Outside Directors, the relocation during the Window Period (without the Participant's prior written consent) of the Participant's primary work site to a location greater than seventy five (75) miles from the Participant's work site; or (iii) a material reduction during the Window Period of the Participant's duties (without the Participant's prior written consent) from those in effect prior to the Window Period; provided, however, that to invoke a Termination for Good Reason, (A) the Participant must provide written notice to the Company within thirty (30) days of the event believed to constitute Good Reason, which notice must be within the Window Period, (B) the Company must fail to cure such event within thirty (30) days of the receipt of such written notice, and (C) the Participant must terminate employment within thirty (30) days following the expiration of the Company's cure period described above, which may be during or after the Window Period.

"Termination" shall mean, for purposes of this Article 8 only, (i) in respect of an Employee, termination of employment (but transferring employment from the Company to a Subsidiary or from a Subsidiary to the Company or to another Subsidiary shall not be considered a Termination); (ii) in respect of a Consultant, his or her termination of service as a Consultant; and (iii) in respect of an Outside Director, termination of service on the Board, or if the Company is not the surviving entity in a Corporate Transaction, on the board of directors of the surviving entity, which in either case, shall include the Outside Director's failure to be nominated or to be elected to serve as a director. "Company" as used in this definition shall be deemed to include a successor to or acquiror of the Company.

"Window Period" means a period beginning thirty (30) calendar days prior to the date the Change of Control is effected and ending on the one-year anniversary of the date the Change if Control is effected.

3. Except as expressly amended hereby, the Plan shall remain in full force and effect. Any capitalized terms not defined herein shall have the meanings set forth in the Plan.

Approved by the Board of Directors of The Joint Corp. on March 3, 2020.

Exhibit 10.9

[[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]
ISO

Stock Option Agreement

(Incentive Stock Option Granted Under
The Joint Corp. Amended and Restated 2014 Incentive Stock Plan)

Subject to the following terms, The Joint Corp., a Delaware corporation (the **Company**), grants to the following employee of the Company (**Grantee**), as of the following grant date (the **Grant Date**), an incentive stock option (the **Option**) to purchase the following number of shares of the Company's common stock, par value $.001 per share (the **Option Shares**), at the following purchase price per share (the **Exercise Price**), exercisable in installments in accordance with the following vesting schedule, subject to expiration on the following expiration date (the **Expiration Date**):

Grantee: [[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]

Grant Date: [[GRANTDATE]]

Number of Option Shares: [[SHARESGRANTED]]

Exercise Price: [[GRANTPRICE]]

Vesting schedule: [[VESTINGTEMPLATEDESC]]

Expiration Date: [[GRANTEXPIRATIONDATE]]

Terms of Option

1. **Plan**

The Option has been granted under the The Joint Corp. Amended and Restated 2014 Incentive Stock Plan (the **Plan**), which is incorporated in this Agreement by reference. Capitalized terms used in this Agreement without being defined (for example, the term "Committee") have the same meanings that they have in the Plan.

2. **Vesting and Exercisability**

The Option may be exercised in whole or in part at any time prior to its Expiration Date to the extent that it is vested at the time of exercise. Any vested portion of the Option that remains unexercised shall expire on the Option's Expiration Date, subject to earlier expiration as provided in Paragraph 5 of this Agreement.

Any unvested portion of the Option shall expire on Grantee's Termination Date unless Grantee's Termination occurs by reason of his or her death, in which case the Option shall become fully vested as of Grantee's Termination Date.

3. **Manner of Exercise**

The Option may be exercised in respect of a whole number of Option Shares (and only in respect of a whole number) by:

(a) written notice of exercise to the Committee (or the Committee's designee) at the Company's principal executive offices which is received prior to the Option's Expiration Date; together with

(b) full payment of the Exercise Price of the Option Shares in respect of which the Option is exercised; and

(c) full payment of an amount equal to the Company's federal, state and local withholding tax obligation, if any, in connection with the Option's exercise.

In addition, the exercise of the Option shall be subject to any procedures and policies in effect at the time of exercise that the Committee has adopted to administer the Plan.

4. **Manner of Payment**

Grantee's payment of the Exercise Price of the Option Shares in respect of which the Option is exercised, and his or her payment of the Company's withholding tax obligation, if any, in connection with the exercise, shall be made by check or by a wire transfer of immediately available funds.

Payment also may be made by means of a "cashless" net exercise through a broker approved by the Committee for the purpose, pursuant to which the full amount due to the Company is remitted directly by the broker from the net proceeds of the sale of a sufficient number of Option Shares. Payment may also be made in any other manner authorized by the Plan and specifically permitted by the Board at the time of exercise.

5. **Early Expiration of Vested Portion of Option**

The vested portion of the Option shall expire as follows:

(a) if Grantee incurs a Termination by reason of his or her death, the Option shall expire on the earlier of the first anniversary of Grantee's Termination Date or the Option's Expiration Date; and

(b) if Grantee incurs a Termination for any reason other than Grantee's death, the Option shall expire on the earlier of 90 days after Grantee's Termination Date or the Option's Expiration Date.

In any case, the exercisability of the Option may be extended by the Committee, in the Committee's sole discretion, to any date ending on or before the Option's Expiration Date.

6. **Confidentiality and Nonsolicitation Agreement – Not Applicable if Grantee is an Outside Director**

This Agreement and the grant of the Option are subject to Grantee's (i) entering into the confidentiality and nonsolicitation agreement which has been provided to Grantee if Grantee has not previously entered into such agreement in connection with Grantee's receipt of an Award under the Plan (the **Confidentiality, Noncompetition and Nonsolicitation Agreement**) or (ii) Grantee's reaffirmation of the Confidentiality, Noncompetition and Nonsolicitation Agreement that Grantee previously entered into in connection with Grantee's receipt of an Award under the Plan. The Company would not have granted the Option to Grantee without Grantee's entering into or reaffirming the Confidentiality, Noncompetition and Nonsolicitation Agreement.

7. **Transferability**

The Option may not be transferred, assigned or pledged (whether by operation of law or otherwise), except (i) as provided by will or the applicable laws of intestacy or (ii) in accordance with Section 5.5 of the Plan. The Option shall not be subject to execution, attachment or similar process.

8. **Change of Control**

Notwithstanding anything in this Agreement to the contrary, the provisions of Article 8, as amended, of the Plan will govern in the event of a Change of Control or other corporate event subject to Article 8.

9. **Treatment as Non-Statutory Stock Option**

To the extent that the aggregate fair market value (determined in respect of each ISO on the basis of the Fair Market Value of a share of common stock on the ISO's Grant Date) of the underlying shares of all ISOs that become exercisable by Grantee for the first time in any calendar year exceeds $100,000, the Options shall be treated as NSOs. This limitation shall be applied by taking ISOs into account in the order in which they were granted.

10. **Interpretation**

This Agreement and Option are subject to the terms of the Plan, as the Plan may be amended. No amendment of the Plan after the Grant Date shall adversely affect Grantee's rights in respect of the Option without Grantee's consent, except (i) to the extent that the Company determines in its sole discretion that such amendment is necessary or appropriate to comply with applicable law, including but not limited to section 409A of the Code, and (ii) as provided in Article 8, as amended, of the Plan with respect to a Change of Control or other corporate event.

If there is a conflict or inconsistency between this Agreement and the Plan, the terms of the Plan shall control. The Committee's interpretation of this Agreement and the Plan shall be final and binding.

11. **No Right to Employment**

Nothing in this Agreement shall be considered to confer on Grantee any right to continue to be employed by the Company or a Subsidiary or to limit the right of the Company or a Subsidiary to terminate such employment.

12. **No Stockholder Rights**

Grantee shall not have any rights as a stockholder of the Company in respect of any of the Option Shares unless and until Option Shares are issued to Grantee following his or her exercise of the Option.

13. **Governing Law**

This Agreement shall be governed in accordance with the laws of the State of Delaware.

14. **Binding Effect**

This Agreement shall be binding on the Company and its successors and on Grantee and Grantee's heirs, legatees and legal representatives.

15. **Effective Date**

This Agreement shall not become effective until Grantee's acceptance of this Agreement and the acceptance or reaffirmation of the Confidentiality, Noncompetition and Nonsolicitation Agreement. Upon Grantee's acceptance of this Agreement and the acceptance or reaffirmation of the Confidentiality, Noncompetition and Nonsolicitation Agreement, this Agreement shall become effective, retroactive to the Grant Date, without the necessity of further action by either the Company or Grantee. Notwithstanding the foregoing, the effectiveness of the Agreement is not conditional on the acceptance or reaffirmation of the Nonsolicitation Agreement if Grantee is an Outside Director.

[Signature page follows.]

The Joint Corp.

By __
Peter D. Holt
President & Chief Executive Officer

Acceptance by Grantee

I accept this Stock Option Agreement and agree to be bound by all of its terms. I acknowledge receipt of a copy of the Plan and, unless I am an Outside Director, I (i) agree to enter into the Confidentiality, Noncompetition and Nonsolicitation Agreement, a copy of which I acknowledge receipt, if I have not previously entered into such agreement in connection with the receipt of an Award under the Plan or (ii) reaffirm the Confidentiality, Noncompetition and Nonsolicitation Agreement that I have previously entered into in connection with the receipt of an Award under the Plan.

[[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]

Grantee's address:
[[RESADDR1]] [[RESADDR2]] [[RESADDR3]]

[[RESCITY]], [[RESSTATEORPROV]] [[RESPOSTALCODE]]

[[RESCOUNTRY]]

Exhibit 10.12

[[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]
NSO

Stock Option Agreement

(Nonstatutory Stock Option Granted Under
The Joint Corp. Amended and Restated 2014 Incentive Stock Plan)

Subject to the following terms, The Joint Corp., a Delaware corporation (the **Company**), grants to the following employee of the Company (**Grantee**), as of the following grant date (the **Grant Date**), an nonstatutory stock option (the **Option**) to purchase the following number of shares of the Company's common stock, par value $.001 per share (the **Option Shares**), at the following purchase price per share (the **Exercise Price**), exercisable in installments in accordance with the following vesting schedule, subject to expiration on the following expiration date (the **Expiration Date**):

Grantee: [[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]

Grant Date: [[GRANTDATE]]

Number of Option Shares: [[SHARESGRANTED]]

Exercise Price: [[GRANTPRICE]]

Vesting schedule: [[VESTINGTEMPLATEDESC]]

Expiration Date: [[GRANTEXPIRATIONDATE]]

Terms of Option

1. **Plan**

The Option has been granted under the The Joint Corp. Amended and Restated 2014 Incentive Stock Plan (the **Plan**), which is incorporated in this Agreement by reference. Capitalized terms used in this Agreement without being defined (for example, the term "Committee") have the same meanings that they have in the Plan.

2. **Vesting and Exercisability**

The Option may be exercised in whole or in part at any time prior to its Expiration Date to the extent that it is vested at the time of exercise. Any vested portion of the Option that remains unexercised shall expire on the Option's Expiration Date, subject to earlier expiration as provided in Paragraph 5 of this Agreement.

Any unvested portion of the Option shall expire on Grantee's Termination Date unless Grantee's Termination occurs by reason of his or her death, in which case the Option shall become fully vested as of Grantee's Termination Date.

3. **Manner of Exercise**

The Option may be exercised in respect of a whole number of Option Shares (and only in respect of a whole number) by:

(a) written notice of exercise to the Committee (or the Committee's designee) at the Company's principal executive offices which is received prior to the Option's Expiration Date; together with

(b) full payment of the Exercise Price of the Option Shares in respect of which the Option is exercised; and

(c) full payment of an amount equal to the Company's federal, state and local withholding tax obligation, if any, in connection with the Option's exercise.

In addition, the exercise of the Option shall be subject to any procedures and policies in effect at the time of exercise that the Committee has adopted to administer the Plan.

4. **Manner of Payment**

Grantee's payment of the Exercise Price of the Option Shares in respect of which the Option is exercised, and his or her payment of the Company's withholding tax obligation, if any, in connection with the exercise, shall be made by check or by a wire transfer of immediately available funds.

Payment also may be made by means of a "cashless" net exercise through a broker approved by the Committee for the purpose, pursuant to which the full amount due to the Company is remitted directly by the broker from the net proceeds of the sale of a sufficient number of Option Shares. Payment may also be made in any other manner authorized by the Plan and specifically permitted by the Board at the time of exercise.

5. **Early Expiration of Vested Portion of Option**

The vested portion of the Option shall expire as follows:

(a) if Grantee incurs a Termination by reason of his or her death, the Option shall expire on the earlier of the first anniversary of Grantee's Termination Date or the Option's Expiration Date; and

(b) if Grantee incurs a Termination for any reason other than Grantee's death, the Option shall expire on the earlier of 90 days after Grantee's Termination Date or the Option's Expiration Date.

In any case, the exercisability of the Option may be extended by the Committee, in the Committee's sole discretion, to any date ending on or before the Option's Expiration Date.

6. **Confidentiality and Nonsolicitation Agreement – Not Applicable if Grantee is an Outside Director**

This Agreement and the grant of the Option are subject to Grantee's (i) entering into the confidentiality and nonsolicitation agreement which has been provided to Grantee if Grantee has not previously entered into such agreement in connection with Grantee's receipt of an Award under the Plan (the **Nonsolicitation Agreement**) or (ii) Grantee's reaffirmation of the Nonsolicitation Agreement that Grantee previously entered into in connection with Grantee's receipt of an Award under the Plan. The Company would not have granted the Option to Grantee without Grantee's entering into or reaffirming the Nonsolicitation Agreement.

7. **Transferability**

The Option may not be transferred, assigned or pledged (whether by operation of law or otherwise), except (i) as provided by will or the applicable laws of intestacy or (ii) in accordance with Section 5.5 of the Plan. The Option shall not be subject to execution, attachment or similar process.

8. **Change of Control**

Notwithstanding anything in this Agreement to the contrary, the provisions of Article 8, as amended, of the Plan will govern in the event of a Change of Control or other corporate event subject to Article 8.

9. **Interpretation**

This Agreement and Option are subject to the terms of the Plan, as the Plan may be amended. No amendment of the Plan after the Grant Date shall adversely affect Grantee's rights in respect of the Option without Grantee's consent, except (i) to the extent that the Company determines in its sole discretion that such amendment is necessary or appropriate to comply with applicable law, including but not limited to section 409A of the Code, and (ii) as provided in Article 8, as amended, of the Plan with respect to a Change of Control or other corporate event.

If there is a conflict or inconsistency between this Agreement and the Plan, the terms of the Plan shall control. The Committee's interpretation of this Agreement and the Plan shall be final and binding.

10. **No Right to Employment**

Nothing in this Agreement shall be considered to confer on Grantee any right to continue to be employed by the Company or a Subsidiary or to limit the right of the Company or a Subsidiary to terminate such employment.

11. **No Stockholder Rights**

Grantee shall not have any rights as a stockholder of the Company in respect of any of the Option Shares unless and until Option Shares are issued to Grantee following his or her exercise of the Option.

12. **Governing Law**

This Agreement shall be governed in accordance with the laws of the State of Delaware.

13. **Binding Effect**

This Agreement shall be binding on the Company and its successors and on Grantee and Grantee's heirs, legatees and legal representatives.

14. **Effective Date**

This Agreement shall not become effective until Grantee's acceptance of this Agreement and the acceptance or reaffirmation of the Nonsolicitation Agreement. Upon Grantee's acceptance of this Agreement and the acceptance or reaffirmation of the Nonsolicitation Agreement, this Agreement shall become effective, retroactive to the Grant Date, without the necessity of further action by either the Company or Grantee. Notwithstanding the foregoing, the effectiveness of the Agreement is not conditional on the acceptance or reaffirmation of the Nonsolicitation Agreement if Grantee is an Outside Director.

[Signature page follows.]

The Joint Corp.

By __
Peter D. Holt
President & Chief Executive Officer

Acceptance by Grantee

I accept this Stock Option Agreement and agree to be bound by all of itsj terms. I acknowledge receipt of a copy of the Plan and, unless I am an Outside Director, I (i) agree to enter into the Nonsolicitation Agreement, a copy of which I acknowledge receipt, if I have not previously entered into such agreement in connection with the receipt of an Award under the Plan or (ii) reaffirm the Nonsolicitation Agreement that I have previously entered into in connection with the receipt of an Award under the Plan.

[[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]

Grantee's address:
[[RESADDR1]] [[RESADDR2]] [[RESADDR3]]

[[RESCITY]], [[RESSTATEORPROV]] [[RESPOSTALCODE]]

[[RESCOUNTRY]]

Exhibit 10.16

[[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]

Restricted Stock Award

(The Joint Corp. Amended and Restated 2014 Incentive Stock Plan)

Subject to the following terms, The Joint Corp., a Delaware corporation (the **Company**), grants to the following employee of the Company (**Grantee**), as of the following grant date (the **Grant Date**), the following number of restricted shares (the **Restricted Shares**), which will become vested in accordance with the following vesting schedule, subject to expiration prior to vesting in accordance with the terms of this Award:

Grantee: [[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]

Grant Date: [[GRANTDATE]]

Number of
Restricted Shares: [[SHARESGRANTED]]

Vesting Schedule: [[VESTINGTEMPLATEDESC]]

Terms of Award

1. **Plan**

This Award has been granted under The Joint Corp. Amended and Restated 2014 Incentive Stock Plan (the **Plan**), which is incorporated in this Award by reference. Capitalized terms used in this Award without being defined (for example, the term "Committee") have the same meanings that they have in the Plan.

2. **Vesting**

Any unvested portion of the Restricted Shares shall lapse and be cancelled on Grantee's Termination Date unless Grantee's Termination occurs by reason of his or her death, in which case the Restricted Shares shall become fully vested as of Grantee's Termination Date.

3. **Book Entry Registration**

As soon as practicable following the Award, the Restricted Shares shall be registered in Grantee's name in book-entry form in the records of the Company's transfer agent. Each book entry evidencing Restricted Shares shall reflect that such shares are subject to the restrictions of the Award and the Plan. At any time, the Company may require Grantee to execute and return to the Company an instruction letter providing for the transfer to the Company, without further action, of all or any portion of the Restricted Shares that are or may become forfeited in accordance with the Award (but such letter shall not be regarded as a condition to the transfer of Restricted Shares from Grantee to the Company upon such forfeiture). Upon vesting of any portion of the Restricted Shares and satisfaction of any other conditions required by the Plan or this Award, the Company, at Grantee's option, shall (i) issue and deliver to the Grantee a stock certificate in the Grantee name representing those vested Restricted Shares on the Company's stock records or (ii) remove the notations on the book entry registrations with respect to those shares and, upon Grantee's request, shall electronically deliver such shares to a brokerage account designated by Grantee.

4. **Rights as a Stockholder**

Except as otherwise provided in this Award, Grantee shall have, with respect to all of the Restricted Shares, whether vested or unvested, all of the rights of a holder of shares of common stock of the Company, including without limitation (i) the right to vote such Restricted Shares, (ii) the right to receive dividends, if any, as may be declared on the Restricted Shares from time to time, and (iii) the rights available to all holders of shares of common stock of the Company upon any merger, consolidation, reorganization, liquidation or dissolution, stock split-up, stock dividend or recapitalization undertaken by the Company; provided, however, that all of such rights shall be subject to the terms, provisions, conditions and restrictions set forth in this Agreement (including without limitation conditions under which all such rights shall be forfeited). Dividends or other distributions paid on unvested Restricted Shares will be held by the Company and transferred to the Grantee, without interest, as and when the Restricted Shares become vested (or within a reasonable time thereafter). Dividends or other distributions paid on unvested Restricted Shares that are forfeited shall be forfeited.

