

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, 2022

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36724

The Joint Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation)

16767 North Perimeter Drive, Suite 110, Scottsdale, Arizona

(Address of Principal Executive Offices)

90-0544160

(I.R.S. Employer
Identification No.)

85260

(Zip Code)

(480) 245-5960

(Registrant's Telephone Number, Including Area Code)

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

<u>Title Of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name Of Each Exchange On Which Registered</u>
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

Non-accelerated filer

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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 \$36.9 million as of June 30, 2022 based on the closing sales price of the common stock on the NASDAQ Capital Market.

There were 14,570,879 shares of the registrant's common stock outstanding as of March 1, 2023.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement relating to its 2023 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, 2022, 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,” “seek,” “strive,” or the negative of these terms, “mission,” “goal,” “objective,” or “strategy,” 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. We undertake no obligation to update or revise publicly any forward-looking statements, other than in accordance with legal and regulatory obligations. 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:

the nationwide labor shortage has negatively impacted our ability to recruit chiropractors and other qualified personnel, which may limit our growth strategy, and the measures we have taken in response to the labor shortage have reduced our net revenues;

inflation, exacerbated by COVID-19 and the Ukraine War, has led to increased labor costs and interest rates and may lead to reduced discretionary spending, all of which may negatively impact our business;

the COVID-19 pandemic has caused significant disruption to our operations and may continue to impact our business, key financial and operating metrics, and results of operations in numerous ways that remain unpredictable; future widespread outbreaks of contagious disease could similarly disrupt our business;

we may not be able to successfully implement our growth strategy if we or our franchisees are unable to locate and secure appropriate sites for clinic locations, obtain favorable lease terms, and attract patients to our clinics;

we have limited experience operating company-owned or managed clinics in those geographic areas where we currently have few or no clinics, and we may not be able to duplicate the success of some of our franchisees;

we may not be able to acquire operating clinics from existing franchisees or develop company-owned or managed clinics on attractive terms;

short-selling strategies and negative opinions posted on the internet may drive down the market price of our common stock and could result in class action lawsuits;

we may fail to remediate future material weaknesses in our internal controls over financial reporting or may otherwise be unable to maintain an effective system of internal control over financial reporting, which might negatively impact our ability to accurately report our financial results, prevent fraud, or maintain investor confidence;

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;

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franchised clinic acquisitions that we make could disrupt our business and harm our financial condition if we cannot continue their operational success or successfully integrate them;

we may not be able to continue to sell franchises to qualified franchisees, and our franchisees may not succeed in developing profitable territories and 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;

state administrative actions and rulings regarding the corporate practice of chiropractic may jeopardize our business model;

expected new federal regulations and state laws and regulations regarding joint employer responsibility could negatively impact the franchise business model, increasing our potential liability for employment law violations by our franchisees and the likelihood that we may be required to participate in collective bargaining with our franchisees' employees;

an increased regulatory focus on the establishment of fair franchise practices could increase our risk of liability in disputes with franchisees and the risk of enforcement actions and penalties;

negative publicity or damage to our reputation, which could arise from concerns expressed by opponents of chiropractic and by chiropractors operating under traditional service models, could adversely impact our operations and financial position;

our IT security systems and those of our third-party service providers (as recently experienced by one of our marketing vendors) may be breached, and we may face civil liability and public perception of our security measures could be diminished, either of which would negatively affect our ability to attract and retain patients; and

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

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 of a clinic, we are referring to our acquisition of the assets of a clinic owned by one of our franchisees. When we describe our opening of a clinic, we are referring to our opening of a clinic that is owned or managed by us from its inception. In certain jurisdictions, we manage all aspects of the clinics we acquire or open, and in certain other jurisdictions, we manage only those aspects of our clinics that do not relate to the practice of chiropractic.

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 regional developers 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).

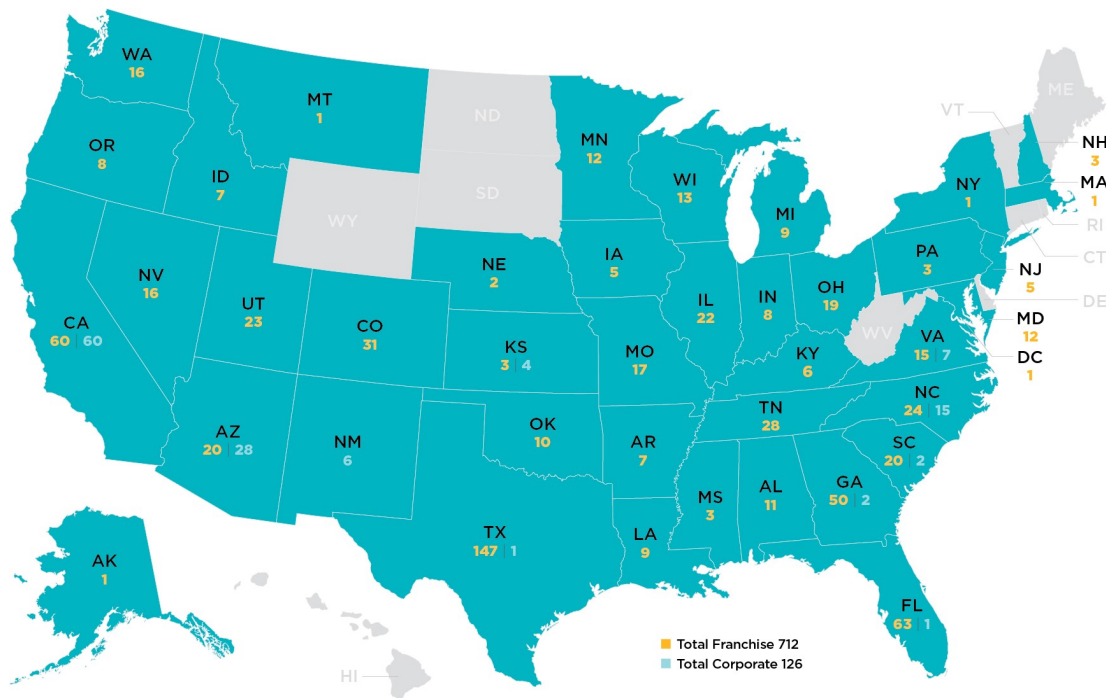
Since acquiring the predecessor to our company in March 2010, we have grown our enterprise from eight to 838 clinics in operation as of December 31, 2022, with an additional 197 franchise licenses sold but not yet developed across our network, and 38 letters-of-intent for 38 future clinic licenses. As of December 31, 2022, our franchisees owned or managed 712 clinics, and we owned or managed 126 clinics. In the year ended December 31, 2022, our system registered approximately 12.2 million patient visits and generated system-wide sales of \$435.3 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 2023, we plan to continue our acceleration of the expansion of our company-owned or managed portfolio through the opportunistic acquisition of select operating clinics in addition to the development of new 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 and offer a veterans discount, as well as a discount for purchase of multiple location franchises. If a franchisee purchases additional franchise licenses, the initial franchise fee is reduced by \$10,000 per additional license. For each franchise sold through our network of regional developers, the regional developer typically receives up to 50% of the respective franchise fee.

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 \$13.3 million.

We deliver convenient, appointment-free chiropractic adjustments in an inviting, open bay environment at prices that are approximately 45% lower than the average industry cost for comparable procedures offered by traditional chiropractors, according to 2022 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 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, 2022, we had 838 franchised or company-owned or managed clinics in operation in 40 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, 2022.



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 2023 by WestGroup Research, 35% of our new patients had never tried chiropractic care before they came to The Joint. This remains consistent with the strong outcome of 36% of patients new to chiropractic in the same survey conducted in 2022, and an increase from 27% in 2021, 26% in 2019, 22% 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 minutes on average for a returning patient.

Our consumer-focused service model targets the non-acute treatment market, which is part of the \$19.5 billion chiropractic services market, according to an IBIS market research report in March 2022. 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. 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. An article appearing in the Journal of the American Medical Association (JAMA) entitled “US Healthcare Spending by Payer and Health Condition, 1996-2016” estimates that \$134 billion was spent in 2016 on back pain in the U.S. According to a report issued by IBIS World Chiropractors Market Research in March 2022, expenditures for chiropractic services in the U.S. are \$19.5 billion annually. The United States Bureau of Labor Statistics expects employment in chiropractic to grow steadily. 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 the March 2022 IBIS market research report, the three largest industry companies were each expected to generate less than 1% of total industry revenue in 2022. 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 expected to live 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 success and will continue to 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 continuing to locate 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 1,229 new patients per clinic (for all clinics open for the full twelve months of 2022) during the year ended December 31, 2022, as compared to the most recent chiropractic industry average of 333 new patients per year for traditional

insurance-based non-multidisciplinary or integrated practices, according to a 2022 Chiropractic Economics survey (conducted in March and April of 2022).

Quality, Empathetic Service. Across our system we have a community of more than 2,455 fully licensed chiropractic doctors, who performed approximately 12.2 million adjustments in 2022 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 321 patient visits per week (for clinics open for the full twelve months of 2022), as compared to the most recent chiropractic industry average of 115 patients per week for non-multidisciplinary or integrated practices, according to the same 2022 Chiropractic Economics survey referred to above. Our service offerings encourage consumer trial, repeat visits and sustainable patient relationships.

By eliminating 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 2022, the average fee for a chiropractic treatment involving spinal manipulation in a cash-based practice in the United States is approximately \$65. By comparison, our average fee as of December 31, 2022 was approximately \$36, approximately 45% 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, 2022 for patients who pay by single adjustment plans, multiple adjustment packages, and multiple adjustment membership plans. Our price per adjustment as of December 31, 2022 averaged approximately \$36 across all three groups.

	The Joint Service Offering		
	Single Visit	Package(s)	Membership(s)
Price per adjustment	\$45	\$19—\$35	\$17—\$22

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, 2022, we have increased the annual system-wide sales from \$22.3 million to \$435.3 million (which includes \$59.4 million of revenue from clinics owned or operated by us and \$375.9 million from clinics operated by our franchisees, which is a non-GAAP measure for the year ended December 31, 2022). During this period, we increased the number of clinics in operation from 33 to 838.

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 franchised clinic which had monthly sales of approximately \$45,000, and in December 2022, the highest performing clinic in our system was a franchised clinic which had monthly sales of approximately \$166,000.

Strong and proven management team. Our strategic vision is directed by our president and chief executive officer, Peter D. Holt, who has more than 35 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 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 since November 2018. In addition to valuable institutional memory from his over three years serving as our corporate controller before assuming the role of CFO, Mr. Singleton has financial and accounting experience from his time with the public accounting firm Ernst & Young LLP.

Krischelle Tennesen joined as chief human resources officer in January 2023, bringing nearly 30 years of experience in the human resources industry, with a focus in the retail sector. Most recently, Mrs. Tennesen was senior vice president of human resources at Five Below, where Mrs. Tennesen was instrumental in developing a human resources strategy to support corporate growth and 25,000 employees in corporate, stores, and supply chain functions in 41 states across the U.S.

Charles Nelles joined as chief technology officer in January 2022, bringing more than 20 years of technology experience in the healthcare and financial services industries. Prior to working at The Joint, Mr. Nelles held the role of vice president of technology for American Express Global Business Travel. Prior to that, he served as vice president of technical operations support and cloud enablement for Western Union.

Eric Simon joined as vice president of franchise sales and development in 2016 with over 20 years of experience in all aspects of franchising, including 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.

Jorge Armenteros joined as vice president of operations in 2017 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.

Steven Knauf, D.C. was promoted to Vice President of Chiropractic and Compliance in 2022. Dr. Knauf began working at The Joint in 2011. After spending four years as a chiropractor in one of The Joint Corp. clinics, he took the role of Senior Doctor of Chiropractic for 13 of The Joint Corp. clinics and, subsequently, was elevated to a director position at the corporate office. In August 2017, he was appointed by the governor to serve on the Arizona Board of Chiropractic Examiners, a position which he continues to hold.

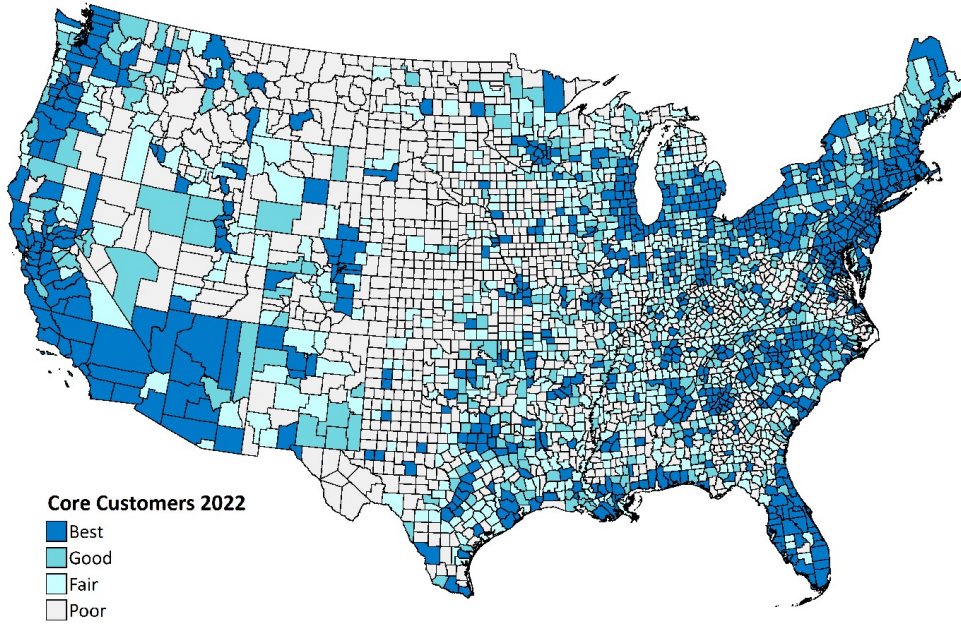
We believe that our management team's experience and demonstrated success in building and operating a robust franchise system is a key driver of our growth and has positioned us well for achieving our long-term strategy.

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 acceleration of our development 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;
- increasing the capability and capacity of our existing regional developer network;
- improving operational margins and leveraging infrastructure;
- the opportunistic acquisition of existing franchised clinics – referred to as “buybacks”; and
- the development of company-owned or managed clinics – referred to as “greenfields” – in clustered geographies.

Our analysis of patient records data from 609 clinics suggests that the United States market alone can support at least 1,900 of our clinics.



Continued growth of system sales.

System wide comparable same-store sales growth, or “Comp Sales,” for 2022 was 9% despite the on-going pandemic, reflecting the resilience and 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.

Supporting existing regional developers

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 2019, we sold the rights to one additional regional developer territory for a minimum development commitment of 40 clinics over a ten-year period. In 2020, we sold the rights to six additional regional developer territories for a combined minimum development of 37 clinics over a seven to ten-year period. We did not sell any regional developer territory rights during 2021 and 2022. In 2022, regional developers were responsible for 67% of the 75 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 838 operating clinics as of December 31, 2022, we have granted franchises, either directly or with our regional developers' support, for an additional 197 clinics that we believe will be developed in the future and executed 38 letters-of-intent for 38 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.

Continuing 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. 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 continue to 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, 2022, we acquired 72 existing franchises, subsequently closed three, and continue to operate 69 of them as company-owned or managed clinics.

Developing 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 \$16.5 million in the quarter ended December 31, 2022. Total revenue from our 126 company-owned or managed clinics was approximately \$59.4 million for the year ended December 31, 2022 as compared to \$44.3 million from 96 company-owned or managed clinics for the year ended December 31, 2021. Through December 31, 2022, revenue from company-owned or managed clinics consisted of revenue earned from 69 franchised clinics that we acquired, as well as 57 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 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 and State Privacy and Breach Notification Rules

Numerous federal and state laws, regulations, standards and other legal obligations govern the collection, dissemination, use, access to, confidentiality, security and processing of personal information, including cybersecurity breach notification and targeted advertising. For example, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") imposes extensive privacy and security requirements governing the transmission, use and disclosure of health information by covered entities in the healthcare

industry. While we have determined that we are not a “covered entity” and thus do not currently fall under the purview of HPA, we may have access to sensitive data regarding our patients, and we recognize that some of the standards established by HIPAA represent “best practices” for our business. Even when entities are not covered by HIPAA, the Federal Trade Commission, or the FTC, has taken the position that a failure to take appropriate steps to keep consumers’ personal information secure may constitute unfair acts or practices in or affecting commerce in violation of the Federal Trade Commission Act. The FTC expects a company’s data security measures to be reasonable and appropriate in light of the sensitivity and volume of consumer information it holds, the size and complexity of its business, and the cost of available tools to improve security and reduce vulnerabilities.

The California Consumer Privacy Act of 2018 (the “CCPA”) creates individual privacy rights for California consumers and increases the privacy and security obligations of entities handling certain personal information. The CCPA regime became more complex as of January 1, 2023, pursuant to amendments adopted pursuant to the California Privacy Rights Act (the “CPRA”). The CPRA imposes additional data protection obligations on covered businesses, including additional consumer rights processes, limitations on data uses, new audit requirements for higher risk data, and opt outs for certain uses of sensitive data. The CPRA also creates a new California data protection agency to implement and enforce the CCPA and the CPRA, which could result in increased privacy and information security enforcement. The CCPA has prompted a number of proposals for new privacy legislation. A new Virginia privacy law, the Virginia Consumer Data Protection Act (“VCDPA”), and a new Colorado law, the Colorado Privacy Act (“CPA”), impose many similar obligations regarding the processing and storing of personal information as the CCPA and the CPRA. Other states have enacted or are considering enacting privacy laws. All 50 states and the District of Columbia have adopted some form of breach notification laws, requiring businesses to notify individuals of security breaches of personal information.

We expect that the regulatory focus on privacy, security and data use issues will continue to increase and laws and regulations concerning the protection of personal information will expand and become more complex. Such new privacy laws add additional requirements, restrictions and potential legal risk and require additional investment in resources for compliance programs.

We believe that our operations comply with legally required standards for privacy and security of personal information to the extent applicable under federal or state law, and we strive to comply with additional standards that we identify as “best practices.” Such ongoing compliance involves significant time, effort and expense.