5. **Tax Liability**

Unless Grantee has made a timely election under section 83(b) of the Code to be taxed as of the Grant Date rather than as the Restricted Shares become vested, the Company shall have the right, upon the vesting of any Restricted Shares, to deduct or withhold, or require Grantee to remit to the Company, an amount sufficient to satisfy the federal, state, local and other taxes (including Grantee's FICA obligation) that the Company is required to withhold by reason of such vesting.

6. **Confidentiality and Nonsolicitation Agreement– Not Applicable if Grantee is an Outside Director**

This Award and the grant of the Restricted Shares are subject to Grantee's (i) entering into the confidentiality and nonsolicitation agreement which has been provided to Grantee if Grantee has not previously entered into such agreement in connection with Grantee's receipt of an Award under the Plan (the **Nonsolicitation Agreement**) or (ii) Grantee's reaffirmation of the Nonsolicitation Agreement that Grantee previously entered into in connection with Grantee's receipt of an Award under the Plan. The Company would not have granted the Award to Grantee without Grantee's entering into or reaffirming the Nonsolicitation Agreement.

7. **Transferability**

Any unvested portion of the Restricted Shares may not be sold, transferred, assigned or pledged (whether by operation of law or otherwise), except as provided by will or the applicable intestacy laws, and shall not be subject to execution, attachment or similar process. Once vested, any sale, transfer, assignment or pledge of the Restricted Shares is subject to the restrictions on transfer imposed by any applicable state and federal securities laws.

8. **Change of Control**

Notwithstanding anything in this Agreement to the contrary, the provisions of Article 8, as amended, of the Plan will govern in the event of a Change of Control or other corporate event subject to Article 8.

9. **Interpretation**

This Agreement and Award are subject to the terms of the Plan, as the Plan may be amended. No amendment of the Plan after the Grant Date shall adversely affect Grantee's rights in respect of the Award without Grantee's consent, except (i) to the extent that the Company determines in its sole discretion that such amendment is necessary or appropriate to comply with applicable law, including but not limited to section 409A of the Code, and (ii) as provided in Article 8, as amended, of the Plan with respect to a Change of Control or other corporate event.

If there is a conflict or inconsistency between this Agreement and the Plan, the terms of the Plan shall control. The Committee's interpretation of this Agreement and the Plan shall be final and binding.

10. **No Right to Continued Employment**

Nothing in this Award shall be considered to confer on Grantee any right to continue in the employ of the Company or a Subsidiary or to limit the right of the Company or a Subsidiary to terminate Grantee's employment.

11. **Governing Law**

This Award shall be governed in accordance with the laws of the State of Delaware.

12. **Binding Effect**

This Award shall be binding on the Company and Grantee and on Grantee's heirs, legatees and legal representatives.

13. **Effective Date**

This Award shall not become effective until Grantee's acceptance of this Award and the acceptance or reaffirmation of the Nonsolicitation Agreement. Upon Grantee's acceptance of this Award and the acceptance or reaffirmation of the Nonsolicitation Agreement, this Award shall become effective, retroactive to the Grant Date, without the necessity of further action by either the Company or Grantee. Notwithstanding the foregoing, the effectiveness of the Agreement is not conditional on the acceptance or reaffirmation of the Nonsolicitation Agreement if Grantee is an Outside Director.

[Signature page follows.]

The Joint Corp.

By __
Peter D. Holt
President & Chief Executive Officer

Acceptance by Grantee

I accept this Restricted Shares Award and agree to be bound by all of its terms. I acknowledge receipt of a copy of the Plan, and, unless I am an Outside Director, I (i) agree to enter into the Nonsolicitation Agreement, a copy of which I acknowledge receipt, if I have not previously entered into such agreement in connection with the receipt of an Award under the Plan or (ii) reaffirm the Nonsolicitation Agreement that I have previously entered into in connection with the receipt of an Award under the Plan.

[[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]

Grantee's address:
[[RESADDR1]] [[RESADDR2]] [[RESADDR3]]

[[RESCITY]], [[RESSTATEORPROV]] [[RESPOSTALCODE]]

[[RESCOUNTRY]]

Exhibit 10.20

OFFICE LEASE AGREEMENT

FOR

TERRA VERDE AT SCOTTSDALE LANDING

TERRA VERDE OWNER LLC, a Delaware limited liability company

as Landlord

and

THE JOINT CORP., a Delaware corporation

as Tenant

Dated: May 17, 2019 (to be completed by Landlord upon Landlord's execution of this Lease)

OFFICE LEASE AGREEMENT

THIS OFFICE LEASE AGREEMENT is made and entered into as of the Effective Date by and between TERRA VERDE OWNER LLC, a Delaware limited liability company, as Landlord, and THE JOINT CORP., a Delaware corporation, as Tenant or the "Named Tenant".

ARTICLE 1. BASIC LEASE PROVISIONS AND CERTAIN DEFINED TERMS

a. Effective Date:	May 17, 2019 (to be completed by Landlord upon Landlord's execution of this Lease)
b. Landlord:	TERRA VERDE OWNER LLC, a Delaware limited liability company
c. Landlord's Notice Address:	c/o Wentworth Property Company802 North 3rd AvenuePhoenix, Arizona 85003Attn: James R. Wentworth/Tim Chester With a copy to:Northwood Investors LLC 11355 W. Olympic Boulevard Los Angeles, California 90064 Attn: Brady Thurman And to: Mast Law Firm, P.C. 2415 East Camelback Road, Suite 455 Phoenix, Arizona 85016 Attn: Trevor H. Chait
d. Landlord's Address for Payment of Rent:	TERRA VERDE OWNER P.O. Box 98819 Las Vegas, Nevada 89193-8819
e. Tenant:	THE JOINT CORP., a Delaware corporation
f. Tenant's Notice Address:	16767 N. Perimeter Center Drive, Scottsdale, Arizona, 85260
g. Building:	The building commonly known as Terra Verde at Scottsdale Landing located at 16767 N. Perimeter Center Drive, Scottsdale, Arizona, 85260; where the context so requires, and whether so expressly provided in this Lease, the "Building" shall include the land on which it is located
h. Premises:	Approximately 13,551 rentable square feet located on the first (1st) floor of the Building and currently known as Suite 110, as outlined on the floor plan attached as Exhibit "A" hereto
i. Rentable Area of Building:	180,332 rentable square feet
j. Tenant's Pro Rata Share of the Building ("Tenant's Pro Rata Share"):	7.51%
k. Permitted Use:	General office
l. Lease Term:	Seventy-two (72) months, plus the remainder of the calendar month in which the Commencement Date occurs if the Commencement Date occurs on a date other than the first day of a calendar month
m. Commencement Date:	The date that is the earliest of (a) the date on which the Tenant Improvements (as defined in the Work Letter attached hereto as Exhibit "B" (the "Work Letter")) are substantially completed (as defined in the Work Letter), (b) the date that is two hundred ten (210) days from the Effective Date (the "Outside Commencement Date"), and (c) the date on which Tenant begins to conduct its business from the Premises

n. Base Monthly Rent:

o.

Period(months)	Annual Rental Rate*	Base Monthly Rent
Months 01 – 12**	$30.00 per rentable square foot	$33,877.50
Months 13 - 24	$30.75 per rentable square foot	$34,724.44

Months 25 - 36	$31.52 per rentable square foot	$35,593.96
Months 37 - 48	$32.31 per rentable square foot	$36,486.07
Months 49 - 60	$33.12 per rentable square foot	$37,400.76
Months 61 - 72	$33.95 per rentable square foot	$38,338.04

p. *The foregoing Base Monthly Rent does not include Additional Rent (as hereinafter defined) or rental, excise, sales, or transaction privilege taxes imposed by any taxing authority upon Landlord or its receipt of any amounts paid by Tenant pursuant to this Lease, including without limitation on parking charges, all of which are payable by Tenant.

**Notwithstanding the foregoing, provided there is no Event of Default (as hereinafter defined) under this Lease, Landlord hereby agrees to abate Tenant's obligation to pay Base Monthly Rent for the first six (6) months (the "Abatement Period") after the Commencement Date (as hereinafter defined) (such total amount of abated Base Monthly Rent, in the amount of $203,265.00, being hereinafter referred to as the "Abated Amount"). During such Abatement Period, Tenant will still be responsible for the payment of all other obligations under this Lease. Tenant acknowledges that any Event of Default by Tenant under this Lease will cause Landlord to incur costs not contemplated in this Lease, the exact amount of such costs being extremely difficult and impracticable to ascertain. Therefore, should an Event of Default exist at any time during the Lease Term, and as a result thereof Landlord terminates this Lease, then the total unamortized sum of such Abated Amount (amortized on a straight line basis over the Lease Term at eight percent (8%) annual interest) so conditionally excused shall become immediately due and payable by Tenant to Landlord; provided, however, Tenant acknowledges and agrees that nothing herein is intended to limit any other remedies available to Landlord under this Lease, at law or in equity if there is an Event of Default. The right to the Abated Amount shall be personal to the Named Tenant and its Permitted Transferee (as hereinafter defined) and is only be applicable to the Named Tenant and its Permitted Transferee and not to any assignee, sublessee or other transferee of the Named Tenant's interest in the Lease.

Further notwithstanding the foregoing, provided there is no Event of Default under this Lease, Landlord hereby agrees that Tenant shall only be obligated to pay Base Monthly Rent to Landlord on 11,500 rentable square feet of the Premises from the expiration of the Abatement Period until December 31, 2020 (the "Reduced Amount Period"); the difference between the full amount of Base Monthly Rent payable by Tenant during the Reduced Amount Period and the reduced amount of Base Monthly Rent payable by Tenant during the Reduced Amount Period pursuant to the foregoing is hereinafter referred to as the "Reduced Amount"). During the Reduced Amount Period, Tenant will still be responsible for the payment of all other obligations under this Lease. Tenant acknowledges that any Event of Default by Tenant under this Lease will cause Landlord to incur costs not contemplated in this Lease, the exact amount of such costs being extremely difficult and impracticable to ascertain. Therefore, should an Event of Default exist at any time during the Lease Term, and as a result thereof Landlord terminates this Lease, then the total unamortized sum of the Reduced Amount (amortized on a straight line basis over the Lease Term at eight percent (8%) annual interest) so conditionally excused shall become immediately due and payable by Tenant to Landlord; provided, however, Tenant acknowledges and agrees that nothing herein is intended to limit any other remedies available to Landlord under this Lease, at law or in equity if there is an Event of Default. The right to the Reduced Amount shall be personal to the Named Tenant and its Permitted Transferee and is only be applicable to the Named Tenant and its Permitted Transferee and not to any assignee, sublessee or other transferee of the Named Tenant's interest in the Lease.

q.	Security Deposit:	$33,877.50. Within ten (10) days after the parties' full execution and delivery of this Lease, Landlord shall refund to Tenant the sum of $41,122.50, representing the difference between $75,000.00 (which amount Landlord in currently holding pursuant to the existing Office Lease Agreement between Landlord and Tenant dated September 17, 2013 (the "Existing Lease"), which Existing Lease pertains to Suite 240 in the Building (the "Existing Premises) and which Existing Lease is scheduled to expire on July 31, 2019), and the amount of the Security Deposit required hereunder.
r.	Base Year:	2019
s.	Tenant Improvements:	See Work Letter
t.	Building Hours:	8:00 a.m. to 6:00 p.m., Monday through Friday and 8:00 a.m. to 1:00 p.m. on Saturday, excluding recognized federal, state or local holidays
u.	Parking:	See Article 12
v.	Landlord's Broker:	Cushman & Wakefield (Mike Beall/Sean Spellman/Christopher S. Walker)
w.	Tenant's Broker:	Cresa (Mike Gordon)
x.	Guarantor(s):	None
y.	Mortgagee:	Western Alliance BankOne East Washington Street, 14th FloorPhoenix, Arizona 85004Attn: Ericka Deneke LeMaster

z. Managing Agent: Wentworth Management Company2701 East Camelback Road, Suite 185Phoenix, Arizona 85016Attn: Sheryl Hays

aa.

ARTICLE 2. <u>DEMISE AND POSSESSION</u>

a. Landlord leases to Tenant and Tenant leases from Landlord the Premises for the Lease Term. The Premises shall have an upper boundary of the underside of the floor slab immediately above the Premises and a lower boundary of the unfinished upper surface of the floor slab upon which the Premises are situated. The Premises are part of the Building.

b. Landlord and Tenant agree that for all purposes under this Lease including, without limitation, calculating Base Monthly Rent, Additional Rent, Tenant's Pro Rata Share, and the Building's Pro Rata Share:

(i) the Premises will be deemed to contain a rentable area comprising the number of square feet designated in Article 1, (ii) the Building will be deemed to contain a rentable area comprising the number of square feet designated in Article 1, and (iii) the square footages referenced in (i) and (ii) immediately above are stipulated amounts based on Landlord's method of determining such square footage together with a load factor and other considerations.

c. Subject to the rights of Pulte Home Company, a Michigan limited liability company, with respect to the ROFR Available Space (as hereinafter defined) in effect as of the Effective Date, whose rights are superior to the rights granted to Tenant herein, and provided that (i) no Event of Default exists under this Lease as of the date of exercise and (ii) Tenant occupies the entire Premises as of the date Landlord is otherwise obligated to deliver the ROFR Notice (as hereinafter defined), Tenant shall have an ongoing right of first refusal (the "ROFR") on the space that is depicted on Exhibit "F" attached hereto (the "ROFR Available Space") for which any third-party makes a bona fide offer to Landlord that Landlord is willing to accept (an "Offer"). Upon Landlord's receipt of an Offer, Landlord shall promptly deliver notice thereof, in writing, to Tenant (a "ROFR Notice"). The ROFR Notice shall contain in reasonable detail all of the material terms of such Offer (including, but not limited to, square footage, rental rate, base year, tenant improvement and other allowances, rent concessions and abatements and other financial inducements, included parking spaces and lease term). Upon Tenant's receipt of a ROFR Notice, Tenant shall, within fifteen (15) days following such receipt, deliver to Landlord a written notice (a "ROFR Reply Notice") stating whether or not it elects to exercise the ROFR with respect to the space identified in the ROFR Notice and that consists of or includes all or a portion of the ROFR Available Space (the "ROFR Space"), on the same terms and conditions stated in the Offer; provided, however, that the term of Tenant's lease of the Premises and the ROFR Space shall be coterminous and shall be for a minimum of five (5) years, and, in that regard (A) if the Lease Term for the Premises is extended as a result of Tenant's exercise of the ROFR, Base Monthly Rent for the Premises during the extended Lease Term shall be the same on a per rentable square foot basis as the base monthly rent schedule applicable to the ROFR Space (as such schedule is set forth in the Offer), and any tenant improvement allowance, free rent and/or other lease concessions contained in the Offer shall be amortized over the remaining Lease Term (as extended), (B) if the term for the ROFR Space is extended as a result of Tenant's exercise of the ROFR, Base Monthly Rent for the ROFR Space during the extended ROFR Space term shall be the same on a per square foot basis as the Base Monthly Rent schedule applicable to the Premises, and any tenant improvement allowance, free rent and/or other lease concessions contained in the Offer shall be amortized over the remaining extended ROFR Space term, and (C) if both the Lease Term for the Premises and the term for the ROFR Space are extended as a result of Tenant's exercise of the ROFR, Base Monthly Rent for both the Premises and the ROFR Space during the extended Lease Term and extended ROFR Space term shall increase 2.5% annually, and any tenant improvement allowance, free rent and/or other lease concessions contained in the Offer shall be amortized over the remaining extended Lease Term and extended ROFR Space term. Tenant's ROFR Reply Notice shall be binding on and irrevocable by Tenant. Within ten (10) business days of Tenant's timely issuance of a ROFR Reply Notice, the parties shall use good faith efforts to execute an appropriate amendment to this Lease regarding the terms of this Lease of the ROFR Space. If Tenant does not timely deliver its ROFR Reply Notice or if the parties, despite good faith efforts, are unable to timely reach agreement on an appropriate amendment after Tenant's timely issuance of a ROFR Reply Notice, Landlord shall be free to lease such ROFR Space to the third-party upon the terms and conditions stated in the ROFR Notice. If (1) Tenant does not timely deliver its ROFR Reply Notice or if the parties, despite good faith efforts, are unable to timely reach agreement on an appropriate amendment after Tenant's timely issuance of a ROFR Reply Notice, and (2) Landlord enters into a lease with the third-party on the terms specified in the ROFR Notice, Tenant's right of first refusal shall not apply to any subsequent amendment of such lease. If (1) Landlord delivers to Tenant a ROFR Notice that pertains to less than all of the ROFR Available Space and (2) Landlord enters into a lease with Tenant or the prospective lessee on the terms described in the ROFR Notice, Tenant's ROFR shall continue in effect with respect to the remaining ROFR Available Space. If the ROFR Space identified in any ROFR Notice includes space that is not part of the ROFR Available Space, Tenant's acceptance of Landlord's offer in the ROFR Notice shall require Tenant to enter into a lease for all of the ROFR Space identified in the ROFR Notice. The

ROFR is personal to the Named Tenant and may not be assigned, transferred or conveyed to any party, except in connection with a permitted transfer of this Lease pursuant to Article 23.

ARTICLE 3. LEASE TERM

a. Except as otherwise provided in this Lease, the Lease Term shall be for the period set forth in Article 1.

b. Landlord leases the Premises to Tenant, and Tenant leases the Premises from Landlord, for the Lease Term. The Lease Term shall commence on the Commencement Date.

c. Landlord shall tender possession of the Premises in its "as-is", "where-as" condition to Tenant within two (2) business days following the Effective Date. Except as otherwise expressly provided in this Lease, all provisions of this Lease shall be in effect between the Effective Date and the Commencement Date; provided, however, that Tenant's use and occupancy of the Existing Premises shall be governed by and subject to the Existing Lease until the expiration thereof. By taking possession of the Premises, Tenant acknowledges that, except as otherwise agreed herein by Landlord, the Premises are in good order and satisfactory condition, that there are no representations or warranties by Landlord regarding the condition of the Premises or the Building, and that Tenant has examined and accepts the Premises in its present "as-is", "where-as" condition and configuration. If Landlord is unable to timely tender possession of the Premises to Tenant for any reason whatsoever, Landlord shall not be liable to Tenant for any damages or losses resulting therefrom and this Lease shall continue in full force and effect, except that, unless the delay in the tender of possession is the result of delays caused by Tenant or any Tenant Party (as hereinafter defined), the Outside Commencement Date shall be delayed on a day-for-day basis for each day resulting from such delay in the tender of possession of the Premises to Tenant, and provided further that if, for any reason, the delivery of possession of the Premises has not occurred by the date that is thirty (30) days following the Effective Date, then Tenant may, by written notice to Landlord, terminate this Lease.

d. On or about the Commencement Date, Landlord may prepare and deliver to Tenant a commencement date notice in the form of Exhibit "C" attached hereto (the "Commencement Date Notice"), which Tenant agrees to execute and return to Landlord within ten (10) days of receipt thereof. Tenant's failure to sign the Commencement Date Notice and return it to Landlord as provided above shall be deemed to be Tenant's acceptance of all the terms in the Commencement Date Notice and shall not affect the validity of the Commencement Date or this Lease.

e. Provided no Event of Default exists under this Lease as of the date of exercise of the Renewal Option or as of the Renewal Term Commencement Date, Tenant shall have one (1) option to renew this Lease (the "Renewal Option") for the entire Premises for a period of five (5) years (the "Renewal Term") commencing on the first day following the expiration of the initial Lease Term (the "Renewal Term Commencement Date"). The Renewal Option is exercisable only by Tenant giving written notice thereof ("Renewal Notice") to Landlord of its exercise of a Renewal Option at least nine (9) months prior to the expiration of the initial Lease Term.

i..The Base Monthly Rent payable hereunder for the Premises during the Renewal Term shall be adjusted to the Fair Market Rental Rate as of the applicable Renewal Term Commencement Date determined as follows:

(1) Landlord shall give Tenant written notice of Landlord's determination of the Fair Market Rental Rate for the Renewal Term ("Landlord's Statement") within thirty (30) days after Landlord's receipt of the Renewal Notice. Within sixty (60) days after Tenant's receipt of Landlord's Statement, Tenant shall give Landlord written notice of its election to either (a) accept the Fair Market Rental Rate set forth in Landlord's Statement or (b) reject Landlord's Statement and request that the Fair Market Rental Rate be determined by arbitration pursuant to Section 3.5.1(2). If Tenant fails to timely give Landlord notice of its rejection of Landlord's

Statement and request that the Fair Market Rental Rate be determined by arbitration pursuant to Section 3.5.1(2), then Tenant's Renewal Notice shall be deemed revoked and of no further force or effect.