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. For example, in November 2022, one of our marketing vendors notified us that it had suffered a data breach that resulted in the release of certain information (names, email addresses, physical addresses consisting of city state, and zip codes, phone numbers and birthdates) of many of our patients and employees. The vendor further notified us that the information that had been released did not include credit card or bank account numbers, social security numbers or similar sensitive personal information. In addition, our vendor reported that they had quickly identified the source of the breach and rectified the situation, preventing the disclosure of additional information. We believe that a very limited number of affected individuals (all of whom had thejoint.com domain email address, with the exception of one) received ransom demands. Upon learning the details of the breach, we immediately embarked on an investigation and retained outside legal counsel to provide guidance with respect to any applicable legal obligations. Based on our investigation and the legal guidance we received, it was determined that the breach did not result in the release of “personal information,” as defined in the relevant data breach notification laws of all but two states. With respect to those two states, we are working with the vendors to determine the process for notification. Upon receipt of the root cause analysis from the vendors, we followed up with its leadership team to ensure that the specific breach had been remediated and to confirm that related processes and practices for future data protection had been updated. Based upon our investigation, we believe that the data breach did not have a material adverse effect on our business or result in any material damage to us. Furthermore, we are entitled to indemnification under the contract with the vendor for costs we incurred in addressing the data breach, including any costs with respect to breach notification.

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 in our system 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. These clinics

receive management services from our franchisees that are not owned by chiropractors. The notices contained allegations of fee-splitting, specifically targeting a provision in our Franchise Disclosure Document providing for the payment of royalty fees based on revenue derived from the furnishing of chiropractic care. The notices appeared to question our business model. The Commission posed a number of questions to the chiropractors and requested documentation describing the fee structure and related matters. All three chiropractors responded to the Commission, and the Commission has since closed the investigations with respect to two of the chiropractors, finding that the evidence did not support any claim of violation. It appears that the investigation with respect to the third chiropractor has either been closed or gone dormant.

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 that are not owned by chiropractors 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 all of its concerns, and thus we cannot assure you that similar claims will not be made in the future, either against us or our affiliated PCs.

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 for additional discussion of the “Risks Related to 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. As of December 31, 2022, we were registered to sell franchises in every state (where registrations are required) and could sell franchises in all 50 states.

Substantive state laws regulating the franchisor-franchisee relationship presently exist in many states. State laws often limit, among other things, the duration and scope of non-competition provisions and the ability of a franchisor to terminate or refuse to renew a franchise. A new policy from the North American Securities Administrators Association, Inc. (“NASAA”) rejects the use of required representations or waivers of claims by franchisees in franchise agreements for the purpose of insulating a franchisor from liability in disputes related to alleged fraud or misrepresentations during the offer and sale of a franchise. Although NASAA has no legal authority to prohibit such provisions, it is likely that state regulators will follow NASAA’s guidance and limit their use, as California has already done. Franchisors risk exposure to unfair trade practice claims by state regulators if they try to use a franchisee’s representations in a manner that offends NASAA’s policy. The use of such offending representations also could increase the likelihood of successful lawsuits against franchisors by franchisees over claims of fraud or misrepresentation. Bills also have been introduced in Congress from time to time providing for protection of franchisee rights, including certain currently pending bills seeking to establish what are described as fair franchise practices. Compliance with new, complex and changing laws may cause our expenses to increase, and non-compliance with such laws could result in penalties or enforcement actions against us. However, we believe that our FDD and franchising procedures currently 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 those guidelines and laws change, we will revise our FDD and franchising procedures accordingly.

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 are likely to increase our labor costs. As of January 1, 2023, the minimum wage increased in a number of states, the District of Columbia and local municipalities, with many of these wage increases triggered automatically by increases in the cost of living due to high inflation. 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.

Joint Employer Rules

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

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

Current Status of Joint Employer Rules. In September 2021, the Service Employees International Union (SEIU) filed a lawsuit, still pending, seeking to strike down the final rule narrowing the meaning of "joint employer" under the NLRA. In March 2021, the U.S. House of Representatives passed The Protecting the Right to Organize (PRO) Act, which among other things, sought to codify for purposes of the NLRA the Browning-Ferris expansive interpretation of "joint employer." The PRO Act then stalled in the Senate and has little likelihood of passage, given that it would need to be reintroduced in the current Congress. However, both the SEIU lawsuit and the PRO Act, if reintroduced, would likely become moot if the NLRB ultimately adopts the proposed rule discussed below.

In September 2022, the NLRB issued a proposed rule under the NLRA, reinstating a more expansive interpretation of "joint employer." Under the proposed rule, direct, indirect, or reserved authority to control one or more essential terms and conditions of employment would lead to a finding of joint employer status, regardless of whether the power to control is actually exercised and whether such power is directly or indirectly exercised. The proposed list of essential terms and conditions has been expanded and is non-exhaustive, unlike the current rule, which provides a defined list. The proposed list now includes workplace health and safety and work rules and directions governing the manner, means, or methods of work performance, in addition to wages, benefits, hours of work, hiring, discipline and the like. In the event of a finding of joint employer status under the NLRA, a franchisor would be required to collectively bargain or otherwise deal with a union that does not represent the franchisor's own employees, lose the protections against union picketing of neutral employers in the event of a labor disagreement between a franchisee and a franchisee's employees, and share in liability for labor and employment violations committed by a franchisee.

Effective on September 28, 2021, the DOL withdrew the joint employer final rules under the Fair Labor Standards Act (FLSA), which had narrowed the definition of "joint employer" under the FLSA. Key provisions of the joint employer final rules had already been vacated by the United States District Court for the Southern District of New York in a lawsuit brought by various state attorneys general. The DOL has not proposed to replace the withdrawn rule with any new guidance, reverting to a legal landscape which includes a more expansive definition of "joint employer." Under a more expansive definition, a franchisor could be held jointly liable with its franchisee for minimum wages and overtime pay violations by the franchisee, depending on the extent of control and supervision the franchisor is able to exercise over the franchisee's employees.

In addition to efforts to expand the definition of "joint employer" through the proposed new rule under the NLRA and the withdrawal of the FLSA rule, it is expected that the Equal Opportunity Employment Commission (EEOC), which enforces anti-discrimination laws, will issue rules which include an expansive definition of "joint employer."

Significance of Joint Employer Rules for our Business Model. The replacement or withdrawal of the NLRA and FLSA rules and possible new rules for the EEOC, which include or reinstate expansive definitions of "joint employer," have implications for our business model. We could have responsibility for damages, reinstatement, back pay and penalties in connection with labor law and employment discrimination violations by our franchisees over whom we have limited control. Furthermore, it may be 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.

California AB-5. 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 are

treated as independent contractors, rather than employees, and lack the protections of wage and hour laws, although California voters approved a ballot initiative, now under court review, to exclude app-based drivers from the application of AB-5. AB-5 is not a franchise-specific law and does not address joint employer liability; however, a significant concern exists in the franchise industry that an expansive interpretation of AB-5 could be used to hold franchisors jointly liable for the labor law violations of its franchisees. Courts addressing this issue have come to differing conclusions, and while it remains uncertain as to how the joint employer issue will finally be resolved in California, potential new federal laws or regulations may ultimately be controlling on this issue.

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

Americans with Disabilities Act

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.

Competition

The chiropractic industry is highly fragmented. According to the March 2022 IBIS market research report, the three largest industry companies were each expected to generate less than 1% of total industry revenue in 2022. Our competitors include approximately 42,000 independent chiropractic offices currently open throughout the United States, according to a 2022 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 Airrosti, HealthSource Chiropractic, and 100% Chiropractic, all of which are insurance-based models.

We have identified 7 competitors who are attempting to duplicate our cash-only, low cost, appointment-free model. Based on publicly available information, 5 of these competitors each operate fewer than 12 clinics as franchises, and the largest competitor operated 158 clinics as franchises as of December 31, 2022. 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.

Human Capital Resources

We believe that a strong culture of engagement and alignment to be essential to the ongoing success of our business. Therefore, it is important to attract, develop and retain a diverse and engaged workforce at all levels of our business. To facilitate talent attraction and retention, we are committed to fostering a workplace where our employees feel aligned with our mission, proud of our culture and engaged in their work, with opportunities to grow and develop in their careers, supported by competitive compensation and benefits.

Workforce

As of December 31, 2022, The Joint Corp. and our consolidated variable interest entities employed approximately 359 persons on a full-time basis and approximately 422 persons on a part-time basis. None of our employees are members of unions or participate in other collective bargaining arrangements.

Recruitment

We believe our employees are among our most valuable resources and are critical to our continued success. We focus significant attention on attracting and retaining talented and experienced individuals to operate our clinics and support our operations, and our management believes in a continuous improvement culture and routinely reviews employee turnover rates at various levels of the organization.

In order to achieve our goal of opening 1,000 clinics by the end of 2024 and in light of the recent shortage of qualified chiropractors, it is crucial that we continue to attract and retain qualified chiropractors. We strive to make The Joint Chiropractic the career path of

choice for chiropractors, with opportunities for our chiropractors to grow and develop in their careers, supported by competitive compensation and benefits, and with our simple business model that allows our chiropractors to focus on patient care. Our competitive employment program for chiropractors includes: (i) full time and flexible hours, with full benefits and paid time off, (ii) part time and flexible hours with some benefits, (iii) company-paid malpractice insurance, (iv) tuition reimbursement, (v) sign-on and referral bonuses, and (vi) competitive starting base salary. We have also bolstered our recruitment function and we continue to fine-tune and re-strategize our search for chiropractors. In addition, we continue to expand and strengthen our relationship with chiropractic colleges to increase engagement with students and to increase the applicant flow of qualified candidates.

In order to ensure that we are meeting our human capital objectives, we will continue to utilize engagement surveys to understand the perception of our brand as an employer and the effectiveness of our employee and compensation programs and to learn where we can improve across the company.

Talent Management and Development

Our employees' personal and professional growth is critical for the success of our business. Our approach to performance and development is designed to motivate our employees to develop, leverage their strengths, and support a coaching and feedback culture. We offer numerous online courses and encourage our employees to attend conferences, training courses, and continuing education classes. Additionally, we conduct periodic assessments to identify talent needs and growth paths for our employees.

Compensation, Benefits, and Equity

We are committed to providing market competitive compensation and benefits. To ensure we remain competitive, we conduct periodic benchmarking to analyze our compensation data and take steps to ensure gender and other demographic equality is addressed. Our compensation practices are intended to be merit-based, focused on roles, responsibilities, experience and performance, with no consideration given to gender, age, ethnicity or other similar factors. We use a combination of fixed and incentive pay, including base salary, bonuses, and stock-based compensation. The principal purposes of our equity incentive plans are to attract, retain and motivate selected leaders through the granting of stock-based compensation awards. Our benefit offerings include comprehensive medical coverage, paid time off, a retirement savings plan, free family wellness membership at our clinics, and flexible work schedules.

Diversity and Inclusion

We recognize that our best performance comes when our teams are diverse, and accordingly, diversity, equity and inclusion ("DEI") are a critical part of our vision of building a world-class organizational culture. We reemphasized our focus on DEI when we designated DEI as part of the formal responsibilities of our senior leaders and a key strategic initiative integral to reaching our goal of 1,000 clinics by the end of 2023. In 2023, we plan to formulate and initiate a more robust DEI strategy, which may include: (i) organizational review and assessment, (ii) confirmation of our DEI vision and goals, and (iii) development of a two-to-three-year DEI strategy and measurement plan, including determining key performance indicators. We are also committed to maximizing the performance and potential of our corporate employees. In 2021, we formalized and implemented our performance and compensation management resources, which include: (i) establishing a formal compensation structure and guidelines and (ii) increasing employee and manager training.

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, 2022, we leased 138 facilities in which we operate or intend to operate clinics. We are obligated under two additional leases for facilities in which we have ceased clinic operations.

Our corporate headquarters are located at 16767 N. Perimeter Center 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, 2022, our franchisees operated 712 clinics in 39 states. All of our franchise locations are leased.

Intellectual Property

Trademarks, trade names and service marks

Our registered trademarks include the following in the United States:

Trademark	Registration Date	Registration Number
DON'T DO PAIN. DO YOU.	August 2022	6810062
The Joint Chiropractic	April 2021	6331918
You're Back, Baby.	August 2020	6131833
You're Back, Baby	July 2019	5940161
Back-Tober	September 2018	5571732
Relief Recovery Wellness	February 2018	5398367
Pain Relief Is At Hand	February 2018	5395995
What Life Does To Your Body, We Undo	February 2018	5396012
Be Chiro-Practical	October 2017	5313693
Relief. On so many levels	December 2015	4871809
The Joint	April 2015	4723892
The Joint... The Chiropractic Place (stylized)	April 2013	4323810
The Joint... The Chiropractic Place	February 2011	3922558

Our registered trademarks include the following in Canada:

Trademark	Registration Date	Registration Number
The Joint	February 2017	1825026
The Joint Chiropractic	February 2017	1825027
The Joint Chiropractic (stylized)	February 2017	1825028

Corporate Information

The Joint Corp. is a Delaware corporation. Our common stock is traded on the NASDAQ Capital Market under the symbol "JYNT." Our corporate offices headquarters are located at 16767 N. Perimeter Center Drive, Suite 110, Scottsdale, Arizona 85260, and our telephone number is (480) 245-5960. Our website is www.thejoint.com. Except as specifically indicated otherwise, the information on, or that can be accessed through, our website or any other website identified herein is not incorporated by reference into this Annual Report on Form 10-K.

Available Information

We make available free of charge, through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The SEC's website, www.sec.gov, contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS

RISKS RELATED TO OPERATING OUR BUSINESS

The nationwide labor shortage has negatively impacted our ability to recruit chiropractors and other qualified personnel, and the measures we have taken in response have reduced our net revenues.

The current nationwide labor shortage has negatively impacted our ability and the ability of our franchisees to recruit and retain qualified chiropractors, wellness coordinators and other qualified personnel. This shortage has limited our ability to open new clinics and has required us to enhance wages and benefits and shorten clinic operating hours. All of these measures have reduced our net revenues and increased our operating expenses and may continue to do so if labor shortages continue.

Inflation, exacerbated by COVID-19 and the Ukraine War, has led to increased labor costs and interest rates and may lead to reduced discretionary spending, all of which may negatively impact our business.

The primary inflationary factor affecting our operations is labor costs. In the fourth quarter of 2021 and during 2022, company-owned or managed clinics were negatively impacted by wage increases, which increased our general and administrative expenses and decreased profitability. 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. As of January 1, 2023, the minimum wage increased in a number of states, the District of Columbia and local municipalities, with many of these wage increases triggered automatically by increases in the cost of living due to high inflation. Such wage increases likely will further increase our general and administrative expenses in the affected jurisdictions. A continued increase in labor costs is likely to continue to have an adverse impact on profitability and may result in additional price increases to offset their impact. Further, should we fail to continue to increase our wages competitively in response to any continued increase in wage rates, the quality of our workforce could decline, causing our patient services to suffer.

In addition to relief and recovery, our services emphasize preventive and maintenance care, which is generally not a medical necessity, and may be viewed as a discretionary medical expenditure. Discretionary spending is negatively impacted by, among other things, those factors disclosed in this Form 10-K under the caption "Recent Events" in Management's Discussion and Analysis of Financial Condition and Results of Operations -- unfavorable global economic or political conditions, such as the recent COVID-19 pandemic, the Ukraine War, inflation and other cost increases, and increases in interest rates. As further disclosed under the aforementioned caption, we anticipate that fiscal 2023 will continue to be a volatile macroeconomic environment and expect elevated levels of cost inflation to persist for 2023. Reductions in discretionary spending may adversely impact our business, financial condition, or results of operations. Rising interest rates also will make it more expensive for potential franchisees to finance new clinic acquisitions and thus may reduce the pool of available franchisees, which also could adversely impact our business.

In the event that a continued deterioration of economic conditions causes a significant decrease in demand for our services, this could negatively impact our ability to meet the financial covenants in our credit facility, although we were in compliance as of December 31, 2022. Furthermore, a deterioration of equity and credit markets may make other debt or equity financing difficult to obtain in a timely manner and on favorable terms, if at all, and if obtained, may be more costly or more dilutive. If we are unable to access our credit facility as a result of noncompliance with its covenants or are unable to obtain other debt or equity financing, this could limit our opportunity to acquire more clinics and regional developer rights and to pursue other corporate initiatives.

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 2022, for clinics that have been open for at least 13 full months, was 9%, and for clinics that have been open for greater than 48 months, was 4%. 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 depends on many factors, some of which are beyond our control, including: (i) consumer awareness and understanding of our brand and changes in consumer preferences and discretionary spending; (ii) general economic conditions, which can affect clinic traffic, local rent and labor costs and prices we pay for the supplies we

use; (iii) competition, either from our competitors in the chiropractic industry or our own and our franchisees' clinics; (iv) the identification and availability of attractive sites for new facilities and the anticipated commercial, residential and infrastructure development near our new facilities; (v) changes in government regulation; (vi) in certain regions, decreases in demand for our services due to inclement weather; and (vii) 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 franchised and 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 replaced and upgraded our IT platform in 2021, but we cannot provide assurances that our on-going improvements and enhancements efforts will be executed 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, often in untested geographic areas. As of December 31, 2022, we owned or managed 126 clinics. We have limited or no prior experience operating in a number of geographic areas, particularly in areas in which snow and ice are factors in the winter months. We may encounter difficulties, including reduced patient volume related to inclement weather, as we attempt to expand into those untested geographic areas, and we may not be as successful as we are in geographic areas where we have greater familiarity and brand recognition. 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 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.

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 enough 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: (i) negotiating leases with acceptable terms; (ii) attracting qualified chiropractors; (iii) identifying, hiring and training qualified employees in each local market; (iv) identifying and entering into management agreements with suitable PCs in certain target markets; (v) timely delivery of leased premises to us from our landlords and punctual commencement and completion of construction; (vi) managing construction and development costs of new clinics, particularly in competitive markets; (vii) obtaining construction materials and labor at acceptable costs, particularly in urban markets; (viii) unforeseen engineering or environmental problems with leased premises; (ix) generating sufficient funds from operations or obtaining acceptable financing to support our future development; (x) 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 (xi) the impact of inclement weather, natural disasters and other calamities.