(2) If Tenant gives Landlord notice that it elects arbitration pursuant to Section 3.5.1(1), then, in order to determine the Fair Market Rental Rate for the Renewal Term, Landlord and Tenant, within fifteen (15) days after Landlord's receipt of Tenant's written notice of election to arbitrate, shall each simultaneously submit to the other in writing its good faith estimate of the Fair Market Rental Rate ("Good Faith Estimates"). If the higher of the Good Faith Estimates is not more than one hundred and five percent (105%) of the lower of the Good Faith Estimates, the Fair Market Rental Rate in question shall be deemed to be the average of the submitted rates. If otherwise, then the rate shall be set by arbitration to be held in Phoenix, Arizona, in accordance with the Real Estate Valuation Arbitration Rules of the American Arbitration Association, except that the arbitration shall be conducted by a single arbitrator selected as follows. Within five (5) business days after the simultaneous submittal by Landlord and Tenant of their respective Good Faith Estimates, each shall designate a recognized and independent real estate expert or broker who shall have at least ten years recent experience in the valuation of rental properties similar to and in the vicinity of the Building and Project, which expert or broker shall not be an affiliate of Tenant or Landlord. The two individuals so designated shall, within ten (10) business days after the last of them is designated, appoint a third independent expert or broker possessing the aforesaid qualifications to be the single arbitrator. The third arbitrator so selected shall, alone, pick one of the two Good Faith Estimates, being the Good Faith Estimate which is closer to the Fair Market Rental Rate as determined by the arbitrator using the definition set forth in Section 3.5.4, and such arbitrator shall be limited to the determination of the Fair Market Rental Rate and shall have no right to modify the terms or conditions of this Lease or to select any rate other than one of the two Good Faith Estimates submitted. The parties agree to be bound by the decision of the arbitrator, which shall be final and non-appealable, and shall share equally the costs of arbitration, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

ii..During the Renewal Term, Tenant shall pay Additional Rent in accordance with the provisions of Article 5.

iii.. The Renewal Option is personal to the Named Tenant and may not be assigned, transferred or conveyed to any party, except in connection with a permitted transfer of this Lease pursuant to Article 23; provided, however, that if Tenant executes a Transfer that is approved by Landlord and Tenant remains liable for all obligations hereunder throughout the Renewal Term, then Tenant (but not such assignee or subtenant) may exercise the Renewal Option.

3.5.4 Fair Market Rental Rate. Subject to Section 3.5.1, the phrase "Fair Market Rental Rate" shall mean the fair market value annual rental rate that a comparable tenant would pay and a comparable landlord would accept in an arm's length transaction for comparable space, for delivery on or about the applicable delivery or effective date, for a comparable use in comparable projects in the Scottsdale, Arizona area.

ARTICLE 4. RENT

a. Subject to the abatement of Base Monthly Rent as provided in Article 1, on the first day of every calendar month of the Lease Term commencing on the Commencement Date, Tenant will pay Rent, without deduction, offset, prior notice or demand, at the place designated by Landlord. Notwithstanding the foregoing, an amount equal to one rent paying full month of Base Monthly Rent minus the Reduced Amount (applicable to the seventh (7 th) month of the Lease Term) is due and payable upon execution of this Lease. Rent for the month in which the Commencement Date occurs, the Lease Term expires, or the Rent adjusts, if other than the first or last day of the month, shall be prorated on a *per diem* basis. Rent shall include any municipal, county, state, or federal excise tax, sales tax, use tax, transaction privilege tax, gross proceeds tax, rent tax, or like tax now or hereafter levied or imposed against, or on account of any amounts payable under this Lease by Tenant or the receipt thereof by Landlord (but excluding income, capital levy, franchise, capital stock, gift, estate or inheritance taxes).

b. All payments of Rent shall be in lawful money of the United States of America by good and sufficient check or by other means (such as automatic debit or electronic transfer) acceptable to Landlord.

c. The obligation of Tenant to pay Rent shall be independent of every other obligation contained in this Lease, and Tenant shall not be entitled to an offset against Rent for any amounts due or to become due from Landlord.

d. Notwithstanding any practice of Landlord from time to time of issuing to Tenant courtesy statements of setting forth Rent due, Tenant's obligation to pay Rent by its due date shall not be conditioned on Tenant's receipt of any such statement.

e. Landlord's acceptance of less than the correct amount of Rent shall be considered a payment on account of the earliest Rent due.

f. No payment by Tenant or receipt by Landlord of a lesser amount than the Rent then due shall be deemed to be other than on account of the Rent, nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other remedy provided in this Lease.

ARTICLE 5. <u>ADDITIONAL RENT</u>

a. All charges payable by Tenant under this Lease other than Base Monthly Rent are called and shall be deemed "Additional Rent." Unless this Lease provides otherwise, Additional Rent then due is to be paid together with the next installment of Base Monthly Rent. The term "Rent" as used in this Lease shall mean Base Monthly Rent and Additional Rent.

b. Commencing on the first day following the one (1) year anniversary of the Commencement Date, Tenant shall pay, as Additional Rent, Tenant's Pro Rata Share of the amount, if any, by which Expenses (as hereinafter defined) for each calendar year during the Lease Term exceed Expenses during the Base Year (the "Expense Excess"). If Expenses in any calendar year decrease below Expenses during the Base Year, Tenant's Pro Rata Share of Expenses for that calendar year shall be zero dollars ($0).

c. Landlord shall provide Tenant with a good faith estimate of the Expense Excess for each calendar year during the Lease Term after the Base Year. On or before the first day of each calendar month during the Lease Term after the Base Year, Tenant shall pay to Landlord a monthly installment equal to one-twelfth (1/12) of Tenant's Pro Rata Share of Landlord's estimate of the Expense Excess. If Landlord determines at any time that its good faith estimate of the Expense Excess was incorrect by a material amount, Landlord may provide Tenant with a revised estimate. After its receipt of the revised estimate, Tenant's monthly payments shall be based upon the revised estimate. If Landlord does not provide Tenant with an estimate of the Expense Excess before the beginning of any calendar year, Tenant shall continue to pay monthly installments based on the previous year's estimate(s) until Landlord provides Tenant with the new estimate. Upon delivery of the new estimate, an adjustment shall be made for any month for which Tenant paid monthly installments based on the previous year's estimate(s). Any overpayment shall be credited against the next due future installment(s) of Additional Rent. Tenant shall pay Landlord the amount of any underpayment within thirty (30) days after receipt of the new estimate. The terms of the preceding sentence shall survive the expiration of the Lease Term or earlier termination of the Lease.

d. By no later than April 30 of each calendar year (commencing with the second calendar year after the Base Year), Landlord shall use commercially reasonable efforts to furnish Tenant with a statement of the actual Expenses and Expense Excess for the prior calendar year. If the estimated Expense Excess for the prior calendar year is more than the actual Expense Excess for the prior calendar year, Landlord shall apply any overpayment by Tenant against Additional Rent due or next becoming due, provided if the Lease Term expires or is otherwise terminated before the determination of the overpayment, Landlord shall refund any overpayment to Tenant after first deducting any outstanding amount of Rent due. If the estimated Expense Excess for the prior calendar year is less than the actual Expense Excess for such prior calendar year, Tenant shall pay Landlord, within thirty (30) days after Tenant's receipt of the statement of actual Expenses, any underpayment for the prior calendar year. Any delay or failure of Landlord in (i) delivering any estimate or statement described in this Article 5 or (ii) computing or billing Tenant's Pro Rata Share of Expense Excess shall not constitute a waiver of Landlord's right to require an increase in Additional Rent, or in any way impair the continuing obligations of Tenant under this Article 5. In the event of any dispute as to any Expense Excess due under this Article 5, an officer of Tenant or Tenant's lease administrator or certified public accountant whose fee is not contingent on the outcome of the audit in any way shall have the right after reasonable notice and at reasonable times, but not more than once each calendar year, to inspect Landlord's accounting records at Landlord's accounting office. If after such inspection, Tenant still disputes such Expense Excess, upon Tenant's written request therefor, a certification as to the proper amount of Expense Excess payable by Tenant shall be made by an independent certified public accountant mutually agreed to by Landlord and Tenant. If Landlord and Tenant cannot mutually agree to an independent certified public accountant, then the parties shall submit such dispute to the American Arbitration Association to choose an independent certified public accountant to conduct the certification as to the proper amount of Tenant's Pro Rata Share of Expense Excess due by Tenant for the period in question. Such certification shall be final and conclusive as to all parties. If the certification reflects that Tenant has overpaid Tenant's Pro Rata Share of Expense Excess for the period in question, then Landlord shall credit such excess to Tenant's next payment of Expense Excess or, at the request of Tenant, promptly refund such excess to Tenant, and conversely, if Tenant has underpaid Tenant's Pro Rata Share of Expense Excess, Tenant shall promptly pay such additional Expense Excess to Landlord. Tenant agrees to pay the cost of such certification and the investigation with respect thereto unless it is determined that Landlord's original statement was in error in Landlord's favor by more than five percent (5%), in which event Landlord shall pay the cost of the certification and investigation. Tenant waives the right to dispute any matter relating to the calculation of Expense Excess under this Article 5 if any claim or dispute is not asserted in writing to Landlord within one hundred and eighty (180) days after delivery to Tenant of the original billing statement for the actual Expenses with respect thereto. The terms of this Section shall survive expiration of the Lease Term or earlier termination of this Lease.

e. "Expenses" are all costs, fees and expenses paid, incurred or imposed by Landlord (whether directly or through Managing Agent or other independent contractors) during each calendar year of the Lease Term in connection with the ownership, operation, maintenance, management, repair, replacement and insurance of the Building (including in all cases the personal property used in connection therewith), including, but not limited to, the following:

i..All Landlord Services (as hereinafter defined) and other services performed by or on behalf of Landlord in or to the Building.

ii..All utilities for the Building, including but not limited to Electrical Costs (as hereinafter defined) and charges for water, gas, steam, sewer, heating, air-conditioning, ventilation, lighting, and waste disposal, related to the maintenance and/or operation of the Building. "Electrical Costs" means: (a) charges paid by Landlord for electricity; and (b) costs incurred in connection with any energy management program for the Building, minus any utility reimbursement received from tenants for after-hours air.

iii..Labor costs, including, wages, salaries, social security and employment taxes, similar government charges, fringe benefits, medical and other types of insurance, uniforms, training, and retirement and pension plans for all persons who perform duties in connection with the operation, maintenance and repair of the Building. Following Tenant's written request, Landlord agrees to supply to Tenant the proportionate breakdown and back up documents illustrating the full percentage allocation of such salaries.

iv..Management fees, the rental value of any office space in the Building used as an office for the property manager of the Building or any portion thereof, the cost of equipping and maintaining a management office, accounting and bookkeeping services, legal fees not attributable to leasing or collection activity, clerical and supervisory staff, and other administrative costs. Landlord, by itself or through an affiliate, shall have the right to directly perform or provide any services under this Lease (including management services), provided that the cost of any such services shall not exceed the cost that would have been incurred had Landlord entered into an arms-length contract for such services with an unaffiliated entity of comparable skill and experience.

v..Taxes (as hereinafter defined).

vi..All legal and accounting costs and fees for licenses and permits related to the ownership and operation of the Building.

vii..Premiums and deductibles paid by Landlord for insurance, including workers compensation, fire and extended coverage, casualty, earthquake, general liability, rental loss, rent abatement, elevator, boiler and other insurance customarily carried from time to time by owners of comparable office buildings.

viii..The amortized cost of capital improvements (as distinguished from replacement parts or components installed in the ordinary course of business) that are made to the Building and that: (a) are performed primarily to reduce operating expense costs or otherwise improve the operating efficiency of the Building; (b) are required by any governmental authority (including changes in the Building required by the Americans with Disabilities Act); (c) are required to comply with any laws that are enacted, or first interpreted to apply to the Building, after the Effective Date; or (d) replace or repair existing Building equipment or components (including the roofs). The cost of such capital improvements shall be amortized by Landlord over the useful life of such improvements or, with respect to improvements described in clause (a) above, the reasonably estimated period of time that it takes for the cost savings resulting from a capital improvement to equal the total cost of the capital improvement, whichever is less. The amortized cost of such capital improvements may, at Landlord's option, include actual or imputed interest at the rate that Landlord would reasonably be required to pay to finance the cost of the capital improvement.

ix..Intentionally omitted.

x..All fees, costs, expenses or other amounts payable by Landlord to any association established for the benefit of the Building, whether separately or combined with other properties, including without limitation common area maintenance charges paid by Landlord for the Building pursuant to any declaration of covenants, conditions and restrictions. In addition, if Landlord incurs other Expenses for the Building together with one or more other buildings or properties, whether pursuant to a reciprocal easement agreement, common area agreement or otherwise, the shared costs and expenses shall be equitably prorated and apportioned between the Building and the other buildings or properties as determined by Landlord in its sole discretion.

xi..Any parking charges, utility surcharges, occupancy taxes or any other costs resulting from statutes or regulations, or interpretations thereof enacted by any governmental authority in connection with the use or occupancy of the Building or any part thereof.

As used herein, "Expenses" shall not include the cost of capital improvements (except as set forth above); depreciation; interest (except as provided above for the amortization of capital improvements); principal payments of mortgage and other non-operating debts of Landlord; the cost of repairs or other work to the extent Landlord is reimbursed by insurance or condemnation proceeds; costs in connection with leasing space in the Building, including brokerage commissions, marketing and advertising costs; lease concessions, including rental abatements and construction allowances granted to specific tenants; costs incurred in connection with the sale, financing or refinancing of the Building; fines, interest and penalties incurred by Landlord due to the late payment of Expenses; organizational expenses associated with the creation and operation of the entity which constitutes Landlord; any costs paid directly by Tenant or any other tenant of the Building; any costs or expenses (including attorneys' fees) incurred by Landlord in the negotiation or enforcement of any other lease in the Building; money Landlord must pay if it defaults under a lease or other agreement; the cost of containing, removing or otherwise remediating any contamination of any portions of the Building or other environmental liability (including any expenses of removal or remediation of any underground storage tank on the Premises or the Building); any excessive amount the Landlord pays a contractor or vendor because of a special relationship or not the result of competitive bidding; or any penalties or damages that Landlord pays to Tenant under this Lease or to other tenants in the Building under their respective leases.

f. If there is a change in the rentable area of the Building or the Premises during the Lease Term, Tenant's Pro Rata Share shall be adjusted accordingly. The rentable square footage figures set forth in this Lease for the Premises and the Building are approximate and may be subject to inaccuracy or future change. No amount payable hereunder shall be adjusted due to any deviation in the actual rentable square footage figure for the Premises from that set forth herein.

g. Notwithstanding anything to the contrary contained herein, Tenant shall not be obligated to pay for Controllable Expenses (as hereinafter defined) in any full calendar year of the Lease Term after the Base Year to the extent that the amount of Tenant's Pro Rata Share for such year exceeds the Controllable Expense Cap (as hereinafter defined). The "Controllable Expense Cap" shall equal, for the year after the Base Year, one hundred five percent (105%) of the Controllable Expenses for the Base Year, and the "Controllable Expense Cap" for each succeeding year shall equal one hundred five percent (105%) of the Controllable Expense Cap for the prior calendar year. The Controllable Expenses Cap shall be calculated on a compounding, cumulative and aggregate basis. "Controllable Expenses" means all Expenses other than Taxes, insurance expenses, utility expenses, any costs arising out of any laws enacted or first enforced by any governmental agency having jurisdiction over the Project after the Commencement Date, or any other costs beyond the reasonable control of Landlord.

h. Any Expenses attributable to a period that falls only partially within the Lease Term shall be prorated.

i. If the Building is not at least ninety-five percent (95%) occupied during any calendar year or if Landlord is not supplying services to at least ninety-five percent (95%) of the total rentable area of the Building at any time during a calendar year, Expenses shall, at Landlord's option, be determined as if the Building had been ninety-five percent (95%) occupied and Landlord had been supplying services to ninety-five percent (95%) of the rentable area of the Building during that calendar year. The extrapolation of Expenses under this Section shall be performed by appropriately adjusting the cost of those components of Expenses that are impacted by changes in the occupancy of the Building. Notwithstanding the foregoing, in no event shall Landlord retain more than the actual Expenses for the Building after the amount is determined and settled with tenants of the Building.

j. Any sum payable by Tenant which would not otherwise be due until after the date of the termination of this Lease shall, if the exact amount is uncertain at the time that this Lease terminates, be paid by Tenant to Landlord upon such termination in an amount to be determined by Landlord, with an adjustment to be made once the exact amount is known.

ARTICLE 6. <u>TAXES</u>

a. "Taxes" shall mean: (a) all real estate taxes and other assessments on the Building, including, but not limited to, assessments for special improvement districts and building improvement districts, taxes and assessments levied in substitution or supplementation in whole or in part of any such taxes and assessments, and the Building's share of any real estate taxes and assessments under any reciprocal easement agreement, common area agreement or similar agreement as to the Building; (b) all personal property taxes for property that is owned by Landlord and used in connection with the operation, maintenance and repair of the Building; and (c) all costs and fees incurred in connection with seeking reductions in any tax liabilities described in (a) and (b) above, including, without limitation, any costs incurred by Landlord for compliance, review and appeal of tax liabilities. Taxes shall not include any income, capital levy, franchise, capital stock, gift, estate or inheritance tax. If an assessment is payable in installments, Taxes for a calendar year shall only include the amount of the installment and any interest due and payable during such calendar year. For all other real estate taxes, Taxes for a calendar year shall include the amount accrued, assessed or otherwise imposed for that calendar year. If a change in Taxes is obtained for any calendar year of the Lease Term during which Tenant paid Tenant's Pro Rata Share, then Taxes for that year will be retroactively adjusted and Landlord shall provide Tenant with a credit, if any; or, if the foregoing adjustment results in an increase in the Taxes for such calendar year, then Tenant shall pay Landlord the amount of Tenant's Pro Rata Share of any such increase as Additional Rent within thirty (30) days after Tenant's receipt of a statement from Landlord.

b. In addition to the foregoing, Tenant will be liable for and pay before delinquency (a) all taxes and assessments charged against trade fixtures, furniture, furnishings, equipment or any other personal property belonging to Tenant and (b) any increase in the assessed value of the Building based on the value of any such personal property (collectively, "Tenant's Direct Tax Obligations"). Tenant will make all necessary arrangements to have Tenant's Direct Tax Obligations billed separately to the extent possible. If any of Tenant's Direct Tax Obligations are taxed with the Building, Tenant will pay Landlord the full amount of such taxes immediately upon demand by Landlord, notwithstanding any right to appeal Tenant may have. The provisions of the preceding sentence shall survive expiration of the Lease Term or earlier termination of this Lease.