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.

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 or managed clinics if, for example, we hire and assign regional managers to manage comparatively fewer clinics than in more developed markets. For these reasons, some of our new clinics were less successful than our existing clinics or have achieved 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.

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.

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.

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 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 clinics, we undertake aggressive marketing campaigns to increase community awareness about our growing presence. We plan to continue 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 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 or managed 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.

The COVID-19 pandemic has caused significant disruption to our operations in the past and may continue to impact our business, key financial and operating metrics, and results of operations in numerous ways that may be unpredictable. A future widespread outbreak of contagious disease could similarly disrupt our business.

There continues to be uncertainty around the COVID-19 pandemic as the variants have caused periodic increases in COVID-19 cases globally in the past. The pandemic has, at times, negatively impacted our revenue and earnings, and the extent to which the pandemic will impact our business in the future remains uncertain. It will depend on factors such as the duration of the pandemic, the response of national, state and local governments (which could include the reinstatement of restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns), the impact of existing and new Covid variants, the vaccination rates among the population, the efficacy of the COVID-19 vaccines against existing and new Covid variants, and the longer-term impact of the pandemic on the economy and consumer behavior. Any or all of these factors could continue to affect patient behavior and spending levels and result in reduced visits and patient spending trends. The pandemic retains the potential to further disrupt our business and to continue to cause volatility in the financial markets, which could adversely impact our financial position, results of operations and the market price of our stock. A future epidemic, pandemic or other widespread outbreak of contagious disease in any geographic area in which we operate could result in a health crisis adversely affecting the economies and demand for our services in such areas.

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. As noted in a previous risk factor, the current period of high inflation, which is expected to persist through at least 2023, is likely to reduce 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, Southeast, 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. 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 revenues. 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.

RISKS RELATED TO USE OF THE FRANCHISE BUSINESS MODEL

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, which royalties are based on the revenues generated by those clinics. We anticipate that franchise royalties will represent a substantial part of our revenues in the future. As of December 31, 2022, we had franchisees operating or managing 712 clinics. We rely on the performance of our franchisees in successfully opening and operating their clinics and paying royalties and other fees to us on a timely basis. Our franchise system subjects us to a number of risks as described here and in the next four risk factors. These risks include a significant further decline in our franchisees' revenue, which occurred in 2020 as a result of the COVID-19 pandemic. Furthermore, in 2020, we took additional actions to support our franchisees that experienced challenges during the COVID-19 pandemic, further reducing our royalty revenues and other fees from franchisees. In 2020, for a period of time, we waived minimum royalty requirements, monthly software fees for clinics forced to close temporarily due to the pandemic, and minimum required marketing expenditures. We may need to re-implement, expand or extend these accommodations to franchisees, further reducing our revenues from franchised clinics and reducing the visibility of "The Joint" brand in the marketplace. Any new or re-implemented accommodations and the occurrence of any of the other events described here and in the next four risk factors could impact our ability to collect royalty payments from our franchisees, harm the goodwill associated with our brand, and 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, 2022, we had active licenses and letters-of-intent for 235 clinics which we believe to be developable within the specified time periods, but we cannot be certain of this.

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 territories 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 18 regional developers as of December 31, 2022, three had not met their minimum franchise sales requirements within the time periods specified in their regional developer agreements.

FINANCIAL RISK FACTORS

Our level of debt could impair our financial condition and ability to operate.

In 2020, in order to increase our cash position and preserve financial flexibility in responding to the impacts of the COVID-19 pandemic on our business, we drew down \$2.0 million under the Credit Agreement. Our level of debt could have important consequences to investors, including:

- requiring a portion of our cash flows from operations be used for the payment of interest on our debt, thereby reducing the funds available to us for our operations or other capital needs;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate because our available cash flow, after paying principal and interest on our debt, may not be sufficient to make the capital and other expenditures necessary to address these changes;
- increasing our vulnerability to general adverse economic and industry conditions, since we will be required to devote a proportion of our cash flow to paying principal and interest on our debt during periods in which we experience lower earnings and cash flow;
- limiting our ability to obtain additional financing in the future to fund working capital, capital expenditures, acquisitions, and general corporate requirements; and
- placing us at a competitive disadvantage to other relatively less leveraged competitors that have more cash flow available to fund working capital, capital expenditures, acquisitions, and general corporate requirements.

If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results, prevent fraud, or maintain investor confidence.

We are subject to the internal control requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which require management to assess the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404, since as of December 31, 2022, we became a non-accelerated filer.

We previously reported in our Annual Report on Form 10-K as of December 31, 2021 material weaknesses in internal control related to: (i) risk assessment and scoping - we did not effectively design and maintain controls in response to the risks of material misstatement. Specifically, the design of existing controls or the implementation of new controls has not been sufficient to respond to the risks of material misstatement related to the incremental borrowing rate for our leases, deferred costs and related expenses, other revenues, breakage revenue, intangible asset amortization, determination of reporting units, reassessment of our VIEs, stock option exercises, and the accuracy and completeness of certain financial statements; (ii) segregation of duties - we did not design and maintain effective controls such that all accounting duties are sufficiently segregated within our business processes and certain financial applications. Specifically, we failed to have the appropriate Company personnel monitor users with administrative access to certain financial applications and data, and we did not design and maintain effective controls such that all accounting duties are sufficiently segregated; (iii) accounting related to significant complex accounting areas - we did not design and maintain effective controls over the accounting of complex accounting areas, including taxes and business combination and asset acquisition transactions. Specifically, we failed to properly design controls to appropriately review the accuracy and completeness of inputs provided to and outputs provided by third-party service providers, and we failed to consistently memorialize accounting treatment conclusions for acquisitions; and (iv) accounting related to revenue recognition and leases - we did not design and maintain effective controls over the proper accounting treatment for certain revenue streams and leases. Specifically, we failed to properly design controls to appropriately determine the proper accounting treatment for certain revenue streams and leases. During 2022, we completed the remediation measures related to the material weakness and concluded that our internal control over financial reporting was effective as of December 31, 2022. Completion of remediation does not provide assurance that our remediation or other controls will continue to operate properly. If we are 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, negatively affect investor confidence in our financial statements and adversely impact our stock price.

Internal controls related to the operation of financial reporting and accounting systems are critical to maintaining adequate internal control over financial reporting. We cannot provide any assurance that additional material weaknesses will not occur in the future.

Our balance sheet includes intangible assets and goodwill. A decline in the estimated fair value of an intangible asset or a reporting unit could result in an impairment charge recorded in our operating results, which could be material.

Goodwill is tested for impairment annually and between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Also, we review our amortizable intangible assets for impairment if an event occurs or circumstances change that would indicate the carrying amount may not be recoverable. If the carrying amount of our goodwill or another intangible asset were to exceed its fair value, the asset would be written down to its fair value, with the impairment charge recognized as a noncash expense in our operating results. Adverse changes in future market conditions or weaker operating results compared to our expectations, including, for example, as a result of the pandemic, may impact our projected cash flows and estimates of weighted average cost of capital, which could result in a potentially material impairment charge if we are unable to recover the carrying value of our goodwill and other intangible assets.

Our balance sheet includes a significant number of long-lived assets in our corporate clinics, including operating lease right-of-use assets and property, plant and equipment. A decline in the current and projected cash flows in our corporate clinics could result in impairment charges, which could be material.

Long-lived assets, such as operating lease right-of-use assets and property, plant and equipment in our corporate clinics, are tested for impairment if an event occurs or circumstances change that would indicate the carrying amount may not be recoverable. If the carrying amount of a long-lived asset were to exceed its fair value, the asset would be written down to its fair value and an impairment charge recognized as a noncash expense in our operating results. Adverse changes in future market conditions or weaker operating results compared to our expectations, including, for example, as a result of the pandemic, may impact our projected cash flows and estimates of weighted average cost of capital, which could result in a potentially material impairment charge if we are unable to recover the carrying value of our long-lived assets.

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.

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 achieved profitability since 2018, 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.

Any audit by the IRS with respect to our receipt of an employee retention credit ("ERC") under The Coronavirus Aid, Relief, and Economic Security ("CARES") Act could result in additional taxes or costs to the Company.

We recently received notice that we will be receiving an ERC pursuant to the CARES ACT. Please see Note 13, "Subsequent Events" in the Notes to the consolidated financial statements included in Item 8 of this report for a description of the ERC. The Company's eligibility to receive the ERC remains subject to audit by the IRS for a period of five years. If the IRS audits the Company during that time, it may find that the Company was not eligible to receive some or all of the ERC, in which case we would be required to return some or all of the ERC to the IRS. Additionally, 20% of the ERC will be paid to an outside third party as a consulting fee. In the event we are required to return some or all of the ERC, we may not be able to recoup the consulting fee.

RISKS RELATED TO INDUSTRY DYNAMICS AND COMPETITION

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, reputation, price of services, marketing and advertising strategy implementation, convenience, traffic flow, 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 Airrosti, which currently operates 158 clinics; HealthSource Chiropractic, which currently operates 114 clinics; and 100% Chiropractic, which currently operates 97 clinics. Two of these competitors are 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 to the PCs 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.