ARTICLE 7. <u>COMMON AREAS</u>

a. "Common Areas" are defined as all areas and facilities outside the Premises and within the exterior boundary line of the Building (and the land on which the Building is located) that are provided and designated by Landlord from time to time for the non-exclusive use of Landlord, Tenant and other tenants of the Building and their respective employees, agents, customers and invitees. Common Areas include, but are not limited to, all of the following, to the extent applicable and to the extent that the same are not designated by Landlord for the exclusive use of one or more tenants of the Building: all parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, common corridors, lobby areas, vending areas, cafeteria areas, gymnasium or workout facility areas, landscaped areas, public elevators, public stairways and public restrooms used in common by tenants.

7.3 Subject to the Rules and Regulations (as hereinafter defined) and all of the terms and conditions of this Lease, Tenant and Tenant's owners, officers, directors, members, managers, partners, trustees, employees, representatives, shareholders, affiliates, advisors, agents, contractors, vendors, consultants, licensees, invitees, heirs, executors, administrators, customers, clients, assignees, sublessees, successors and assigns (collectively, "Tenant Parties") have the non-exclusive right (in common with any other person granted use by Landlord) to use the Common Areas during the Lease Term.

7.4 Landlord shall have the right, from time to time and in its sole discretion, to: (a) make changes to the Building and/or Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, ingress, egress, direction of driveways, entrances, corridors, parking areas and walkways; (b) close temporarily any of the Building and/or Common Areas, so long as reasonable access to the Premises remains available; (c) add or remove buildings in and improvements to Building and/or the Common Areas, including without limitation construction of an above-grade parking facility; (d) use the Common Areas while engaged in making additional improvements, repairs or alterations to the Building or any portion thereof; and (e) do and perform any other acts or make any other changes in, to, or with respect to, the Building and/or Common Areas as Landlord may, in the exercise of sound business judgment, deem to be appropriate; provided that none of the foregoing changes shall (i) materially diminish the parking available to Tenant or Tenant's use and enjoyment of the Common Areas, or (ii) materially increase Expenses.

ARTICLE 8. SERVICES TO BE FURNISHED BY LANDLORD

a. Landlord agrees to furnish Tenant with the following services ("Landlord Services"), the costs and expenses attributable to which shall be included in the Expenses:

i..Water service for use in the lavatories on each floor on which the Premises are located.

ii..Heating, ventilating and air conditioning ("HVAC") services in season during Building Hours as set forth in Article 1, at such temperatures and in such amounts as are standard for comparable buildings or as required by governmental authority. Tenant shall have the right to receive HVAC service during hours other than Building Hours using a tenant override system. Tenant shall pay Landlord the standard charge for the additional service as reasonably determined by Landlord from time to time, which as of the Effective Date is $6.00 per hour per zone.

iii..Landlord's Maintenance Obligations (as defined in Section 18.1 below).

iv..Exterior painting and cleaning, including windows.

v..Janitor service for the Building not less than five (5) days per week, unless such week includes a legal holiday, and unless, with Landlord's consent, which Landlord may withhold in its sole and absolute discretion, Tenant separately contracts for such janitor services.

vi..If Tenant's use, floor covering or other improvements require special services in excess of the standard services for the Building, Tenant shall pay the additional cost attributable to such special services, including any reasonable and customary markup for profit or overhead.

vii..Trash and debris removal related to the maintenance or operation of the Premises and the Building.

viii..Alarm and security services for the Building as are customarily provided from time to time by owners of comparable office buildings in Landlord's sole reasonable discretion.

ix..Elevator service for the Building.

x..Electricity to the Premises for general office use, in accordance with and subject to the terms and conditions set forth herein.

xi..Interior (Common Areas only) and exterior pest control.

xii..Such other services as Landlord reasonably determines are necessary or appropriate for the Premises and the Building (and the land on which the Building is located).

b. Landlord's failure to furnish, or any interruption or termination of services due to the application of laws, the failure of any equipment, the performance of repairs, improvements or alterations, or the occurrence of any event or cause beyond the reasonable control of Landlord shall not render Landlord liable to Tenant, constitute a constructive eviction of Tenant, give rise to an abatement of Rent, nor relieve Tenant from the obligation to fulfill any covenant or agreement. In no event shall Landlord be liable to Tenant for any loss or damage, including without limitation the loss or theft of any equipment or other property belonging to Tenant or Tenant Parties arising out of or in connection with the failure of any Landlord Services.

ARTICLE 9. SECURITY DEPOSIT

If an Event of Default occurs, Landlord may retain, use, or apply all or any part of the Security Deposit to compensate Landlord for any loss or damage suffered as a result thereof, including, but not limited to, the payment of Rent and amounts Landlord is obligated or elects to spend as a result of such Event of Default. If any portion of the Security Deposit is so retained, used or applied, Tenant, upon demand, shall deposit with Landlord an amount sufficient to restore the Security Deposit to the amount provided in Article 1. Landlord will not be required to keep the Security Deposit separate from its general funds, and Tenant will not be entitled to interest thereon. Any mortgagee of Landlord, purchaser of the Building or Premises, or beneficiary of a deed of trust shall be relieved and released from any obligation to return the Security Deposit in the event such mortgagee, purchaser or deed of trust beneficiary comes into possession of the Premises by reason of foreclosure or trustee's sale (including deed in lieu thereof) or proceeding in lieu of foreclosure unless the Security Deposit shall have been actually delivered to such mortgagee, purchaser or deed of trust beneficiary. The foregoing release does not relieve Landlord of any obligation it may have to return the Security Deposit. If Tenant fully and faithfully performs every provision of this Lease, the Security Deposit or the balance thereof will be returned to Tenant within thirty (30) days after the expiration of the Lease Term or earlier termination of this Lease. In no event will Tenant have the right to apply any part of the Security Deposit to Rent.

ARTICLE 10. USE OF PREMISES; QUIET CONDUCT

The Premises may be used and occupied only for the Permitted Use and for no other purpose without obtaining Landlord's prior written consent. Tenant will not perform any act or carry on any practice that may injure the Premises or the Building, including but not limited to the use of equipment that causes vibration, heat or noise that is not properly insulated, nor shall Tenant allow any condition or thing to remain on or about the Premises that diminishes the appearance or aesthetic qualities of the Premises, the Building, or the surrounding property. Tenant shall observe and comply with, and not use or permit the Premises to be used in any way that constitutes a violation of the requirements of any board of fire underwriters or similar body relating to the Premises or of any law, rule, ordinance, restrictive covenant, governmental regulation or order now or hereafter in effect. Tenant shall not use or allow the Premises or the Building to be used (a) in violation of the Rules and Regulations (defined in Article 29 below), (b) in violation of any certificate of occupancy issued for the Premises or of any recorded covenants, conditions and restrictions now or hereafter affecting the Premises or the Building, or (c) for any improper, immoral, unlawful or reasonably objectionable purpose. Tenant shall not cause, maintain or permit any nuisance in, on or about the Premises or the Building nor commit or suffer to be committed any waste in, on or about the Premises or the Building. Tenant shall obtain and pay for all permits and licenses and shall promptly take all actions necessary to comply with all applicable statutes, ordinances, codes, regulations, orders, covenants and requirements regulating the use by Tenant of the Premises, including, without limitation, the Occupational Safety and Health Act and the Americans with Disabilities Act.

ARTICLE 11. HAZARDOUS MATERIALS

a. For purposes of this Lease:

i..“Environmental Requirements” means any federal, state, or local statutes, acts, laws, ordinances, rules, regulations, requirements, court and administrative rulings, and other obligations now or hereinafter enacted or adopted (including, without limitation, consent decrees and administrative orders) relating to the generation, use, manufacture, treatment, transportation, storage, disposal, discharge, or release of any Hazardous Materials (as hereinafter defined), or otherwise designed or intended to protect human health or the environment.

ii..“Hazardous Materials” shall mean, collectively, any substance, compound, material, pollutant, contaminant, chemical, waste, or other matter, including without limitation asbestos, any petroleum fuel or byproduct, urea formaldehyde, or any radioactive substance, that is now, or shall hereafter be listed, defined or regulated as hazardous, extra-hazardous, extremely hazardous, flammable, explosive, toxic, or otherwise dangerous or which is or becomes subject to control, regulation or remediation under, or which otherwise may be the basis for any obligation, fine or penalty under, any applicable Environmental Requirements.

b. Tenant and Tenant Parties shall:

i..not manufacture, treat, test, process, store, handle, distribute, transport, use, produce, create, generate, discharge, release or dispose of any Hazardous Materials in, about, under, on or adjacent to the Building, the land on which the Building is located, or any part thereof;

ii..not engage in or permit any activity with a reasonable potential to result in the release or other discharge of any Hazardous Material on, at or from the Building or the land on which the Building is located);

iii..not operate at or near the Building (or the land on which the Building is located) in a manner that could lead to the imposition of liability on Tenant, Tenant Parties, Landlord, or Landlord Parties (as hereinafter defined) or the creation of a lien on the Building (or the land on which the Building is located) under any Environmental Requirement;

iv..notify Landlord promptly of any spill, release, discharge or disposal of Hazardous Materials into, on, onto, under or from the Building (or the land on which the Building is located), regardless of the source, whenever Tenant knows or suspects that such has occurred;

v..permit Landlord, Managing Agent, or any of Landlord’s owners, officers, directors, members, managers, partners, trustees, employees, representatives, shareholders, affiliates, advisors, agents, contractors, vendors, consultants, licensees, invitees, heirs, executors, administrators, successors and assigns (collectively with Managing Agent, “Landlord Parties”), upon twenty-four (24) hour prior notice, access to the Premises to conduct an environmental site inspection and assessment with respect thereto. If there is a spill or release at or from the Premises or Building (or the land on which the Building is located), Tenant agrees to allow Landlord and Landlord Parties immediate access to the Premises for any work necessary in relation to any suspected or actual spill or release;

vi..immediately take appropriate actions, at Tenant’s sole cost and expense and in accordance with all applicable Environmental Requirements, to remove, clean up and remediate any release, discharge, or spill of Hazardous Materials at, on, under or from the Building or any part thereof caused by Tenant or Tenant Parties;

vii..comply with all Environmental Requirements promulgated as of the Effective Date and all additional Environmental Requirements, if any, which may from time to time be enacted thereafter;

viii..obtain and maintain in good standing all permits necessary under Environmental Requirements for the operation of Tenant’s business; and

ix..immediately notify Landlord of any inquiry, test, investigation, enforcement proceeding, or other communication to, by or against Tenant or any Tenant Parties relating to any Environmental Requirement or any other environmental matter.

c. Notwithstanding anything to the contrary set forth in this Article 11, Tenant may use in the conduct of its business at the Premises those Hazardous Materials in quantity and type customarily used or sold in connection with the operations of a business engaged in the Permitted Use (and then only if such Hazardous Materials are used, stored and kept in accordance with applicable laws, codes and ordinances).

d. Tenant, for itself and its successors and assigns, shall be solely responsible for and agrees to protect, indemnify, save, defend (with counsel reasonably approved by Landlord) and hold harmless Landlord and all Landlord Parties (collectively, the "Indemnitees") for, from, and against any and all claims, demands, liabilities, losses, damages, charges, costs, expenses, fines, penalties, suits, orders, causes of action, adjudications, and judgments that any Indemnitee may suffer or incur, including without limitation, investigation and clean-up costs, reasonable attorneys' and consultants' fees and expenses, and court costs (collectively, "Liabilities"), which arise during or after the Lease Term as a result of or attributable to: (a) any acts or omissions of Tenant or any Tenant Parties, (b) the breach by Tenant or any Tenant Parties of any of the obligations and covenants of Tenant set forth in this Article, (c) any contamination of the Premises or the Building (or the land on which the Building is located) directly or indirectly arising from the activities of Tenant, any Tenant Parties, or any other person other than Indemnitees, or (d) the use, generation, storage, release, threatened release, discharge, or disposal by Tenant or any Tenant Parties of Hazardous Materials on, under or about the Building or any property adjacent thereto, including without limitation: (x) consequential damages; (y) the costs of any required or necessary repairs, remediation, cleanup or detoxification of the Premises or any property adjacent thereto, and the preparation and implementation of any closure, remediation or other required plans; and (z) all reasonable expenses of any Indemnitee in connection with clauses (x) and (y), including without limitation costs and fees incurred under or as a result of the following:

i..any Environmental Requirement, including the assertion of any lien thereunder and any suit brought or judgment rendered, regardless of whether the action was commenced by a citizen (as authorized under any Environmental Requirement) or by a government agency;

ii..any spill or release of, or the presence of, any Hazardous Materials on or from the Premises, Building or any adjacent property, including any loss of value of any part of the Building or other property as a result of a spill, release or presence of any Hazardous Materials;

iii..any other matter affecting the Building within the jurisdiction of any governmental or quasi-governmental agency, including costs of investigations, remedial action, or other response costs, whether such costs are incurred by such governmental or quasi-governmental agency or any Indemnitee;

iv..Liabilities under the provisions of any Environmental Requirement;

v..Liabilities for personal injury or property damage arising under any statutory or common-law tort theory, including, without limitation, damages assessed for the maintenance of a public or private nuisance, or for the carrying of an abnormally dangerous activity, and response costs; and

vi..any remedial actions by Indemnitees as set forth in this Article 11.

e. Landlord shall have no obligation to remove, clean up or remediate any Hazardous Materials which were brought onto the Premises or the Building by Tenant, Tenant Parties or any other persons other than Indemnitees, including but not limited to Hazardous Materials used in connection with Tenant improvements, which removal, cleanup and remediation shall be the obligation of Tenant at its sole cost and expense. Notwithstanding the foregoing:

i..In the event that Tenant fails to comply with any Environmental Requirement or any provision of this Article 11, Landlord may, but shall not be obligated to, take any and all actions that Landlord shall deem necessary or advisable in order to remediate any spill or release of Hazardous Materials or cure any failure of Tenant's compliance, and Tenant shall indemnify Indemnitees for any expenses (including reasonable attorneys' fees) incurred as a result thereof, together with interest at the Default Rate (as hereinafter defined); and

ii..Landlord shall have the right in good faith to pay, settle, compromise or litigate any Tenant Liabilities under this Article 11, upon ten (10) days prior written notice thereof to Tenant, based upon the belief that Tenant is liable therefor, whether actually liable or not, without the consent or approval of Tenant, unless Tenant, within such ten (10) day period, shall protest in writing and simultaneously with such protest deposit with Landlord collateral in form and substance sufficient, in Landlord's sole discretion, to pay and satisfy any penalty, interest, or additional Liabilities which may accrue as a result thereof All costs and expenses incurred by Landlord in connection with the foregoing shall be subject to Tenant's indemnification obligations set forth in this Article 11.

f. The provisions of this Article 11 shall survive the expiration of the Lease Term or earlier termination of this Lease.

ARTICLE 12. PARKING

For the period from the Commencement Date until December 31, 2020, subject to the parking rules and regulations attached hereto as Exhibit "D", as such may be amended from time to time (the "Parking Rules and Regulations"), Landlord shall provide Tenant with the following parking spaces in the underground parking garage and surface lot serving the Building at the following charges, which charges Tenant shall be obligated to pay regardless of the number of parking spaces it actually uses:

- Seventeen (17) (based upon a ratio of 1.5 such space for every 1,000 rentable square feet of the Premises, assuming a rentable square footage of the Premises of 11,500) covered, reserved spaces in the underground parking garage at an initial charge of $65.00 per month per space (plus rental tax);
- Thirty-five (35) (based upon a ratio of 3.0 such spaces for every 1,000 rentable square feet of the Premises, assuming a rentable square footage of the Premises of 11,500) covered, unreserved spaces in the underground parking garage at a charge of $55.00 per month per space (plus rental tax); and
- Five (5) (based upon a ratio of 0.5 such space for every 1,000 rentable square feet of the Premises, assuming a rentable square footage of the Premises of 11,500) uncovered, unreserved spaces on the surface lot at a charge of $0.00 per month per space.

From January 1, 2021 until the expiration of the initial Lease Term, subject to the Parking Rules and Regulations, Landlord shall provide Tenant with the following parking spaces in the underground parking garage and surface lot serving the Building at the following charges, which charges Tenant shall be obligated to pay regardless of the number of parking spaces it actually uses; provided, however, that Tenant shall have the right, upon written notice delivered to Landlord by no later than January 1, 2021, to reduce the number of parking spaces provided to Tenant, in which event the parties shall memorialize the number of parking spaces provided to Tenant from January 1, 2021 until the expiration of the initial Lease Term, for which parking spaces Tenant shall pay the parking charges set forth below regardless of the number of parking spaces it actually uses:

- Twenty (20) (based upon a ratio of 1.5 such space for every 1,000 rentable square feet of the Premises) covered, reserved spaces in the underground parking garage at an initial charge of $65.00 per month per space (plus rental tax);
- Forty-one (41) (based upon a ratio of 3.0 such spaces for every 1,000 rentable square feet of the Premises) covered, unreserved spaces in the underground parking garage at a charge of $55.00 per month per space (plus rental tax); and
- Seven (7) (based upon a ratio of 0.5 such space for every 1,000 rentable square feet of the Premises) uncovered, unreserved spaces on the surface lot at a charge of $0.00 per month per space.

In the event Tenant requires additional parking spaces beyond the allotted amount set forth above, subject to availability (as determined by Landlord), Landlord shall provide to Tenant additional parking spaces on a month-to-month basis at the then-current parking charge rate, which charges Tenant shall be obligated to pay for the number of additional parking spaces provided to Tenant regardless of the number of additional parking spaces it actually uses.

Notwithstanding the foregoing, provided there is no Event of Default under this Lease, Landlord hereby agrees to abate Tenant's obligation to pay the foregoing parking charges for the first seven (7) months (the "parking

Charges Abatement Period") after the Commencement Date (such total amount of abated parking charges being hereinafter referred to as the "Abated Parking Amount"). During such Parking Charges Abatement Period, Tenant will still be responsible for the payment of all other obligations under this Lease. Tenant acknowledges that any Event of Default by Tenant under this Lease will cause Landlord to incur costs not contemplated in this Lease, the exact amount of such costs being extremely difficult and impracticable to ascertain. Therefore, should an Event of Default exist at any time during the Lease Term, and as a result thereof Landlord terminates this Lease, then the total unamortized sum of such Abated Parking Amount (amortized on a straight line basis over the Lease Term at eight percent (8%) annual interest) so conditionally excused shall become immediately due and payable by Tenant to Landlord; provided, however, Tenant acknowledges and agrees that nothing herein is intended to limit any other remedies available to Landlord under this Lease, at law or in equity if there is an Event of Default. The right to the Abated Parking Amount shall be personal to the Named Tenant and its Permitted Transferee and is only be applicable to the Named Tenant and its Permitted Transferee and not to any assignee, sublessee or other transferee of the Named Tenant's interest in the Lease.

Tenant agrees and acknowledges that the quantity, location and charges for the parking listed above are integral parts of the overall economics of this Lease, that Tenant has no rights to parking in addition to that set forth above and that any parking rights procured by Tenant from Landlord after the date of this Lease may be at markedly different rates and in markedly different locations. Tenant shall obey, and shall be responsible to enforce with respect to Tenant Parties, the Parking Rules and Regulations. Landlord reserves the right to modify or change the Parking Rules and Regulations from time to time with or without notice to Tenant, provided that no such modification may be made within the initial eighteen (18) months of the Term. Landlord and Landlord Parties will not be responsible to Tenant for the failure of any other tenant, occupant or invitee of the Building to observe the Parking Rules and Regulations, for damage to any vehicle parked in the parking areas, or for the theft of any vehicle or personal property from within vehicles while parked in the parking areas. The terms of the previous sentence shall survive the expiration of the Lease Term or earlier termination of this Lease.