RISKS RELATED TO STATE REGULATION OF THE CORPORATE PRACTICE OF CHIROPRACTIC

Our management services agreements, under which we provide non-clinical services to affiliated PCs, could be challenged by a state or chiropractor under laws regulating the practice of chiropractic. Some state chiropractic boards have made inquiries concerning our business model or have proposed or adopted changes to their rules that could be interpreted to pose a threat to our business model.

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. Please see “Part I, Item 1 - Business - Regulatory Environment - State regulations on corporate practice of chiropractic” for a description of certain of these actions by states, including state legislatures, state chiropractic regulatory bodies and a state attorney general, to regulate and restrict the corporate practice of chiropractic.

RISKS RELATED TO OTHER LEGAL AND REGULATORY MATTERS

Proposed and expected new federal regulations under the Biden administration expanding the meaning of “joint employer” and evolving state laws increase our potential liability for employment law violations by our franchisees and the likelihood that we may be required to participate in collective bargaining with our franchisees’ employees.

Please see “Part I, Item 1 - Business - Regulatory Environment – Joint Employer Rules” for a detailed description of the background and current status of federal and state “joint employer” laws and regulations.

As discussed in the above-cited section, the proposed rules issued under the National Labor Relations Act (NLRA) and the withdrawal of the Trump-era rules issued under the Fair Labor Standards Act (FLSA) include or reinstate expansive definitions of “joint employer,” which could be used to deem a franchisor to be a joint employer of a franchisee’s employees. In the event of a finding of joint employer status under the NLRA, a franchisor would be required to collectively bargain or otherwise deal with a union that does not represent the franchisor’s own employees, lose the protections against union picketing of neutral employers in the event of a labor disagreement between a franchisee and a franchisee’s employees, and share in liability for labor and employment violations committed by a franchisee. Under the reversion to a more expansive definition of “joint employer” under the FLSA, a franchisor could be held jointly liable with its franchisee for minimum wages and overtime pay violations by the franchisee, depending on the extent of control and supervision the franchisor is able to exercise over the franchisee’s employees. Furthermore, there is an expectation that new rules will be issued by the Equal Opportunity Employment Commission (EEOC), similarly expanding “joint liability” with respect to the enforcement of anti-discrimination laws.

Such expansions of joint employer liability have implications for our business model. We could have responsibility for damages, reinstatement, back pay and penalties in connection with labor law and employment discrimination violations by our franchisees over whom we have limited control. Furthermore, it may be 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.

Similarly, state laws, such as California’s AB-5 and similar laws adopted or being considered for adoption in other states, raise concerns with respect to the expansion of joint liability to the franchise industry. While AB-5 is not a franchise-specific law and does not address joint employer liability, a significant concern exists in the franchise industry that an expansive interpretation of AB-5 or similar law could be used to hold franchisors jointly liable for the labor law violations of its franchisees. Courts addressing this issue have come to differing conclusions, and it remains uncertain as to how the joint employer issue will finally be resolved in California, although potential new federal laws or regulations may ultimately be controlling on this issue. 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.

An increased regulatory focus on the establishment of fair franchise practices could increase our risk of liability in disputes with franchisees and the risk of enforcement actions and penalties.

Recently, there has been an increased focus on unfair franchise practices. A new policy from the North American Securities Administrators Association, Inc. (“NASAA”) rejects the use of required representations or waivers of claims by franchisees in franchise agreements for the purpose of insulating a franchisor from liability in disputes related to alleged fraud or misrepresentations during the offer and sale of a franchise. It is expected that state regulators will follow NASAA’s guidance and limit their use, as California has already done. We risk exposure to unfair trade practice claims by state regulators if we try to use a franchisee’s representations in a manner that offends NASAA’s policy. The use of such offending representations also could increase the likelihood of successful lawsuits against us by our franchisees over claims of fraud or misrepresentation. Bills also have been introduced in Congress from time to time providing for protections of franchisee rights, including certain currently pending bills seeking to establish what are described as fair franchise practices. Compliance with new, complex and changing laws may cause our expenses to increase, and non-compliance with such laws could result in penalties or enforcement actions against us. Please see “Part I, Item 1 - Business - Regulatory Environment – Regulation relating to franchising” for a description of other federal and state regulation related to franchising.

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.

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: (i) federal and state laws governing the franchisor-franchisee relationship; (ii) state regulations on the practice of chiropractic; (iii) federal and state laws governing the collection, dissemination, use, security and confidentiality of sensitive personal information; (iv) federal and state laws which contain anti-kickback and fee-splitting provisions and restrictions on referrals; (v) 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 (v) federal and state 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 regulations that govern our operations. Furthermore, a review of our business by judicial, law enforcement or regulatory authorities could result in a determination that could adversely affect 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.

Our chiropractors are subject to ethical guidelines and operating standards which, if not complied with, could adversely affect our business.

The chiropractors who work in our system are 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 chiropractors, patients and franchise owners (and their contractual relationships) and serve to maintain our reputation. The guidelines and standards governing the provision of healthcare services may change significantly in the future. New or changed guidelines or standards may materially and adversely affect our business. In addition, a review of our business by accreditation authorities could result in a determination that could adversely affect our operations.

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, our franchisees or franchisee doctors fail to name the Company as an additional insured party, 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.

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.

RISKS RELATED TO INFORMATION TECHNOLOGY, CYBERSECURITY AND DATA PRIVACY

Our failure to comply with applicable federal and state data privacy and security laws could result in civil or criminal sanctions or damage awards, and the proliferation of such laws increases our costs of compliance.

The data protection landscape is rapidly evolving, and we are or may become subject to numerous state and federal laws and regulations governing the collection, use, disclosure, retention, and security of personal information, including health-related information. While we have determined that we are not currently regulated as a covered entity under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and thus are not subject to its requirements or penalties, any entity may be prosecuted under HIPAA's criminal provisions either directly or under aiding-and-abetting or conspiracy principles. Consequently, depending on the facts and circumstances, we could face substantial criminal penalties if we knowingly receive individually identifiable health information from a HIPAA-covered healthcare provider that has not satisfied HIPAA's requirements for disclosure of individually identifiable health information. Even when entities are not covered by HIPAA, the Federal Trade Commission, or the FTC, has taken the position that a failure to take appropriate steps to keep consumers' personal information secure may constitute unfair acts or practices in or affecting commerce in violation of the Federal Trade Commission Act. The FTC expects a company's data security measures to be reasonable and appropriate in light of the sensitivity and volume of consumer information it holds, the size and complexity of its business, and the cost of available tools to improve security and reduce vulnerabilities. The FTC has broad authority to seek monetary redress for affected consumers and injunctive relief.

In addition, many states impose restrictions related to the confidentiality of personal information that apply more broadly than HIPAA. Please see "Part I, Item 1 - Business - Regulatory Environment – HIPAA and State Privacy and Breach Notification Rules" for a description of some of these state privacy rules. Such information may include certain identifying information and financial information of our patients. These state laws may impose notification requirements in the event of a breach of such personal information. Violations of these laws may result in criminal, civil and administrative sanctions and also may provide individuals with a private right of action with respect to disclosures of personal information. Failure to comply with such data confidentiality, security and breach notification laws may result in substantial monetary penalties or awards of damages.

We expect that the regulatory focus on privacy, security and data use issues will continue to increase and laws and regulations concerning the protection of personal information will expand and become more complex. Such new privacy laws add additional requirements, restrictions and potential legal risk and require additional investment in resources for compliance programs.

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, patient records and billing operations. In 2021, we replaced, upgraded and rolled out our new IT platform, and any problems with system performance could cause disruptions in our business operations, given the pervasive impact of the new system on our processes. In general, 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. Please see “Part I, Item 1 - Business - Regulatory Environment – HIPAA and State Privacy and Breach Notification Rules” for a description of the November 2022 data breach suffered by one of our vendors, which resulted in the release of certain information with respect to our patients and employees. 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 there is a potential for increased cyber-attacks and security challenges as our employees and employees of our vendors and franchisees work remotely from non-corporate managed networks. 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 (as in the case of the November 2022 data breach of a vendor’s computer system referenced in the preceding risk factor), 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 could face civil liability and reputational damage, either of which would negatively affect our ability to attract and retain patients. We also could be required to expend resources, time and/or effort to mitigate the breach of security and to address related matters, as we did in the case of the aforementioned November 2022 data breach, although we are entitled to indemnification under the contract with the vendor for costs incurred in the case of the November 2022 breach.

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. Based on the self-assessment completed as of January 19, 2023, we are currently 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. 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. Although we do not store credit card information and we do not have access to our patients' credit card information, 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.

GENERAL RISK FACTORS

Short-selling strategies and negative opinions posted on the internet may drive down the market price of our common stock and could result in class action lawsuits.

Short selling occurs when an investor borrows a security and sells it on the open market, with the intention of buying identical securities at a later date to return to the lender. A short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares. Because it is in the short seller's best interests for the price of the stock to decline, some short sellers publish, or arrange for the publication of, opinions or characterizations regarding an issuer, its business prospects, and similar matters which may create a negative depiction of the company. This information is often widely distributed, including through platforms that mainly serve as hosts seeking advertising revenue. Issuers who have limited trading volumes and are thus susceptible to higher volatility levels than large-cap stocks can be particularly vulnerable to such short seller attacks.

We may be subject to short selling strategies that may drive down the market price of our common stock. In 2021, we were the target of negative allegations posted on an internet platform designed to advise short sellers, which precipitated a decline in the price of our stock. Shortly thereafter, several plaintiffs' law firms announced investigations into potential securities laws violations based on these allegations. While we believe these allegations are without merit, and no litigation has been commenced to date regarding such allegations, we still face the potential (albeit a diminishing one, given the passage of time) for litigation to be initiated against us. While we would vigorously defend against any such litigation, regardless of outcome, litigation can be costly and time-consuming, divert the attention of our management team, adversely impact our reputation and brand, and if a plaintiff claim were successful, could result in significant liability, all of which could harm our business and financial condition.

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.

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, 2022, we had 14,528,487 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 approximately 219,044 shares per day during the year ended December 31, 2022. 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.

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. 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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, 2022, we leased 138 facilities in which we operate or intend to operate clinics. We are obligated under two additional leases for facilities in which we have ceased clinic operations.

Our corporate headquarters are located at 16767 N. Perimeter Center 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 and claims from time to time. We maintain insurance to cover certain litigation and claims. In June 2021, we received a draft complaint from an employee, claiming that we had vicarious and other liability with respect to alleged wrongful acts committed by a former employee. In February 2022, the claim was settled for a total of \$750,000. We also recognized a \$250,000 insurance recovery asset associated with the settlement. The \$500,000 net impact of the settlement is included in our consolidated income statement for the year ended December 31, 2021. Please see Note 10, "Commitments and Contingencies" in the Notes to consolidated financial statements included in Item 8 of this report for further discussion.

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

Our common stock is traded on the NASDAQ Capital Market under the symbol “JYNT.”

Holders

As of December 31, 2022, there were approximately 33 holders of record of our common stock and 14,528,487 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. [Reserved]

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, 2022 and 2021 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. Information pertaining to fiscal year 2020 was included in our Annual Report on Form 10-K for the year ended December 31, 2020 on pages 31-40 under Part II, Item 7, “Management’s Discussion and Analysis of Financial Position and Results of Operations,” which was filed with the SEC on March 5, 2021.

Overview

Our principal business is to develop, own, operate, support and manage chiropractic clinics through franchising and regional developers 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. We saw over 845,000 new patients in 2022, despite the continued pandemic, with approximately 36% of those new patients visiting a chiropractor for the first time. We are not only increasing our percentage of market share, but are expanding the chiropractic market.

Key Performance Measures. We receive monthly performance reports from our system and our clinics which include key performance indicators per clinic, including gross sales, comparable same-store sales growth, or “Comp Sales,” number of new patients, conversion percentage, and member attrition. In addition, we review monthly reporting related to system-wide sales, clinic openings, clinic license sales, 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. System-wide 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. While franchised sales are not recorded as revenues by us, management believes the information is important in understanding the overall brand’s financial performance, because these sales are the basis on which we calculate and record royalty fees and are indicative of the financial health of the franchisee base.

Key Clinic Development Trends. As of December 31, 2022, we and our franchisees operated or managed 838 clinics, of which 712 were operated or managed by franchisees and 126 were operated as company-owned or managed clinics. Of the 126 company-owned or managed clinics, 57 were constructed and developed by us, and 69 were acquired from franchisees.

Our current strategy is to grow through the sale and development of additional franchises and continue to expand our corporate clinic portfolio within clustered locations. The number of franchise licenses sold for the year ended December 31, 2022 was 75, compared with 156 and 121 licenses for the years ended December 31, 2021 and 2020, respectively. We ended 2022 with 18 regional developers who were responsible for 67% of the 75 licenses sold during the year. This strong result reflects the power of the regional developer program to accelerate the number of clinics sold, and eventually opened, across the country.

In addition, we believe that we can accelerate the development of, and revenue generation from, company-owned or managed clinics through the accelerated development of greenfield clinics and the further selective acquisition of existing franchised clinics. We will seek to acquire existing franchised clinics that meet our criteria for demographics, site attractiveness, proximity to other clinics and additional suitability factors. During the quarter ended December 31, 2022, we opened four greenfield clinics, and as of December 31, 2022, we executed 8 leases for future greenfield clinic locations for further greenfield expansion.

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

Recent Events

Recent events that may impact our business include unfavorable global economic or political conditions, such as the Covid-19 pandemic, the Ukraine War, labor shortages, and inflation and other cost increases. We anticipate that 2023 will continue to be a volatile macroeconomic environment. As of the date of this Annual Report, we have not experienced a significant negative impact on our revenues and profitability due to the direct impact of the pandemic. However, there still remains uncertainty around the pandemic, its effect on labor or other macroeconomic factors, the severity and duration of the pandemic, the continued availability and effectiveness of vaccines and actions taken by government authorities, including restrictions, laws or regulations, and other third parties in response to the pandemic.

The primary inflationary factor affecting our operations is labor costs. In the fourth quarter of 2021 and in 2022, company-owned or managed clinics were negatively impacted by labor shortages and wage increases, which increased our general and administrative expenses. Further, should we fail to continue to increase our wages competitively in response to increasing wage rates, the quality of our workforce could decline, causing our patient service to suffer. We expect elevated levels of cost inflation to persist in 2023. While we anticipate that these headwinds will be partially mitigated by pricing actions taken in response to inflation, there can be no assurance that we will be able to continue to take such pricing actions. A continued increase in labor costs could have an adverse effect on our operating costs, financial condition and results of operations.

Also, the Ukraine War and the sanctions imposed on Russia in response to this conflict have increased global economic and political uncertainty. In addition, the increase in interest rates and the expectation that interest rates will continue to rise may adversely affect patients' financial conditions, resulting in reduced spending on our services. While the impact of these factors continues to remain uncertain, we will continue to evaluate the extent to which these factors will impact our business, financial condition, or results of operations. These and other uncertainties with respect to these recent events could result in changes to our current expectations.

Significant Events and/or Recent Developments

For the year ended December 31, 2022:

- Comp Sales of clinics that have been open for at least 13 full months increased 9%.
- Comp Sales for mature clinics open 48 months or more increased 4%.
- System-wide sales for all clinics open for any amount of time grew 21% to \$435.3 million.

We saw over 845,000 new patients in 2022, compared with 807,000 new patients in 2021, with approximately 36% 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 28, 2022, we entered into an amendment to our Credit Facilities (as amended, the “2022 Credit Facility”) with the Lender. Under the 2022 Credit Facility, the Revolver increased to \$20,000,000 (from \$2,000,000), the portion of the Revolver available for letters of credit increased to \$5,000,000 (from \$1,000,000), the uncommitted additional amount increased to \$30,000,000 (from \$2,500,000) and the developmental line of credit of \$5,500,000 was terminated. The Revolver will be used for working capital needs, general corporate purposes and for acquisitions, development and capital improvement uses.

On March 18, 2022, we entered into an agreement under which we repurchased the right to develop franchises in various counties in New Jersey. The total consideration for the transaction was \$250,000. We carried a deferred revenue balance associated with this transaction of \$95,197, representing the unrecognized fee collected upon the execution of the regional developer agreement. We accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price. We recognized the net amount of \$154,803 as reacquired development rights on March 18, 2022, which is amortized over the remaining original contract period of approximately 5.5 years.

On April 1, 2022, we entered into an agreement under which we repurchased the right to develop franchises in various counties in California. The total consideration for the transaction was \$2,400,000. We carried a deferred revenue balance associated with this transaction of \$357,721, representing the unrecognized fee collected upon the execution of the regional developer agreement. We accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price. We recognized the net amount of \$2,042,279 as reacquired development rights on April 1, 2022, which is amortized over the remaining original contract period of approximately 5.3 years.

On May 19, 2022, we entered into an Asset and Franchise Purchase Agreement under which we repurchased from the seller four operating franchises in Arizona. We operate the franchises as company-owned clinics. The total purchase price for the transaction was \$5,761,256, less \$70,484 of net deferred revenue, resulting in total purchase consideration of \$5,690,772. Based on the terms of the purchase agreement, the acquisition has been treated as a business combination under U.S. GAAP using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

On July 5, 2022, we entered into an Asset and Franchise Purchase Agreement under which we repurchased from the seller an operating franchise in Arizona. We operate the franchise as a company-owned clinic. The total purchase price for the transaction was \$1,205,667, less \$13,241 of net deferred revenue, resulting in total purchase consideration of \$1,192,426. Based on the terms of the purchase agreement, the acquisition has been treated as a business combination.

On July 29, 2022, we entered into an Asset and Franchise Purchase Agreements under which we repurchased from the sellers three operating franchises in North Carolina. We operate the franchises as company-managed clinics. The total purchase price for the transaction was \$1,317,312, less \$31,647 of net deferred revenue, resulting in total purchase consideration of \$1,285,665. Based on the terms of the purchase agreement, the acquisition has been treated as an asset purchase.

On October 12, 2022, we entered into an agreement under which we repurchased the right to develop franchises in various counties in the Philadelphia area. The total consideration for the transaction was \$225,000. We carried a deferred revenue balance associated with this transaction of \$176,118, representing the unrecognized fee collected upon the execution of the regional developer agreement. We accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price. We recognized the net amount of \$48,882 as reacquired development rights on October 12, 2022, which is amortized over the remaining original contract period of approximately 4.2 years.