ARTICLE 13. UTILITIES

a. Electricity used by Tenant in the Premises shall be paid for by Tenant through inclusion in Expenses (except as provided herein for excess usage). Electrical service to the Premises may be furnished by one or more companies providing electrical generation, transmission, and distribution services, and the cost of electricity may consist of several different components or separate charges for such services, such as generation, distribution and stranded cost charges. Landlord shall have the exclusive right to select any company providing electrical service to the Building and the Premises, to aggregate the electrical service for the Building, the Building, or the Premises with other buildings or properties, to purchase electricity through a broker and/or buyers group, and/or to change the providers and manner of purchasing electricity for the Premises.

b. Except as otherwise expressly provided herein, Tenant's use of electrical service shall not exceed, either in voltage, rated capacity, use beyond Building Hours, or overall load, that which Landlord deems to be standard for the Building. If Tenant requests permission to consume excess electrical service, Landlord may refuse to consent or may condition consent upon conditions that Landlord reasonably elects (including, without limitation, the installation of utility service upgrades, meters, submeters, air handlers or cooling units), and the additional usage (to the extent permitted by law), installation and maintenance costs shall be paid by Tenant. Landlord shall have the right to separately meter electrical usage for the Premises and to measure electrical usage by survey or other commonly accepted methods. Tenant agrees to comply with energy conservation programs implemented by Landlord from time to time.

c. Tenant will contract and pay for all telephone and other such services for the Premises, subject to the provisions of Article 14 hereof entitled "Alterations; Mechanic's Liens."

ARTICLE 14. ALTERATIONS; MECHANIC'S LIENS

a. Tenant shall not make or suffer to be made any alterations, additions or improvements to the Premises or any part thereof, including but not limited to painting, redecorating, remodeling or the attachment of any fixtures or equipment (all of such activities being referred to herein as "Alterations"), without obtaining Landlord's prior written consent, which consent will not be unreasonably withheld, conditioned or delayed, except as set forth herein. Notwithstanding the foregoing, if any proposed Alterations involve modifications to the structural, mechanical, electrical, plumbing, fire/life safety or heating, ventilating and air conditioning systems of the Building, then Landlord's consent may be withheld in Landlord's sole and absolute discretion. Landlord's consent shall be contingent upon Tenant providing Landlord the following items or information, all of which shall be subject to Landlord's approval: (a) the name of Tenant's proposed contractor(s), (b) evidence of insurance from Tenant's contractor(s) as set forth in this Article, (c) detailed plans and specifications for the proposed Alterations, and (d) valid building or other permits or licenses, as required by the appropriate governing authority. Landlord may further condition its consent by requiring Tenant to (x) give Landlord satisfactory proof of Tenant's financial ability to complete and fully pay for such Alterations, (y) deposit with Landlord the estimated sum required to complete such Alterations, and/or (z) provide to Landlord, at Tenant's sole expense, a payment and performance bond in form acceptable to Landlord and in a principal amount of not less than one hundred fifty percent (150%) of the estimated cost of such Alterations (or such other form of security acceptable to Landlord in its sole discretion) to insure Landlord against any liability for Liens (as hereinafter defined) and to ensure completion of all work associated therewith. Landlord's consent or disapproval shall be given within fifteen (15) days following Tenant's written request, with any disapproval specifying the reasons therefor, and any failure of Landlord to respond to any request within such fifteen (15) day period shall be deemed Landlord's disapproval of the proposed Alteration. All Alterations shall be made in compliance with applicable municipal, county, state and federal laws, codes and regulations, including without limitation the Americans With Disabilities Act of 1990 and its related rules and regulations ("ADA").

b. Notwithstanding any other provision hereof, Alterations shall not include Tenant's personal property, and Tenant may install trade fixtures, equipment and machinery in conformance with all applicable ordinances and laws, and they may be removed upon expiration of the Lease Term or earlier termination of this Lease, provided the Premises are not damaged by their removal and the Premises is promptly returned to its original condition by Tenant at Tenant's expense. Any private telephone systems and/or other related telecommunications equipment and lines must be installed within the Premises, and upon expiration of the Lease Term or earlier termination of this Lease, Landlord may, at its sole option, require Tenant to remove such equipment and lines at Tenant's expense. The terms of this Section shall survive the expiration of the Lease Term or earlier termination of this Lease.

c. Tenant shall not permit any mechanic's, materialmen's or other liens (each, a "Lien") to be filed against the Building, the Premises or Tenant's leasehold interest therein. Tenant, at its sole expense, shall cause any such Lien to be released or shall obtain a surety bond to discharge any such Lien pursuant to Arizona Revised Statutes §33-1004 (or any successor statute(s)) within ten (10) days after receipt of notice that any such Lien is filed. If Tenant fails to cause any such Lien to be so released or bonded within thirty (30) days after Tenant's receipt of notice thereof, Landlord, without waiving its rights and remedies based on such failure, may cause such Lien to be released by any means Landlord reasonably deems proper, including payment in satisfaction of any claim giving rise to such Lien. Tenant shall pay to Landlord as Additional Rent, within thirty (30) days after Tenant's receipt of an invoice from Landlord, any sum paid by Landlord to remove any such Lien, together with interest at the Default Rate from the date of such payment by Landlord until paid by Tenant. Tenant shall have the right to contest any such Lien in good faith provided that Tenant provides reasonable security in connection therewith. Notice is hereby given that neither Landlord nor Mortgagee (nor their respective interests in the Premises or the Building) shall be liable or responsible to persons who furnish materials or labor for or in connection with the Premises or the Building on behalf of Tenant, and Landlord shall have the right at all reasonable times to post on the Premises or the Building and record any notices of non-responsibility which it deems necessary for protection from such Liens. The terms of this Section shall survive expiration of the Lease Term or earlier termination of this Lease.

d. Tenant hereby agrees to indemnify and hold Landlord harmless from and against any Liabilities incurred by Landlord, the Building, or the Premises arising, whether directly or indirectly, from Tenant or Tenant Parties making or removing any Alterations to the Premises, including without limitation any Liens arising therefrom. Any Alterations made by Tenant shall become part of the Premises and shall, without payment of compensation, become the property of Landlord; provided, however, that Landlord may disclaim such ownership and require Tenant to remove some or all of the Alterations by giving Tenant written notice thereof or by making such removal a condition of Landlord's prior written consent thereto. If Landlord requires the removal of any Alterations, Tenant shall, at its sole cost, promptly remove such at the expiration of the Lease Term or earlier termination of this Lease, repair any damage to the Premises caused thereby, and return the Premises or the applicable portion thereof to its condition existing upon the Commencement Date, reasonable wear and tear excepted. The terms of this Section shall survive expiration of the Lease Term or earlier termination of this Lease.

e. Landlord shall have the right, from time to time and in its reasonable discretion, to: (a) make changes to the Building, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, ingress, egress, direction of driveways, entrances, corridors, parking areas and walkways; (b) close temporarily any portion of the Building for maintenance, replacement or repairs, so long as reasonable access to the Premises remains available; (c) construct or permit construction of improvements in or about the Building, whether for existing or new tenants or otherwise; and (d) do and perform any other acts or make any other changes in, to, or with respect to, the Building as Landlord may, in the exercise of sound business judgment, deem to be appropriate; provided that such changes shall not materially diminish Tenant's parking or materially interfere with Tenant's use of the Premises and the Building. Notwithstanding anything to the contrary in this Lease, Tenant understands this right of Landlord and hereby (x) agrees that such construction will not be deemed to constitute a breach of this Lease by Landlord, and (y) waives any claim that it might have arising from such construction. The terms of the previous sentence shall survive the expiration of the Lease Term or earlier termination of this Lease.

ARTICLE 15. <u>INSURANCE</u>

a. Tenant shall not do or permit anything to be done within or about the Premises which will increase the existing rate of insurance on the Building and shall, at its sole cost and expense, comply with any requirements pertaining to the Premises of any insurance organization insuring the Building, or any portion thereof. Notwithstanding the foregoing, Tenant agrees to pay to Landlord, as Additional Rent, any increases in premiums on insurance policies resulting from Tenant's use of the Premises if such use increases Landlord's premiums or requires extended coverage by Landlord to insure the Premises. The terms of the previous sentence shall survive the expiration of the Lease Term or earlier termination of this Lease.

b. During the Lease Term, Tenant shall maintain and keep in full force and effect, at its sole expense, the following insurance:

i.. Commercial general liability insurance which insures against claims for bodily injury, personal injury, advertising injury, and property damage based upon, involving, or arising out of the use, occupancy, or maintenance of the Premises and the Property. Such insurance shall afford, at a minimum, the following limits:

Each Occurrence $1,000,000
General Aggregate 2,000,000
Products/Completed Operations Aggregate 1,000,000
Personal and Advertising Injury Liability 1,000,000
Fire Damage Legal Liability 100,000
Medical Payments 5,000

Any general aggregate limit shall apply on a per location basis. Tenant's commercial general liability insurance shall name Landlord, its trustees, officers, directors, members, agents, and employees, Landlord's mortgagees, and Landlord's representatives, as additional insureds. This coverage shall be written on the most current ISO CGL form, shall include blanket contractual, premises-operations and products-completed operations and shall contain an exception to any pollution exclusion which insures damage or injury arising out of heat, smoke, or fumes from a hostile fire. Such insurance shall be written on an occurrence basis and contain a standard separation of insureds provision.

ii.. Business automobile liability insurance covering owned, hired and non-owned vehicles with limits of $1,000,000 combined single limit per occurrence.

iii.. Workers' compensation insurance in accordance with the laws of the state in which the Premises are located with employer's liability insurance in an amount not less than $1,000,000.

iv.. Umbrella/excess liability insurance, on an occurrence basis, that applies excess of the required commercial general liability, business automobile liability, and employer's liability policies with the following minimum limits:

Each Occurrence $5,000,000
Annual Aggregate $5,000,000

These limits shall be in addition to and not including those stated for the underlying commercial general liability, business automobile liability, and employers liability insurance required herein. Such excess liability policies shall name Landlord, its trustees, officers, directors, members, agents, and employees, Landlord's mortgagees, and Landlord's representatives as additional insureds.

v.. All risk property insurance including theft, sprinkler leakage and boiler and machinery coverage on all of Tenant's trade fixtures, furniture, inventory and other personal property in the Premises, and on any alterations, additions, or improvements made by Tenant upon the Premises all for the full replacement cost thereof. Tenant shall use the proceeds from such insurance for the replacement of trade fixtures, furniture, inventory and other personal property and for the restoration of Tenant's improvements, alterations, and additions to the Premises. Landlord shall be named as loss payee with respect to alterations, additions, or improvements of the Premises.

vi.. Business income and extra expense insurance with limits not less than one hundred percent (100%) of all charges payable by Tenant under this lease for a period of twelve (12) months.

All policies required to be carried by Tenant hereunder shall be issued by and binding upon an insurance company licensed to do business in the state in which the Property is located with a rating of at least "A-IX" or better as set forth in the most current issue of Best's Insurance Reports, unless otherwise approved by Landlord. Tenant shall not do or permit anything to be done that would invalidate the insurance policies required herein. Liability insurance maintained by Tenant shall be primary coverage without right of contribution by any similar insurance that may be maintained by Landlord. Certificates of insurance, acceptable to Landlord, evidencing the existence and amount of each insurance policy required hereunder shall be delivered to Landlord prior to delivery or possession of the Premises and ten (10) days following each renewal date. Certificates of insurance shall include an endorsement for each policy showing that Landlord, its trustees, officers, directors, members, agents, and employees, Landlord's mortgagees, and Landlord's representatives are included as additional insureds on liability policies and that Landlord is named as loss payee on the property insurance as stated in Section 15.2.5 above. Further, the certificates must include an endorsement for each policy whereby the insurer agrees not to cancel, non-renew, or materially alter the policy without at least thirty (30) days' prior written notice to Landlord.

c. In the event that Tenant fails to provide evidence of insurance required to be provided by Tenant in this Lease, prior to the Commencement Date and thereafter during the Term, within ten (10) days following Landlord's request thereof, and thirty (30) days prior to the expiration of any such coverage, Landlord shall be authorized (but not required) to procure such coverage in the amount stated with all costs thereof to be chargeable to Tenant and payable upon written invoice thereof.

d. The limits of insurance required by this Lease, or as carried by Tenant, shall not limit the liability of Tenant or relieve Tenant of any obligation thereunder, except to the extent provided for under Article 16 below. Any deductibles selected by Tenant shall be the sole responsibility of Tenant.

e. Tenant insurance requirements stipulated in Section 15.2 are based upon current industry standards. Landlord reserves the right to require additional coverage or to increase limits as industry standards change.

f. Should Tenant engage the services of any contractor to perform work in the Premises, Tenant shall ensure that such contractor carries commercial general liability, business automobile liability, umbrella/excess liability, worker's compensation and employers' liability coverages in substantially the same amounts as are required of Tenant under this Lease. Contractor shall name Landlord, its trustees, officers, directors, members, agents and employees, Landlord's mortgagees and Landlord's representatives as additional insureds on the liability policies required hereunder.

i..All policies required to be carried by any contractor shall be issued by and binding upon an insurance company licensed to do business in the state in which the Property is located with a rating of at least "A-IX" or better as set forth in the most current issue of Best's Insurance Reports, unless otherwise approved by Landlord. Certificates of insurance, acceptable to Landlord, evidencing the existence and amount of each insurance policy required hereunder shall be delivered to Landlord prior to the commencement of any work in the Premises. Further, the certificates must include an endorsement for each policy whereby the insurer agrees not to cancel, non-renew, or materially alter the policy without at least thirty (30) days' prior written notice to Landlord. The above requirements shall apply equally to any subcontractor engaged by contractor.

ARTICLE 16. WAIVERS OF SUBROGATION

a. If available under the insurance policies maintained by Landlord and Tenant (except for workman's compensation insurance), Landlord and Tenant hereby waive their rights against each other, and each of them waives such rights as against Tenant Parties and Landlord Parties respectively, with respect to any claims or damages or losses (including any claims for bodily injury to persons (including death) and/or damage to property) which are caused by or result from risks: (a) insured against under any insurance policy carried by Landlord or Tenant (as the case may be) pursuant to the provisions of this Lease and enforceable at the time of such damage, loss and/or injury; (b) which would have been covered under any insurance required to be obtained and maintained by Tenant under this Lease had such insurance been obtained and maintained as required in this Lease; or (c) actually insured against. The foregoing waivers shall be in addition to, and not a limitation of, any other waivers or releases contained in this Lease, and shall survive the expiration of the Lease Term or earlier termination of this Lease.

b. Tenant shall use its reasonable commercial efforts to cause each insurance policy required to be obtained by Tenant under this Lease (except for workman's compensation insurance) to provide that the insurer waives all rights of recovery by way of subrogation against Indemnitees in connection with any Liabilities covered by such policy; provided, however, that Tenant's reasonable commercial efforts shall not require Tenant to pay a premium for such waiver in excess of five percent (5%) of the policy premium amount without the waiver.

ARTICLE 17. INDEMNIFICATION AND WAIVER OF CLAIMS

Except to the extent arising out of the gross negligence or willful misconduct of any Indemnitee, Tenant waives all claims against Indemnitees for Liabilities related to destruction, damage or injury of or to personal property in or about the Premises and for death or injury to any persons, regardless of their cause or time of occurrence, including, without limitation: (a) any loss of or damage to property by theft or otherwise; and (b) any injury (including death) or damage to persons or property resulting from any casualty, explosion, or from water or rain which may leak from any part of the Premises, or from the pipes, appliances or plumbing works therein or from the roof, street or subsurface, or from any other place. In addition, Tenant waives all claims against Indemnitees for any consequential or punitive damages resulting from any acts of Indemnitees under this Lease, whether or not wrongful. Tenant will defend, indemnify and hold Indemnitees harmless for, from and against any and all Liabilities, regardless of any alleged fault by any Indemnitee, arising out of, connected with or resulting from (x) any act or omission in, on, about or arising out of, or in connection with, the use, operation, maintenance and occupancy of the Building or the Premises, or any part thereof, by Tenant or Tenant Parties, whether or not consented to by Landlord, including, without limitation, any failure of Tenant or Tenant Parties to comply fully with the terms and conditions of this Lease, or (y) any violation or breach of this Lease by Tenant, whether or not such violation or breach constitutes an Event of Default. In case any action or proceeding is brought against any Indemnitee by reason of any such Liabilities, Tenant, upon notice from Landlord, shall defend the same at Tenant's expense using counsel approved in writing by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant's and Landlord's covenants, agreements and indemnification in this Article are not intended to and shall not relieve any insurance carrier of its obligations under policies required to be carried by Tenant or Landlord pursuant to the provisions of this Lease. The foregoing indemnity shall not cover any damage or injury that is the direct result of intentional wrongful acts by Landlord. The provisions of this Article shall survive expiration of the Lease Term or earlier termination of this Lease.

ARTICLE 18. <u>MAINTENANCE AND REPAIRS</u>

a. Except to the extent such repairs or maintenance are due to the acts or omissions of Tenant or any of the Tenant Parties, in which case Tenant shall be responsible for the cost of such repairs or maintenance, Landlord shall keep and maintain in good and sanitary condition, repair and working order and make repairs to and perform maintenance upon (a) the Building and (b) the Premises and every part thereof that is not Tenant's express responsibility under this Lease, including without limitation:

i..Structural elements of the Building, including without limitation exterior structural walls, load bearing walls, foundations, and floor slab;

ii..Mechanical (including HVAC), electrical, plumbing, boilers, pressure vessels, clarifiers, and fire/life safety systems and sprinklers, including fire alarm and/or smoke detectors;

iii..Landscaping, irrigation, driveways, parking lots, signs and directories (except as otherwise expressly set forth herein as Tenant's obligations), sidewalks and parkways located in, on, or adjacent to the Building;

iv..The roofs of the Building;

v..Exterior windows of the Building, including plate glass and skylights;

vi..Utility lines and connections in and to the Building; and

vii..Elevators and escalators serving the Premises

(collectively, "Landlord's Maintenance Obligations"). Landlord shall promptly make repairs (considering the nature and urgency of the repair) for which Landlord is responsible.

b. Tenant shall, at its sole expense, keep the interior of the Premises in good and sanitary order, condition and repair, reasonable wear and tear excepted, and promptly perform all maintenance and repairs (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Tenant, and whether or not the need for such repairs occurs as a result of Tenant's use, the elements or the age of such portion of the Premises) to (a) floor and window coverings; (b) interior partitions; (c) doors; (d) the interior sides of demising walls and ceilings; (e) lighting fixtures and facilities; (f) interior painting and wall coverings; (g) electronic, phone and data cabling and related equipment that is installed by or for the exclusive benefit of Tenant; (h) private showers; (i) any permitted Signs (as hereinafter defined); and (j) to the extent any of the following (i) are installed by or on behalf of Tenant as part of Tenant's Work or an Alteration and (ii) exclusively serve the Premises, mechanical (including HVAC), electrical, plumbing, boilers, pressure vessels, clarifiers, and fire/life safety systems and sprinklers, including fire alarm and/or smoke detectors. All such work shall be performed in accordance with the terms and provisions of this Lease, including without limitation the provisions of Article 14 hereof entitled "Alterations; Mechanic's Liens." If Tenant fails to make any repairs to the Premises for more than fifteen (15) days after notice from Landlord (although notice shall not be required if there is an emergency), Landlord may make the repairs, and Tenant shall pay to Landlord as Additional Rent the reasonable cost of the repairs within thirty (30) days after receipt of an invoice, together with an administrative charge in an amount equal to ten percent (10%) of the cost of the repairs. Tenant's obligations set forth in the preceding sentence shall survive expiration of the Lease Term or earlier termination of this Lease.

c. In addition to Landlord's Maintenance Obligations as set forth above, any and all repairs, restoration, and/or replacements of a capital nature which are necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair shall be made by Landlord, and the cost of such repair, restoration or replacement shall be charged back to Tenant as Additional Rent on a monthly basis determined by dividing the total cost of such repair, restoration or replacement by the reasonably projected useful life in months of such item(s).

ARTICLE 19. SIGNS

a. Landlord shall retain absolute control over the exterior appearance of the Building and the appearance of the Premises from the exterior thereof. No sign, placard, picture, advertisement, lettering, name or notice ("Sign") shall be inscribed, displayed, printed or affixed on or to any part of the Premises that can be seen from outside the Premises, and Tenant will not place or install, or permit the placement or installation of, any Signs, drapes, shutters, or any other items that will in any way alter the exterior appearance of the Building or the Premises, without (a) the prior written consent of Landlord, which consent Landlord may withhold in its sole and absolute discretion, and (b) to the extent required, the formal approval of any local municipalities or governing boards, ensuring compliance with applicable municipal, county and state laws and ordinances as well as applicable covenants, conditions and restrictions, if any. Tenant shall not place or install any signage in the Common Areas, including without limitation any temporary signage such as sandwich board signs, signs on easels and signs affixed to or hanging from walls, windows or doors. If Tenant is allowed to print or affix or in any way place a Sign in, on, or about the Premises, upon expiration of the Lease Term or earlier termination of this Lease, Tenant, at Tenant's sole cost and expense, shall both remove such Sign and repair all damage in such manner as to restore all aspects of the Premises and the Building to the condition existing prior to the placement of said Sign. All approved Signs on outside doors shall be printed, painted, affixed or inscribed at the expense of Tenant by a person approved in advance by Landlord utilizing a method approved in advance by Landlord. Any work performed by Tenant in contravention to the provisions of this Lease may be removed by Landlord with or without notice at Tenant's sole expense, with all expenses incurred by Landlord in connection therewith, including payment of fines and repair of any damage, constituting Additional Rent. Tenant's obligations set forth in the preceding sentence shall survive expiration of the Lease Term or earlier termination of this Lease. Notwithstanding the foregoing, Landlord shall, at Landlord's sole cost and expense, install Tenant's trade name at or near the entryway to the Premises as well as Tenant's trade name and suite number on Building directory sign, if any. All such letters or numerals shall be in accordance with the criteria established by Landlord for the Building. Unless otherwise approved by Landlord, the trade name shall not include a logo or other graphic representation or symbol of Tenant's name.

b. In addition, Tenant shall have the right to retain Tenant's Building signage as permitted under the Existing Lease, which Building signage is depicted on Exhibit "G" attached hereto, provided further that if the City of Scottsdale (the "City") shall require Tenant to relocate its Building sign to an alternative location on the Building, Tenant shall have the right to do so subject to Tenant's payment of all costs associated therewith and to Landlord's and the City's approval (not to be unreasonably withheld in Landlord's case) of the relocation. Tenant's signage right on the Building is non-exclusive. Upon the expiration or earlier termination of this Lease, Tenant shall, at its sole cost and expense, remove Tenant's Building signage and repair any damage resulting therefrom. If Tenant fails to timely remove its Building signage, Landlord may remove such signage on behalf of Tenant and Tenant shall reimburse Landlord for the actual cost thereof within thirty (30) days after Landlord's invoice therefor is submitted to Tenant.

ARTICLE 20. ENTRY BY LANDLORD

Tenant will permit Landlord and Landlord Parties to enter the Premises at all reasonable times for the purpose of (a) inspecting the Premises, (b) maintaining the Building or any part thereof, (c) making repairs, alterations or additions to any portion of the Building, including the erection and maintenance of such scaffolding, canopies, fences and props as may be required therefor, (d) posting notices of non-responsibility for Alterations or repairs, (e) showing the Premises to prospective tenants during the last nine (9) months of the Lease Term, (f) exercising and performing Landlord's rights and obligations under this Lease, or (g) placing upon the Building, or any portion thereof, any usual or ordinary "for sale" signs, all without any right of Tenant to an offset against or abatement of Rent and without any liability to Tenant for any loss of occupation or quiet enjoyment of the Premises thereby occasioned. Landlord shall have the right, at any time within the final six (6) months of the Lease Term, to place upon the Premises any usual or ordinary "for lease" signs. In exercising such entry rights, Landlord shall endeavor to minimize, as reasonably practicable, the interference with Tenant's Permitted Use, and shall provide Tenant with 24-hour advance telephonic or electronic mail notice of such entry (except in emergency situations, if an Event of Default exists, or in cases of routine maintenance or cleaning, in which cases no notice shall be required). Landlord may use any means which Landlord may deem proper to open and obtain entry to the Premises in an emergency. Any entry to the Premises by Landlord shall not be construed or deemed to be forcible or unlawful entry into, or detainer of, the Premises, or an eviction of Tenant from the Premises, or grounds for any abatement or reduction of Rent.

ARTICLE 21. ABANDONMENT; SURRENDER

a. Tenant will not vacate or abandon the Premises. "Abandonment," as used herein, shall mean the failure by Tenant to conduct business in the Premises for a period of ten (10) consecutive Business Days and/or the failure of Tenant to occupy the Premises for a period of time greater than seven (7) calendar days. No act or thing done by Landlord or Landlord Parties shall be deemed an acceptance of a surrender of the Premises unless such acceptance is expressed in writing and duly executed by Landlord. The delivery of any keys to the Premises to Landlord or Landlord Parties shall not operate as a termination of this Lease or as an acceptance of Tenant's surrender of the Premises. If Tenant Abandons, vacates or surrenders the Premises, or is dispossessed by process of law or otherwise, any personal property left in or about the Premises shall, at the option of Landlord, be deemed abandoned and title thereto shall pass to Landlord under this Lease as by a bill of sale; provided, however, that Landlord may, at its sole discretion, remove all or any part of such personal property from the Premises and the expenses incurred by Landlord in connection therewith, including storage costs and the cost of repairing any damage to the Premises and/or the Building caused by such removal, plus an administrative fee of ten percent (10%), shall constitute Additional Rent. The obligations of Tenant under this Section shall survive the expiration or earlier termination of this Lease.

b. Tenant shall, upon the expiration of the Lease Term or earlier termination of this Lease, surrender the Premises to Landlord, broom clean and in the same condition as that existing on the Commencement Date, ordinary wear and tear excepted. Upon the expiration of the Lease Term or earlier termination of this Lease, Tenant shall surrender to Landlord all keys to the Premises.

ARTICLE 22. DAMAGE

a. In the event the Premises or the Building, or any portion thereof, shall be damaged by fire or other casualty, which damage substantially interferes with Tenant's use of the Premises, and provided that Tenant shall have promptly provided notice to Landlord of such damage, this Lease shall terminate one hundred eighty (180) days after Landlord's receipt of notice of such damage, unless Tenant receives written notice of Landlord's election to repair said damage within such period of time, in which case this Lease shall continue in full force and effect. If this Lease is terminated pursuant to this Section and if an Event of Default has not occurred, Rent shall be prorated as of the date of termination of this Lease and the Security Deposit shall be returned to Tenant, less any offsets permitted hereunder, and all rights and obligations under this Lease shall cease and terminate, except as to those that are stated herein to survive expiration of the Lease Term or termination of this Lease.

b. Intentionally omitted.

c. In the event of any damage to the Building or the Premises to the extent of twenty-five percent (25%) or more of the replacement cost of either the Building or the Premises, or in the event the Building shall be damaged to the extent of twenty-five percent (25%) or more of the replacement aggregate cost thereof, Landlord may elect to terminate this Lease upon written notice to Tenant of such election within ninety (90) days after the occurrence of the event causing the damage.

d. Landlord's repairs pursuant to the provisions of this Article, if any, shall be limited to such repairs as are necessary to place the Building or Premises in the condition existing on the Commencement Date, and when placed in such condition the Building and Premises shall be deemed restored and rendered tenantable and Tenant, at its sole expense, shall immediately perform, in accordance with the provisions of Article 14 hereof, entitled "Alterations; Mechanic's Liens," any additional work required and repair or replace its stock in trade, fixtures, furniture, furnishings and equipment.

e. All insurance proceeds payable under any fire and/or rental interruption insurance shall be paid solely to Landlord, and Tenant shall have no interest therein. Insurance proceeds for Tenant's separate insured interest, such as renter's insurance or business interruption insurance, shall be payable to Tenant. Tenant shall in no case be entitled to compensation for damages on account of any annoyance or inconvenience in making repairs under any provision of this Lease.

f. In the event of any damage to the Building or the Premises that does not result in the termination of this Lease, all Rent and other charges payable hereunder shall abate in proportion to that part of the Premises rendered unusable by such damage. Except to the extent provided in this Article, neither the Rent payable by Tenant nor any of Tenant's obligations under any provision of this Lease shall be affected by any damage to or destruction of the Building or Premises, or any portion thereof, by any cause whatsoever.

ARTICLE 23. ASSIGNMENT, SUBLETTING AND TRANSFERS OF OWNERSHIP

a. Except with respect to a Transfer (as hereinafter defined) to a Permitted Transferee (as hereinafter defined), Tenant will not assign, sublet, sell, mortgage, encumber, convey, hypothecate or otherwise transfer all or any part of Tenant's interest in this Lease, or permit the Premises to be occupied by anyone other than Tenant and Tenant's employees (each of the foregoing transactions referred to herein as a "Transfer" and any party with whom a Transfer has occurred referred to herein as a "Transferee"), without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall request Landlord's consent to any proposed Transfer at least thirty (30) days prior to the proposed effective date of such proposed Transfer. Tenant's written request shall include at least the following: (a) the name and legal composition of the proposed Transferee; (b) the nature of the proposed Transferee's business and the use to which it intends to put the Premises; (c) the terms and conditions of the proposed Transfer; (d) information related to the experience and financial resources of the proposed Transferee; (e) such other information as Landlord may request to supplement, explain or provide details of the matters submitted by Tenant pursuant to clauses (a) through (d) above; and (f) funds sufficient to reimburse all costs incurred by Landlord, including attorneys' fees, in connection with evaluating Tenant's request and preparing any related documentation.

b. In the event Landlord consents to a Transfer, fifty percent (50%) of any Rent or other compensation paid to Tenant in excess of the Rent payable to Landlord pursuant to this Lease for the portion of the Premises subject to the Transfer, as measured on a per-square-foot basis, less reasonable costs incurred by Tenant in connection with the Transfer for brokerage fees, attorneys' fees, tenant improvements and other concessions reasonably required to induced the Transferee, shall be paid by Tenant to Landlord as Additional Rent. For purposes of this Section, the amount due to Tenant by a Transferee will be deemed to include any lump sum payment or other consideration given to Tenant in consideration of the Transfer. Tenant's obligations set forth in this Section shall survive expiration of the Lease Term or earlier termination of this Lease.

c. Landlord's acceptance of Rent from Tenant or any Transferee shall not constitute a waiver by Landlord of the provisions of this Lease or a release of Tenant from any of its covenants, duties or obligations stated herein.

d. Intentionally omitted.

e. Notwithstanding anything to the contrary contained in this Article 23, in the event Tenant contemplates a Transfer of all or a portion of the Premises (or in the event of any other Transfer or Transfers entered into by Tenant as a subterfuge in order to avoid the terms of this Section 23.5, Landlord shall have the option, by giving written notice to Tenant within thirty (30) days after receipt of any Tenant's Transfer notice, to recapture the space subject to Tenant's desired Transfer (the "Contemplated Transfer Space"). In the event such option is exercised by Landlord, this Lease shall be canceled and terminated with respect to such Contemplated Transfer Space as of the contemplated effective date of the Transfer until either (i) the last day of the term of the contemplated Transfer as set forth in Tenant's intention to transfer notice or (ii) the last day of the Lease Term, as Landlord may elect in its sole discretion.

f. If a default under this Lease should occur while the Premises or any part thereof is subject to a Transfer, Landlord may, at its option and in addition to any other rights or remedies provided for herein, at law or in equity, collect directly from the Transferee all rent or other consideration becoming due to Tenant from the Transferee and apply such sums against any Rent due to Landlord from Tenant. Tenant authorizes and directs any Transferee to make payment directly to Landlord of any and all sums due to Tenant under any Transfer upon written notice from Landlord. No direct collection by Landlord from any Transferee shall be construed to constitute a novation or a release of Tenant or any Guarantor from the further performance of their respective obligations hereunder. The terms of this Section shall survive expiration of the Lease Term or earlier termination of this Lease.

g. If Tenant is a corporation, partnership or limited liability company, the issuance of any additional stock or equity interest and/or the transfer, assignment or hypothecation of any stock or interest in such corporation, partnership or limited liability company in the aggregate in excess of forty percent (40%) of such stock or interests, as the same may be constituted as of the date of this Lease, whether directly or indirectly, shall be deemed to be a Transfer within the meaning of this Article, provided that if Tenant is an entity whose stock is publicly traded on a recognized exchange, no sale or other transfer of any portion of Tenant's stock shall constitute a Transfer.

23.7 Notwithstanding any other provision in this Lease, Landlord's consent shall not be required for an assignment of this Lease (i) to any person(s) or entity that controls, is controlled by, or is under common control with Tenant, (ii) to any entity resulting from the merger, acquisition, consolidation, or other reorganization with Tenant, whether or not Tenant is the surviving entity, (iii) to any person or legal entity that acquires all or substantially all of the assets or stock of Tenant (each of the foregoing is hereinafter referred to as a "Permitted Transferee"), provided that before such assignment shall be effective, (w) Tenant shall not be released from any of its covenants, duties or obligations hereunder, (w) the net worth of the Permitted Transferee (as determined in accordance with generally acceptable accounting principles) shall not be less than the net worth of Tenant (and any Guarantor) (as determined in accordance with generally acceptable accounting principles) as of the Effective Date, (x) the Permitted Transferee shall deliver to Landlord a written document by which the Permitted Transferee assumes in full the obligations of Tenant under this Lease, (y) Landlord shall be given written notice of such assignment and assumption, including a copy of the document(s) that evidence the assignment, and (z) the use of the Premises by the Permitted Transferee shall be as set forth in Article 1. The term “control” means possession, directly or indirectly, of the power to direct or cause the direction of the management, affairs, and policies of anyone, whether through the ownership of voting securities, by contract, or otherwise.

h. Landlord’s express written consent to a Transfer shall not constitute a release of Tenant from any of its covenants, duties or obligations hereunder, including Tenant’s obligation to pay Rent when due, whether occurring before or after such Transfer, nor shall Landlord’s consent to any one Transfer constitute Landlord’s consent to any other or subsequent Transfers.

ARTICLE 24. EVENTS OF DEFAULT

a. Tenant will be in breach of this Lease (an “Event of Default”) if at any time during the Lease Term:

i..Tenant fails to make payment of any installment of Rent as and when due where such failure shall continue for a period of five (5) days after Tenant’s receipt of written notice from Landlord; provided, however, that no such written notice shall be required to be provide by Landlord to Tenant following the second (2nd) failure during the Lease Term;

ii..Tenant fails to timely perform any of its obligations to obtain and keep in full force and effect the insurance required hereunder, which failure shall constitute an immediate default hereunder without the requirement of any notice and cure period, or Tenant fails to perform any of its other obligations under Article 15 hereof entitled “Insurance”;

iii..Tenant fails to timely deliver a statement pursuant to Article 30 hereof entitled “Estoppel Certificate”.

iv..Tenant fails to observe, perform or fulfill any of its other duties, covenants, agreements or obligations hereunder as and when due, and such failure continues for a period of thirty (30) days after Tenant’s receipt of written notice from Landlord; provided, however, that if the nature of Tenant’s obligation is such that more than thirty (30) days are reasonably required for its performance, then Tenant will not be in breach if Tenant commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion, but in no event shall such time period extend beyond sixty (60) days;

v..Tenant, any Guarantor, or any Transferee becomes insolvent, makes a transfer in fraud of its creditors, makes a transfer for the benefit of its creditors, is the subject of a bankruptcy petition, or is adjudged bankrupt or insolvent in proceedings filed against it; or a receiver, trustee, or custodian is appointed for all or substantially all of any such party’s assets; or any such party fails to pay its debts as they become due, convenes a meeting of all or a portion of its creditors, or performs any acts of bankruptcy or insolvency, including the selling of its assets to pay creditors or the attachment, execution or other judicial seizure of substantially all of such party’s assets located at the Premises or of such party’s interest in this Lease where such seizure is not discharged within sixty (60) days; or

vi..Tenant Abandons the Premises.

ARTICLE 25. REMEDIES OF LANDLORD

a. Nothing contained herein shall constitute a waiver of Landlord’s right to recover damages by reason of Landlord’s efforts to mitigate damages following an Event of Default, nor shall anything contained herein adversely affect Landlord’s right to indemnification against liability for injury or damages to persons or property occurring prior to expiration of the Lease Term or earlier termination of this Lease.

b. All cure periods provided to Tenant herein shall run concurrently with any periods provided by law.

c. If an Event of Default exists, in addition to any other rights or remedies provided for herein or at law or in equity, Landlord, at its sole option, shall have the following rights:

i..The right to declare this Lease at an end, to reenter the Premises and take possession thereof and to terminate all of the rights of Tenant, and anyone claiming by, under or through Tenant, in and to the Premises.

ii..The right to reenter the Premises without declaring this Lease at an end and to occupy the same, or any portion thereof, for and on account of Tenant as hereinafter provided, in which event Tenant shall be liable for and pay to Landlord on demand all such expenses as Landlord may have paid, assumed or incurred in recovering possession of the Premises, including, without limitation, costs, expenses, attorneys' fees and expenditures placing the same in good order, or preparing or altering the same for reletting, and all other expenses, commissions and charges paid by Landlord in connection with reletting the Premises. Any such reletting may be for the remainder of the Lease Term or for a longer or shorter period. Such reletting shall be for such rent and on such other terms and conditions as Landlord, in its sole discretion, deems appropriate. Landlord may execute any lease either in Landlord's own name or in the name of Tenant, or assume Tenant's interest in any existing subleases to any Transferee, as Landlord may see fit, and Tenant shall have no right or authority whatsoever to collect any rent from such tenants or Transferee. No re-entry or taking possession of the Premises or reletting thereof by Landlord pursuant to this Subsection, and no acceptance of surrender of the Premises or other action on Landlord's part, shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant. In any case, and whether or not the Premises or any part thereof is relet, Tenant shall be liable until the end of the Lease Term for Rent less net proceeds, if any, of any reletting effected for the account of Tenant, and in no event shall Tenant be entitled to any excess Rent received by Landlord over and above that which Tenant is obligated to pay hereunder. Landlord reserves the right to bring such actions for the recovery of any deficits remaining unpaid by Tenant to Landlord hereunder as Landlord deems advisable from time to time, without being obligated to await the end of the Lease Term. Commencement or maintenance of one or more such actions by Landlord shall not bar Landlord from bringing any subsequent actions for further accruals. The terms of this Subsection shall survive expiration of the Lease Term or earlier termination of this Lease.

iii..Regardless of whether Landlord has relet all or any portion of the Premises as provided above, Landlord shall have the right at any time to elect to terminate this Lease for such previous default on the part of the Tenant and to terminate all the rights of Tenant in and to the Premises, or to continue this Lease in full force and effect, whether or not Tenant shall have Abandoned the Premises. In the event Landlord elects to continue this Lease in full force and effect, then Landlord shall be entitled to enforce all of its rights and remedies under this Lease, including the right to recover Rent as it becomes due. Landlord's election not to terminate this Lease shall not preclude Landlord from subsequently electing to terminate this Lease or pursuing any of its other remedies.

iv..Pursuant to the rights of re-entry provided above, Landlord may remove all persons from the Premises and may, but shall not be obligated to, (a) remove all property therefrom and (b) enforce any rights Landlord may have against said property or store the same in any public or private warehouse or elsewhere at the cost and for the account of Tenant or the owner or owners thereof Such action by the Landlord shall not constitute a termination of this Lease. Tenant agrees to indemnify Indemnitees and to hold Indemnitees free and harmless for, from and against any liability whatsoever for the removal and/or storage of any such property, whether belonging to Tenant or any third party whomsoever. The indemnity set forth in the preceding sentence shall survive expiration of the Lease Term or earlier termination of this Lease.

d. If Tenant shall fail to pay any Rent or perform any other covenant or obligation on its part to be performed hereunder and such failure is not cured within the applicable cure period prescribed herein, Landlord may, without waiving or releasing Tenant from any of Tenant's obligations or the Event of Default, make such payment or perform such covenant or obligation on behalf of Tenant. All sums paid by Landlord and all necessary incidental costs incurred by Landlord in performing such covenant or obligation, together with interest at the Default Rate from the date incurred until paid, shall be paid by Tenant to Landlord within thirty (30) days after written demand therefor. The foregoing rights are in addition to any and all remedies available to Landlord upon an Event of Default. In the event that Tenant shall fail to perform any of its maintenance and repair obligations set forth herein, Landlord may elect, but shall not be obligated, to assume such obligations of Tenant for the remainder of the Lease Term, in which event Tenant shall pay to Landlord, in addition to any other sums set forth herein, a management fee equal to three percent (3%) of the cost of the maintenance and repair obligations to compensate Landlord for its service obligations so assumed.

e. If any payment of Rent payable by Tenant hereunder is not received by Landlord within five (5) days after the due date, it shall bear interest at the Default Rate from the date due until paid.

f. Tenant acknowledges that, in addition to interest costs, the late payment by Tenant to Landlord of any Rent will cause Landlord to incur costs not contemplated by this Lease, the exact amount of such costs being extremely difficult and impractical to fix. Such other costs include, without limitation, processing, administrative and accounting charges and late charges that may be imposed on Landlord by the terms of any mortgage, deed of trust or related loan documents encumbering the Premises. Accordingly, if any payment of Rent is not received by Landlord within three (3) days of the date upon which such payment is due, Tenant shall pay to Landlord as a late charge an additional sum equal to the greater of (a) $250.00 or (b) five percent (5%) of the overdue amount. The parties agree that such late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of any late payment by Tenant, and the payment of late charges and interest are distinct and separate in that the payment of a late charge is to compensate Landlord for Landlord's processing, administrative and other costs incurred by Landlord as a result of Tenant's delinquent payments. Acceptance of a late charge or interest shall not constitute a waiver of the Event of Default or prevent Landlord from exercising any of the other rights and remedies available to Landlord under this Lease.

g. If Tenant fails to remove by the expiration or earlier termination of this Lease all of Tenant's personal property, or any items of Alterations identified by Landlord for removal, Landlord, in addition to Landlord's other rights and remedies under this Lease, may (a) remove and store such items and (b) upon ten (10) days prior notice to Tenant, sell all or any such items at private or public sale for such price as Landlord may obtain. Landlord shall apply the proceeds of any such sale to any amounts due to Landlord under this Lease from Tenant (including Landlord's reasonable attorneys' fees and other costs incurred in the removal, storage, and/or sale of such items), with the remainder, if any, to be paid to Tenant. Tenant agrees to indemnify Indemnitees and to hold Indemnitees free and harmless for, from and against any liability whatsoever for the removal and/or storage of any such property, whether belonging to Tenant or any third party whomsoever. In the event there is a cost to Landlord associated with such removal, storage, and/or sale in excess of any proceeds of any such sale, then Tenant shall, within thirty (30) days of receipt of written notice of such cost, pay the full amount of such cost to Landlord. The provisions of this Section shall survive the expiration or earlier termination of this Lease.

h. If Landlord terminates this Lease due to an Event of Default, then Landlord may recover from Tenant, in addition to the remedies permitted at law:

i..The worth, at the time of the award, of the unpaid Base Monthly Rent and Additional Rent which had been earned as of the time this Lease is terminated;

ii..The worth, at the time of the award, of the amount by which the Rent that would have been earned after the date of termination of this Lease until the time of award exceeds the amount of the loss of rents that Tenant proves could be reasonably avoided;

iii..The worth, at the time of the award, of the amount by which the Rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss for such period as the Tenant proves could have been reasonably avoided; and

iv..Any other amount necessary to compensate Landlord for all detriment caused by the Event of Default, or which in the ordinary course of events would be likely to result therefrom, including, without limitation, (a) expenses for cleaning, repairing or restoring the Premises and removal (including the repair of any damage caused by such removal) and storage (or disposal) of Tenant's personal property, equipment, fixtures, Alterations, and any other items which Tenant is required under this Lease to remove but does not remove, (b) expenses for altering, remodeling or otherwise improving the Premises for the purpose of reletting the Premises, (c) brokers' fees and commissions, advertising costs and other expenses of reletting the Premises, (d) costs of carrying the Premises such as taxes, insurance premiums, utilities and security precautions, (e) expenses of retaking possession of the Premises, (f) reasonable attorney's fees and court costs, (g) any unamortized brokerage commissions paid in connection with this Lease, and (h) reimbursement of any rental or other concessions granted or made in favor of Tenant in consideration of this Lease including, but not limited to, any moving allowances, contributions or payments by Landlord for tenant improvements or buildout allowances or assumptions by Landlord of any of the Tenant's previous lease obligations.

Landlord shall use commercially reasonable efforts as required by applicable law to mitigate any and all damages resulting from any Tenant default hereunder.

i. All past due amounts owed by Tenant under this Lease shall bear interest at the greater of the prime interest rate plus ten percent (10%) per annum or eighteen percent (18%) per annum (the "Default Rate") unless otherwise stated; provided, however, that the Default Rate shall in no event exceed the maximum rate (if any) permitted by applicable law. The terms of this Section shall survive expiration of the Lease Term or earlier termination of this Lease.

j. All rights, options and remedies of Landlord contained in this Lease shall be construed and held to be cumulative, and no one of them shall be exclusive of the other, and Landlord shall have the right to pursue any one or all of such remedies or any other remedy or relief which may be provided by law or in equity, whether or not stated in this Lease. Nothing in this Article shall be deemed to limit or otherwise affect Tenant's indemnification of Indemnitees pursuant to any provision of this Lease.

ARTICLE 26. SURRENDER OF PREMISES NOT MERGER

The voluntary or other surrender of the Premises by Tenant, or mutual cancellation of this Lease by Landlord and Tenant, will not be deemed to merge the interests of Landlord and Tenant in and to the Premises. Any such surrender or cancellation may, at the option of Landlord, operate as a termination of all or any existing Transfers or as an assignment to Landlord of any or all of such Transfers.

ARTICLE 27. ATTORNEYS' FEES; COLLECTION CHARGES

a. In the event of any legal action, arbitration or proceeding between the parties hereto, reasonable attorneys' fees, court costs and expenses of the prevailing party shall be added to the judgment therein. Should any Indemnitee be named as defendant in any suit brought against Tenant or any Tenant Parties in connection with or arising out of this Lease or such party's occupancy of the Premises, Tenant shall pay all costs and expenses incurred by such Indemnitee in such suit as Additional Rent, including, without limitation, reasonable attorneys' fees of separate counsel selected by Landlord.

b. If Landlord utilizes the services of an attorney or other professional to enforce any of its rights under or arising from this Lease, whether or not an Event of Default has occurred, Tenant agrees to pay Landlord's reasonable costs and expenses, including without limitation appraisers, accountants, attorneys, and other professional fees, regardless of the fact that no legal action may be commenced or filed by Landlord and whether or not any such action is prosecuted to judgment.

c. The terms of this Article shall survive expiration of the Lease Term or earlier termination of this Lease.

ARTICLE 28. CONDEMNATION

a. If twenty-five percent (25%) or more of the square footage of the Premises is taken for any public or quasi-public purpose by any governmental power or authority, by exercise of the right of appropriation, reverse condemnation, condemnation, eminent domain or deed in lieu thereof (such taking being referred to herein as a “Taking”), and if the remaining portion of the Premises is not reasonably adequate for the operation of Tenant’s business after Landlord completes any repairs or alterations that Landlord elects to make, either Tenant or Landlord may terminate this Lease by notifying the other party of such election in writing within twenty (20) days after title has vested in the taking authority.

b. If less than twenty-five percent (25%) of the Premises is subject to a Taking, Landlord at its option may terminate this Lease. If Landlord does not so elect to terminate this Lease, Landlord will promptly proceed to restore the Premises to substantially its same condition existing prior to such partial Taking, allowing for any reasonable effects of such Taking, and a proportionate allowance based on the loss of square footage will be made to Tenant for the Rent corresponding to the time during which, and to the part of the Premises which, Tenant is deprived on account of such Taking and restoration.

c. Tenant may not assert any claim against Landlord or the taking authority for any compensation because of such Taking, and Landlord will be entitled to receive the entire amount of any award without deduction for any estate or interest of Tenant in and to the Premises. Tenant shall, however, have the right, to the extent that the same shall not reduce or prejudice amounts available to Landlord, to claim from the taking authority, but not from Landlord, such compensation as may be recoverable by Tenant in its own right for relocation benefits, moving expenses and damage to Tenant’s personal property and trade fixtures.

ARTICLE 29. RULES AND REGULATIONS

Tenant will faithfully observe and comply with, and shall be responsible to enforce with respect to Tenant Parties, any and all rules and regulations promulgated by Landlord for the Premises from time to time (the “Rules and Regulations”). Landlord’s current Rules and Regulations are attached hereto as Exhibit “E.” Landlord reserves the right to modify and amend the Rules and Regulations as it deems necessary or desirable, in Landlord’s sole discretion and with or without notice to Tenant. Landlord and Landlord Parties will not be responsible to Tenant for the failure of any party to observe the Rules and Regulations. The terms of the previous sentence shall survive the expiration of the Lease Term or earlier termination of this Lease.

ARTICLE 30. ESTOPPEL CERTIFICATE

Tenant will execute and deliver to Landlord, within ten (10) Business Days of Landlord’s written demand, a statement in writing addressed to Landlord or to any third party selected by Landlord, certifying (a) that this Lease is in full force and effect and has not been amended or, if amended, certifying copies of such amendment(s), (b) the amount of Base Monthly Rent and Additional Rent payable hereunder, (c) the date to which Rent and other charges are paid, (d) that there are not, to Tenant’s knowledge, any uncured defaults of Landlord hereunder or specifying such defaults if they are claimed, (e) that Tenant will not amend, terminate or make prepayment of more than one month’s Rent under this Lease, (f) that any Notice (as hereinafter defined) required hereunder to be given to Landlord shall be given also to Mortgagee and any right of Tenant hereunder which is dependent on such Notice shall take effect only after Notice is so given, and (g) all such other matters as Landlord may reasonably request. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises. Tenant’s failure to deliver such statement within such ten (10)

Business Day period shall be conclusive upon Tenant that (x) this Lease is in full force and effect, without modification except as may be represented by Landlord; (y) there are no uncured defaults in Landlord's performance; and (z) not more than one (1) month's Rent has been paid in advance. Tenant shall indemnify, protect, defend (with counsel reasonably approved by Landlord in writing) and hold Indemnitees harmless from and against any and all Liabilities attributable to any failure by Tenant to timely deliver any such estoppel certificate to Landlord.

ARTICLE 31. SALE BY LANDLORD

The term "Landlord" as used in this Lease shall be limited to mean and include only the owner or owners, at the time in question, of the fee title to the Premises and any and all owners of the fee title to the Premises during the Lease Term for purposes of the indemnities with respect to matters arising while owned by the applicable Landlord. Upon any transfer or conveyance of any such title or interest (other than a transfer for security purposes only), the transferor shall be automatically relieved of all covenants and obligations on the part of the Landlord contained in this Lease, whether express or implied, ripe or not, and in such event Tenant agrees to look solely to the successor in interest of Landlord in and to this Lease. This Lease will not be affected by any such sale, and Tenant agrees to attorn to the Landlord's successor in interest. Landlord and Landlord's transferees and assignees shall have the absolute right to transfer all or any portion of their respective title and interest in the Premises and this Lease without the consent of Tenant.

ARTICLE 32. NOTICES

Any and all notices, statements, demands, requests, consents, approvals, authorizations, offers, agreements, appointments or designations required or permitted hereunder ("Notices") shall be in writing and shall be effective (a) upon personal delivery, or (b) three (3) Business Days after being deposited in the U.S. Mail, registered or certified, return receipt requested, postage prepaid, or (c) one (1) Business Day after being deposited with any commercial air courier or express service, addressed as set forth in Article 1 hereof or at any other address designated by any party hereto in the manner provided above. The inability to deliver because of a changed address of which no Notice was given, or rejection or other refusal to accept any Notice, shall be deemed to be the receipt of the Notice as of the date of such inability to deliver or rejection or refusal to accept.

ARTICLE 33. WAIVER

The failure of Landlord to insist in any one or more cases upon the strict performance of any term, covenant or condition of this Lease will not be construed as a waiver of a subsequent breach of the same or any other term, covenant or condition. The waiver by Landlord of any Event of Default shall not be a waiver of any preceding or subsequent Event of Default, and no delay or omission by Landlord to seek a remedy for any Event of Default hereunder shall be deemed a waiver by Landlord of its remedies or rights with respect to such Event of Default, nor shall Landlord's acceptance of any Rent payment be construed to be a waiver by Landlord of any preceding Event of Default.

ARTICLE 34. HOLDOVER

a. Tenant shall vacate the Premises upon the expiration of the Lease Term or earlier termination of this Lease and shall surrender possession thereof to Landlord in accordance with the terms hereof Tenant shall indemnify Indemnitees for, from and against any and all Liabilities incurred by Indemnitees attributable to any delay hereunder by Tenant. The indemnity set forth in the preceding sentence shall survive expiration of the Lease Term or earlier termination of this Lease.

b. If Tenant remains in possession of the Premises, or any portion thereof, after the expiration of the Lease Term or earlier termination of this Lease without the prior written consent of Landlord, such occupancy shall be deemed a month-to-month tenancy upon all the terms and conditions of this Lease except that Tenant shall pay Base Monthly Rent equal to one hundred fifty percent (150%) of the Base Monthly Rent paid by Tenant during the final month of the Lease Term. Acceptance by Landlord of Rent after such expiration of the Lease Term or earlier termination of this Lease shall not constitute consent to a holdover or result in an extension of this Lease and Tenant shall have no right, whether by purported exercise of any option granted hereunder or otherwise, to expand the Premises or extend the Lease Term. All options, rights of first refusal, and/or rights of first offer, if any, granted under the terms of this Lease shall be terminated and be of no further force or effect during such month-to-month tenancy. Tenant shall be liable, and shall pay to Landlord within ten (10) days after demand, for all losses incurred by Landlord as a result of such holdover, and shall indemnify, defend and hold the Indemnitees harmless from and against all liabilities, damages, losses, claims, suits, costs and expenses (including reasonable attorneys' fees and costs) arising from or relating to any such holdover tenancy, including, without limitation, any claim for damages made by a succeeding tenant. Nothing herein shall limit any of Landlord's rights or Tenant's obligations arising from Tenant's failure to timely surrender possession of the Premises, including, without limitation, Landlord's right to repossess the Premises and remove Tenant therefrom at any time after the expiration or earlier termination of this Lease and Tenant's obligation to reimburse and indemnify Landlord as provided herein.

ARTICLE 35. DEFAULT OF LANDLORD; LIMITATION OF LIABILITY

If Landlord materially defaults in performing any of its obligations under this Lease, Tenant agrees to promptly give notice of such default to Landlord and to afford Landlord a reasonable period of time to cure such default, which period of time shall not be less than thirty (30) days. Landlord shall not be in default in the performance of any obligation required to be performed by Landlord under this Lease unless Landlord has failed to perform such obligation within thirty (30) days after the receipt of written notice from Tenant specifying in detail Landlord's failure to perform; provided however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed in default if it commences such performance within such thirty (30) day period and thereafter diligently pursues the same to completion. Should Tenant give written notice to Landlord to correct any default, then prior to any cancellation of this Lease or the exercise of any other remedies available to Tenant hereunder, Tenant shall give the same notice to Mortgagee, initially at the address set forth in Article 1 hereof, and thereafter at such other addresses of which Tenant may be notified from time to time, and Mortgagee shall be given thirty (30) days, or such longer period of time as may be reasonably necessary, to correct or remedy such failure to perform, but shall have no obligation to do so. If and when the Mortgagee has made performance on behalf of Landlord, Landlord's failure to perform shall be deemed cured. Tenant shall have no right to terminate this Lease except as expressly provided herein. In the event of any actual or alleged failure, breach or default hereunder by Landlord, Tenant's sole and exclusive remedy will be against Landlord's interest in the Building, and Tenant shall not pursue any Indemnitee, nor shall any Indemnitees be subject to service of process or have a judgment obtained against them, in connection with any alleged breach or default. No writ of execution will be levied against the assets of any Landlord Parties. Notwithstanding anything contained in this Lease to the contrary, the obligations of Landlord under this Lease (including any actual or alleged breach or default by Landlord) do not constitute personal obligations of the individual owners, members, partners, directors, officers or shareholders of Landlord, and Tenant shall not seek recourse against the individual owners, members, partners, directors, officers or shareholders of Landlord or any of their personal assets for satisfaction of any liability with respect to this Lease. Tenant hereby covenants and agrees for itself and all of its successors and assigns that the liability of Landlord for its obligations under this Lease (including any liability as a result of any actual or alleged failure, breach or default hereunder by Landlord), shall be limited solely to, and Tenant's and its successors' and assigns' sole and exclusive remedy shall be against Landlord's equity interest in, the Building and proceeds therefrom, and no other assets of Landlord. The covenants and agreements set forth in this Article are enforceable by Indemnitees and shall survive the expiration of the Lease Term or earlier termination of this Lease.

ARTICLE 36. SUBORDINATION

Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, and at the election of Landlord, Mortgagee or any ground lessor with respect to the Building, this Lease will be subject and subordinate at all times to (a) all ground leases or underlying leases which may now exist or hereafter be executed affecting the Building, and (b) the lien of any mortgage or deed of trust which may now exist or may hereafter be executed in any amount for which the Building, ground leases or underlying leases, or Landlord's interest or estate therein, is specified as security. In the event that any ground lease or underlying lease terminates for any reason or any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, Tenant shall, notwithstanding any subordination and at the option of such successor in interest, attorn to and become the Tenant of the successor in interest to Landlord, but only so long as prior thereto such successor in interest has agreed, in writing, not to disturb the interests of Tenant in the Lease. Tenant covenants and agrees to execute and deliver to Landlord within ten (10) days of Landlord's request any reasonably requested document or instrument evidencing such subordination of this Lease with respect to any such ground lease, underlying lease or the lien of any such mortgage or deed of trust. Tenant hereby irrevocably appoints Landlord as attorney-in-fact of Tenant to execute, deliver and record any such document in the name and on behalf of Tenant.

ARTICLE 37. BROKERS

Tenant warrants that it has had no dealings with any broker or agent in connection with this Lease except for those set forth in Article 1 hereof and covenants to pay, hold harmless and indemnify Indemnitees for, from and against any and all costs, expense or liability for any compensation, commissions and charges claimed by any other broker or agent with respect to this Lease or its negotiation. The terms of this Article shall survive expiration of the Lease Term or earlier termination of this Lease.

ARTICLE 38. QUIET POSSESSION

Provided that no Event of Default exists, or would exist but for the passage of time or the giving of notice, Tenant may quietly have, hold and enjoy the Premises during the Lease Term in accordance with and subject to the terms and conditions of this Lease without disturbance from Landlord or from any other person claiming through Landlord.

ARTICLE 39. BUILDING ACCESS AND SECURITY;FIRE/LIFE SAFETY SYSTEM

The Building is secured by an electronically controlled card access security system, which controls all ingress to and egress from the Building and after Building Hours elevator access. Tenant may either, at its sole cost and expense, utilize the Building's access control panels for the installation of "plug-and-play" security components for the Premises or install a separate security system for the Premises. In the event Tenant installs a separate security system ("Tenant's Security System") for the Premises, (i) Tenant shall provide Landlord with the specifications for Tenant's Security System, and access cards or other means by which Landlord may enter the Premises as permitted under this Lease, (ii) Tenant shall be solely liable and responsible for any loss or damage, including without limitation the loss or theft of any equipment or other property belonging to Tenant or Tenant Parties, arising out of or in connection with Tenant's Security System, and (iii) Tenant shall ensure that Tenant's Security System complies with all applicable governmental laws, codes, regulations and ordinances, including without limitation those relating to fire and emergency access. Tenant's Security System shall at all times remain Tenant's personal property. Tenant's Security System shall be considered part of the Premises.

ARTICLE 40. SUBSTITUTE PREMISES

INTENTIONALLY OMITTED

ARTICLE 41. MISCELLANEOUS PROVISIONS

If Tenant executes this Lease as a partnership, each individual executing this Lease on behalf of the partnership represents and warrants that he or she is a general partner of the partnership and that this Lease is binding upon the partnership in accordance with its terms. If Tenant executes this Lease as a corporation or a limited liability company, each of the persons executing this Lease on behalf of Tenant covenants and warrants that Tenant is a duly authorized and existing corporation or limited liability company, that Tenant has and is qualified to transact business in Arizona, that the corporation or limited liability company has full right, authority and power to enter into this Lease and to perform its obligations hereunder, that each person signing this Lease on behalf of the corporation or limited liability company is authorized to do so and that this Lease is binding upon the corporation or limited liability company in accordance with its terms.

a. All Exhibits and Addenda attached hereto are incorporated herein by this reference and made a part this Lease. If any provision contained in an Exhibit or Addendum is inconsistent with any other provision of this Lease, the provision contained in the Exhibit or Addendum shall supersede the provisions contained in herein unless otherwise provided.

b. This Lease and the Exhibits attached hereto contain all of the covenants, provisions, agreements, conditions and understandings between Landlord and Tenant concerning the Premises and any other matter covered or mentioned in this Lease, and no prior agreement or understanding, oral or written, express or implied, pertaining to the Premises or any such other matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest. The parties acknowledge that all prior agreements, representations and negotiations are deemed superseded by the execution of this Lease to the extent they are not expressly incorporated herein. Any warranties or representations not expressly contained herein will in no way bind either Landlord or Tenant, and Landlord and Tenant expressly waive all claims for damages by reason of any statement, representation, warranty, promise or agreement not contained in this Lease. The provisions of this Section shall survive expiration of the Lease Term or earlier termination of this Lease.

c. This Lease and the legal relations between the parties hereto shall be governed by and construed and enforced in accordance with the laws of the State of Arizona, without regard to its principles of conflicts of law. Any action brought to interpret, enforce, or construe any provision of this Lease shall be commenced and maintained in the Maricopa County Superior Court of the State of Arizona (or, as may be appropriate, in the Justice Courts of Maricopa County or in the United States District Court for the District of Arizona if, but only if, the superior court lacks or declines jurisdiction over such action). The parties irrevocably consent to jurisdiction and venue in such courts for such purposes and agree not to seek transfer or removal of any action commenced in accordance with the terms of this Section. Landlord and Tenant agree that any action or proceeding arising out of this Lease shall be heard by a court of competent jurisdiction sitting without a jury, and each hereby waives all rights to trial by jury. The terms of this Section shall survive the expiration of the Lease Term or earlier termination of this Lease.

d. The language of this Lease shall be construed to its normal and usual meaning and not strictly for or against either Landlord or Tenant. Each party has reviewed and revised this Lease and any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply to the interpretation hereof. This Lease shall be construed as a whole and in accordance with its fair meaning, and shall not be construed more strictly against one party hereto than against the other party merely by virtue of the fact that it may have been prepared by counsel for one of the parties. If any words or phrases in this Lease have been stricken, whether or not replaced by other words or phrases, this Lease shall be construed (if otherwise clear and unambiguous) as if the stricken matter never appeared and no inference shall be drawn from the former presence of the stricken matters in this Lease or from the fact that such matters were stricken.

e. The Section headings of this Lease are for convenience of reference only and shall not be deemed to modify, explain, restrict, alter or affect the meaning or interpretation of any provision hereof. Where the context requires herein, the word “person” will include corporation, firm, partnership, limited liability company or association, the singular shall be construed as the plural, and neuter pronouns shall be construed as masculine and feminine pronouns, and vice versa.

f. If there is more than one person comprising Tenant hereunder, (a) each of them is and shall be jointly and severally liable for the covenants, conditions, provisions and agreements of this Lease to be kept, observed and performed by Tenant; and (b) the act or signature of, or notice from or to, any one or more of them with respect to this Lease shall be binding upon each and all of the persons and entities executing this Lease as Tenant with the same force and effect as if each and all of them had so acted or signed, or given or received such notice.

g. If any provision of this Lease is found to be unenforceable, or is or becomes illegal because of any present or future law or regulation of any governmental body or entity effective during the Lease Term, the intention of the parties is that the remaining provisions of this Lease shall not be affected thereby.

h. Time is of the essence of each term and provision of this Lease.

i. Subject to the terms of Article 23 hereof entitled “Assignment, Subletting and Transfers of Ownership” and Article 31 hereof entitled “Sale by Landlord,” the terms and provisions of this Lease are binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns. Except as otherwise provided herein, any indemnification or release of Landlord or Tenant hereunder shall include Landlord Parties or Tenant Parties, as applicable. The terms of the foregoing sentence shall survive the expiration of the Lease Term or earlier termination of this Lease.

j. All covenants and agreements to be performed by Tenant under any of the terms of this Lease will be performed by Tenant at Tenant’s sole cost and expense and without any abatement of Rent.

k. In consideration of Landlord’s covenants and agreements hereunder, Tenant hereby covenants and agrees not to disclose any terms, covenants or conditions of this Lease to any other party without the prior written consent of Landlord. The terms of this Section shall survive expiration of the Lease Term or earlier termination of this Lease.

l. If Tenant shall request Landlord’s consent and Landlord shall fail or refuse to give such consent, Tenant shall not be entitled to any damages for any withholding by Landlord of its consent; Tenant’s sole remedy shall be an action for specific performance or injunction, and such remedy shall be available only in those cases where Landlord has expressly agreed in writing not to unreasonably withhold its consent or where as a matter of law Landlord may not unreasonably withhold its consent. The terms of this Section shall survive the expiration of the Lease Term or earlier termination of this Lease.

m. As used herein, the term “Business Day” shall mean a day that is not a Saturday, Sunday or legal holiday. In the event that the first day a Notice shall be deemed given under this Lease, or the date for the performance of any covenant or obligation hereunder, shall fall on a Saturday, Sunday or legal holiday, the date such Notice shall be deemed given, or the date for performance of such covenant or obligation, shall be extended to the next Business Day. If any deadline or Notice date herein is extended to the next Business Day, and such deadline is used to calculate a subsequent date, the extended date that falls on the next Business Day shall be used to calculate the subsequent date. Unless otherwise provided in this Lease, all time periods shall be in calendar days.

n. Whenever a day is appointed herein on which, or a period of time is appointed during which, either party is required to do or complete any act, matter or thing, the time for the doing or completion thereof shall be extended by a period of time equal to the number of days on or during which such party is prevented from, or is reasonably interfered with, the doing or completion of such act, matter or thing because of labor disputes, civil commotion, war, warlike operation, sabotage, governmental regulations or control, fire or other casualty, inability to obtain materials, fuel or energy, weather or other acts of God, terrorism or other causes beyond such party’s reasonable control (financial inability excepted) (collectively, Force Majeure Delays”); provided, however, that nothing contained herein shall excuse Tenant from the prompt payment of any Rent.

o. In addition to the actions recited herein and contemplated to be performed, executed, and/or delivered by the parties hereunder, each party shall, whenever and as often as it shall be requested by the other party, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such further instruments and documents as may be necessary in order to carry out the intent and purpose of this Lease, including without limitation execution of any documents reasonably requested to allow either party to deal with governmental entities, utility companies and other third parties from whom permits or approvals may be required. The terms of this Section shall survive the expiration of the Lease Term or earlier termination of this Lease.

p. If any Mortgagee of the Building requests reasonable modifications to this Lease, Tenant will not unreasonably withhold, delay or defer its written consent thereto, provided that such modifications do not materially increase the obligations of Tenant hereunder or materially and adversely affect Tenant's leasehold interest.

q. Provided Tenant is not publicly traded, within ten (10) Business Days following Landlord's written request, Tenant agrees to deliver to Landlord (but not more frequently than once in any calendar year) current financial statements of Tenant, prepared by a CPA and certified by an officer or principal of Tenant. Landlord shall hold any such information in confidence and shall use it only for the purpose of evaluating Tenant's financial condition; provided, however, that Landlord shall be permitted to share such information with any Mortgagee or prospective purchaser of the Building or Premises.

r. Neither this Lease nor any memorandum hereof shall be recorded by Tenant. At the sole option of Landlord, Tenant and Landlord shall execute, and Landlord may record, a short form memorandum of this Lease in form and substance satisfactory to Landlord.

s. Tenant hereby acknowledges that the Premises is subject to the ADA and that the ADA may require substantial modifications to the use and/or physical structure of the Premises. Tenant further acknowledges that it will be solely responsible for determining the specific application of the ADA to the Premises. If Landlord provides space plans for all or any part of the Premises, Landlord makes no representations or warranties, express or implied, that such plans are in compliance with the ADA. Tenant shall be responsible for retaining qualified experts and legal counsel of their choice to detect and correct any aspect of the structure or use of the Premises, including without limitation any modifications of the structure or use reflected in any space plan and to determine the liability for ADA compliance under any transaction documents relating to the Premises. Tenant shall be solely responsible to modify the Premises as a result of any amendments or changes in the ADA occurring after the Commencement Date.

t. This Lease may be executed in as many counterparts as may be deemed necessary and convenient, and by the different parties hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same instrument. A party's signature on this Lease or any amendment hereto may be provided by facsimile and shall be effective upon transmission to the other party hereto.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the date and year indicated by Landlord's execution date as written below.

LANDLORD:	**TENANT:**
TERRA VERDE OWNER LLC,a Delaware limited liability company	THE JOINT CORP., a Delaware corporation
By: /s/ James R. Wentworth	By: /s/ Peter D. Holt
Name: James R. Wentworth	Name: Peter D. Holt
Its: Authorized Signatory	Its: CEO

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EXHIBITS:

A FLOOR PLAN
B WORK LETTER
C COMMENCEMENT DATE CERTIFICATE
D PARKING RULES AND REGULATIONS
E RULES AND REGULATIONS
F ROFR AVAILABLE SPACE
G EXISTING BUILDING SIGNAGE

Exhibit 10.32

March 3, 2020 (retroactive to January 1, 2020)

Mr. Jacob L. Singleton

Dear Jake:

This letter agreement (this "Amendment") amends and extends your Employment Letter Agreement dated November 6, 2018 (the Letter Agreement, as so amended, the "Current Agreement") with respect to your at-will employment arrangement as CFO. All capitalized terms used and not expressly defined herein shall have the meaning set forth in the Current Agreement. Except as expressly amended herein, all provisions of the Current Agreement shall remain in effect through the end of the Term (as extended hereby and as it may be mutually agreed to be further extended). After you have reviewed the terms of the Current Agreement, please sign below to signify your acceptance.

1. The section entitled "Term" of the Current Agreement shall be amended and restated in its entirety to read:

   The Initial Term shall be extended by three months until March 31, 2020 and shall automatically renew on April 1 of each year for successive one-year terms (each, a "Renewal Term" and together with the Initial Term, the "Term"), unless at least sixty (60) days before the end of the then-current Term, either party notifies the other party in writing of its or his desire not to renew. Notwithstanding the foregoing, either party may terminate this Letter Agreement at any time upon written notice to the other party, in accordance with the section entitled "At Will Employment/Termination," below.

2. The section entitled "Compensation" shall be amended and restated in its entirety to read:

   Effective January 1, 2020, your annual base salary has been set at the rate of two hundred and twenty-five thousand Dollars $225,000 ("Base Salary"). The Base Salary is payable in accordance with the Company's regular payroll schedule and subject to appropriate withholdings and deductions. Beginning in 2021, Base Salary adjustments, if any, shall be made in March (or at such other time as employees of the Company generally are receiving salary adjustments), and shall not be retroactive to January.

   During your employment, you will be eligible to participate in the Company's Short-Term Incentive Plan ("STIP") with a target amount equal to forty percent (40%) of your Base Salary. You must be actively employed by the Company on the date of payout in order to receive an award under the STIP. Bonus payments will be determined after the completion of The Joint's annual audit on or about March 1 of each year. The Joint will pay any bonus payable to you no later than March 15 of the year after the end of the year for which the bonus is earned, provided that in the event The Joint pays annual bonuses to employees generally at a different time, your payment will also be paid at that time.

3. The first paragraph of the section entitled "Amended and Restated 2014 Incentive Stock Plan and Future Long-Term Incentive Plans" shall be amended and restated in its entirety to read:

You will continue to participate in The Joint Corp. Amended and Restated 2014 Incentive Stock Plan (the "Stock Plan")Your 2019 grant will be equal to 50% of your base salary, will be granted at the same time that other employees receive their 2019 long-term incentive grants, and will vest in four equal annual installments (provided you remain employed by The Joint on the date of vesting). You also will be eligible to participate in any other long-term incentive plans that The Joint may adopt, subject to the terms and eligibility requirements of any such plans and the discretion of The Joint's board of directors (or of the committee of the board administering the plan for executive officers and senior management) in making awards under such plans.

4. The section entitled "'At-Will' Employment/Termination" shall be amended and restated in its entirety to read:

Nothing in any of the Company's personnel policies will be deemed to constitute a right to employment or to otherwise obligate the Company to employ you. At all times, your employment with the Company is "at-will," which means that you may resign at any time for any reason and the Company may terminate your employment at any time for any reason or for no reason at all, with or without advance notice (provided that any notice of termination by either party shall be in writing). If your employment is terminated for any reason, this Letter Agreement will terminate automatically, you shall have no further rights or obligations hereunder except for the provisions that expressly survive the termination of this Letter Agreement and the terms and conditions contained in the Confidentiality, Nonsolicitation and Noncompetition Agreement (the "Confidentiality Agreement") that accompanies this Letter Agreement, and the Company shall have no further obligations to you, other than for payment of your Base Salary through the date of termination to the extent not theretofore paid. Notwithstanding the foregoing, if the Company terminates your employment other than for Cause or Disability (each as defined below) or death, and you enter into a separation agreement including a general release of claims and obligations against the Company and its affiliates in a form and substance acceptable to the Company within fifty-two (52) days after your date of termination and provided you have not rescinded such separation agreement within seven (7) days thereafter, then you will be entitled to the following:

a. a severance payment equal to fifty percent (50%) of your then-current Base Salary. The severance payment will be payable in installments over a six-month period beginning with the next regular payroll payment date in accordance with the Company's normal payroll practice. To the extent that, the severance payment is not subject to Code Section 409A, the Company may, in its sole discretion, elect to make your severance payment in a lump sum in cash within sixty (60) days after your date of termination. If paid in installments, each installment shall be treated as a separate payment for Code Section 409A purposes. To the extent necessary to comply with Code Section 409A, if the severance payment could be made or commence in more than one taxable year depending upon when you execute the release, the payment will be made or commence in the later taxable year;

b. the right to continue to participate in the Company's group health insurance program under COBRA continuation coverage during the statutory continuation period following the termination date, the first six months of which shall be paid by the Joint if the termination is not in connection with a Change of Control, and the first three months of which shall be paid by the Joint if the termination is in connection with a Change of Control, and the balance shall be paid by you; and

c. bonus payments under the Short-Term Incentive Plan (STIP) that you have earned prior to termination.

For purposes of this Letter Agreement, Cause means any one or more of the following: (i) the commission of any crime involving dishonesty, breach of trust or physical harm to any person, (ii) willfully engaging in conduct that is in bad faith or injurious to The Joint or its business (including, for example, fraud or embezzlement), (iii) gross misconduct, whether personal or professional, which could cause harm to the business or reputation of The Joint, (iv) failure to comply with the significant provisions of The Joint's policies as specified in the Employee Handbook or Code of Ethics, or as otherwise adopted by the board of directors and provided to you, applicable to you and then in effect, or (v) willful and material failure to perform or observe, or gross negligence in the performance of, any of the terms or provisions of this Letter Agreement, including the failure to follow the reasonable written directions of the CEO, and any breach of this agreement or covenants of confidentiality, non-competition, non-solicitation or other covenants you've agreed to with The Joint.

For purposes of this Letter Agreement, "Disability" shall mean your inability to perform the essential functions of your job, with or without reasonable accommodation for a period of at least ninety (90) substantially continuous days or for a period of one hundred twenty (120) days in the aggregate during any 12-month period.

This section entitled "'At Will' Employment/Termination" shall survive the termination of this Letter Agreement, provided that if the parties enter into a new written employment agreement, any provision in such new employment agreement relating to severance shall supersede and replace this section and this section shall terminate.

Except as amended herein, your Letter Agreement shall remain in full force and effect.

[Signature page follows]

If the foregoing is acceptable to you, please so indicate by signing a copy of this letter where indicated below and returning it to the undersigned.

Very truly yours,

THE JOINT CORP.

/s/ Peter D. Holt
President and Chief Executive Officer

Agreed and accepted this 3rd day of March, 2020 (retroactive to January 1, 2020):

/s/ Jake Singleton
Jake Singleton

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements (No. 333-208262 and 333-225898) on Form S-8 of our report dated March 6, 2020 with respect to the consolidated balance sheets of The Joint Corp. and Subsidiary and Affiliates as of December 31, 2019 and 2018 and the related consolidated statements of operations, stockholders' equity, and cash flows, for the years then ended, which report appears in the December 31, 2019 annual report on Form 10-K of The Joint Corp. and Subsidiary and Affiliates.

/S/ Plante & Moran, PLLC

March 6, 2020
Denver, Colorado

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter D. Holt, certify that:

1. I have reviewed this annual report on Form 10-K of The Joint Corp.;

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

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

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

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

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

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

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

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

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

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

Date: March 6, 2020 /s/ Peter D. Holt

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

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jake Singleton, certify that:

1. I have reviewed this annual report on Form 10-K of The Joint Corp.;

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

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

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

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

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

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

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

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

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

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

Date: March 6, 2020 /s/ Jake Singleton

Jake Singleton
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

For purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of The Joint Corp., a Delaware corporation ("Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the fiscal year ended December 31, 2019 ("Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 6, 2020

/s/ Peter D. Holt

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

Dated: March 6, 2020

/s/ Jake Singleton

Jake Singleton
Chief Financial Officer
(Principal Financial Officer)