On October 13, 2022, we entered into an Asset and Franchise Purchase Agreement under which we repurchased from the seller one operating franchise in North Carolina. We operate the franchise as a company-managed clinic. The total purchase price for the transaction was \$761,384, less \$5,108 of net deferred revenue, resulting in total purchase consideration of \$756,276. Based on the terms of the purchase agreement, the acquisition has been treated as an asset purchase.

On October 24, 2022, we entered into an Asset and Franchise Purchase Agreement under which we repurchased from the seller an operating franchise in North Carolina. We operate the franchise as a company-managed clinic. The total purchase price for the transaction was \$1,391,112, less \$9,262 of net deferred revenue, resulting in total purchase consideration of \$1,381,850. Based on the terms of the purchase agreement, the acquisition has been treated as an asset purchase.

On December 23, 2022, we entered into an Asset and Franchise Purchase Agreement under which we repurchased from the sellers six operating franchises and one undeveloped clinic in California. We operate the franchises as company-managed clinics. The total purchase price for the transaction was \$1,965,755, less \$70,628 of net deferred revenue, resulting in total purchase consideration of \$1,895,127. Based on the terms of the purchase agreement, the acquisition has been treated as an asset purchase.

For the year ended December 31, 2022, we constructed and developed 16 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, cost inflation, labor shortages, consumer confidence in the economy, consumer preferences, competitive factors, and disease epidemics and other health-related concerns, such as the COVID-19 pandemic.

Significant Accounting Policies 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.

Acquisitions

We allocate the purchase price of acquired companies to the assets acquired and liabilities assumed based on estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the identifiable net assets acquired recorded as goodwill. When an acquisition is accounted for in accordance with the acquisition of assets rather than a business, goodwill is not recognized and instead, any excess of the cost of the acquisition over the fair value of net assets acquired is allocated to certain assets on the basis of relative fair values. The allocation of the purchase price requires us to make significant estimates and assumptions to determine the fair value of assets acquired and liabilities assumed and the related useful lives of the acquired assets, when applicable, as of the acquisition date.

Examples of critical estimates used in valuing certain intangible assets we have acquired or may acquire in the future include, but are not limited to, future expected cash flows and member relationships, revenue growth rates, the period of time the acquired member relationships will continue to be used, anticipated member attrition rates, and discount rates used to determine the present value of estimated future cash flows. We engage third-party valuation experts to assist in determining the fair value associated with our acquisitions and related identifiable intangible assets. These estimates are inherently uncertain and unpredictable, and if different estimates were used, the purchase price for the acquisition could be allocated to the acquired assets and assumed liabilities differently from the allocation that we have made.

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 one to ten 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 two to seven years. The fair value of customer relationships is amortized over their estimated useful life which ranges from two to four years.

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired in the acquisitions of franchises treated as a business combination under U.S. GAAP. 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, 2022 and 2021.

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 the assessment of whether or not long-lived assets are recoverable. We record an impairment loss when the carrying amount of the asset is not recoverable and exceeds its fair value. During the year ended December 31, 2022, an operating lease ROU asset related to a closed clinic with a total carrying amount of approximately \$0.2 million was written down to zero. As a result, we recorded a noncash impairment loss of approximately \$0.2 million during the year ended December 31, 2022. During the year ended December 31, 2021, certain operating lease ROU assets related to closed clinics with a total carrying amount of \$0.5 million were written down to their fair value of \$0.4 million. As a result, we recorded a noncash impairment loss of approximately \$0.1 million for the year ended December 31, 2021.

Stock-Based Compensation

We account for share-based payments by recognizing compensation expense based on the estimated fair value of the awards on the date of grant. We determine 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. We recognize compensation costs ratably over the period of service using the straight-line method. Forfeitures are estimated based on historical and forecasted turnover, which is approximately 5%.

Revenue Recognition

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

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. Any unused visits associated with monthly memberships are recognized on a month-to-month basis. 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. If we determine that it is not subject to unclaimed property laws for the portion of wellness package that we do not expect to be redeemed (referred to as “breakage”), then we recognize breakage revenue in proportion to the pattern of exercised rights by the patient.

Royalties and Advertising Fund Revenue. We collect royalties from our franchisees, 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 revenue accounting standard provides an exception for the recognition of sales-based royalties promised in exchange for a license (which generally requires a reporting entity to estimate the amount of variable consideration to which it will be entitled in the transaction price). 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 and marketing and advertising fees 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 generally 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 from our franchisees for use of our 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. We have a regional developer program where regional developers are granted an exclusive geographical territory and commit to a minimum development obligation within that defined territory. Regional developer fees 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, we pay regional developers 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 gross sales generated by franchised clinics in their regions are also recognized as franchise cost of revenues as franchisee clinic level sales occur, which is funded by the 7% royalties we collect from the franchisees in their regions. Certain regional developer agreements result in the regional developer acquiring the rights to existing royalty streams from clinics already open in the respective territory. In those instances, the revenue associated from the sale of the royalty stream is recognized over the remaining life of the respective franchise agreements.

Leases

The accounting guidance for leases requires lessees to recognize a right-of-use ("ROU") asset and a lease liability in the balance sheet for most leases. 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. Certain leases include one or more renewal options, generally for the same period as the initial term of the lease. The exercise of lease renewal options is generally at our sole discretion and, as such, we typically determine that exercise of these renewal options is not reasonably certain. As a result, we do not include the renewal option period in the expected lease term and the associated lease payments are not included in the measurement of the right-of-use asset and lease liability. 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 it takes possession of the leased property. Pre-opening costs are recorded as incurred in general and administrative expenses. Variable lease payments, such as percentage rentals based on location sales, periodic adjustments for inflation, reimbursement of real estate taxes, any variable common area maintenance and any other variable costs associated with the leased property are expensed as incurred and are also included in general and administrative expenses on the consolidated income statements.

Income Taxes

We recognize deferred tax assets and liabilities for both the expected impact of differences between the financial statement amount and the tax basis of assets and liabilities and for the expected future tax benefit to be derived from tax losses and tax credit carryforwards.

We record a valuation allowance against deferred tax assets when it is considered more likely than not that all or a portion of our deferred tax assets will not be realized. In making this determination, we are required to give significant weight to evidence that can be objectively verified. It is generally difficult to conclude that a valuation allowance is not needed when there is significant negative evidence, such as cumulative losses in recent years. Forecasts of future taxable income are considered to be less objective than past results. Therefore, cumulative losses weigh heavily in the overall assessment.

In addition to considering forecasts of future taxable income, we are also required to evaluate and quantify other possible sources of taxable income in order to assess the realization of our deferred tax assets, namely the reversal of existing temporary differences, the carry back of losses and credits as allowed under current tax law, and the implementation of tax planning strategies. Evaluating and quantifying these amounts involves significant judgments. Each source of income must be evaluated based on all positive and negative evidence; this evaluation involves assumptions about future activity. The actual realization of deferred tax assets may differ from the amounts we have recorded.

Significant judgment is also required in evaluating our uncertain tax positions. We establish accruals for uncertain tax positions when we believe that the full amount of the associated tax benefit may not be realized. If we prevail in matters for which accruals have been established previously or pay amounts in excess of reserves, there could be an effect on our income tax provisions in the period in which such determination is made.

We regularly assess the tax risk of our tax return filing positions, and we have not identified any material uncertain tax positions as of December 31, 2022 and 2021, respectively.

Loss Contingencies

Accounting Standards Codification 450, Contingencies (“ASC 450”), governs the disclosure of loss contingencies and accrual of loss contingencies in respect of litigation and other claims. We record an accrual for a potential loss when it is probable that a loss will occur and the amount of the loss can be reasonably estimated. When the reasonable estimate of the potential loss is within a range of amounts, the minimum of the range of potential loss is accrued, unless a higher amount within the range is a better estimate than any other amount within the range. Moreover, even if an accrual is not required, we provide additional disclosure related to litigation and other claims when it is reasonably possible (i.e., more than remote) that the outcomes of such litigation and other claims include potential material adverse impacts on us. Legal costs to be incurred in connection with a loss contingency are expensed as such costs are incurred.

Results of Operations

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

Total Revenues

Components of revenues for the year ended December 31, 2022, as compared to the year ended December 31, 2021, were as follows:

	Year Ended December 31,		Change from Prior Year	Percent Change from Prior Year
	2022	2021		
Revenues:				
Revenues from company-owned or managed clinics	\$ 59,422,294	\$ 44,348,234	\$ 15,074,060	34.0 %
Royalty fees	26,190,531	22,062,989	4,127,542	18.7 %
Franchise fees	2,441,325	2,659,097	(217,772)	(8.2) %
Advertising fund revenue	7,456,696	6,298,924	1,157,772	18.4 %
Software fees	4,290,739	3,383,856	906,883	26.8 %
Regional developer fees	659,099	848,640	(189,541)	(22.3) %
Other revenues	1,450,725	1,257,913	192,812	15.3 %
Total revenues	\$ 101,911,409	\$ 80,859,653	\$ 21,051,756	26.0 %

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

Consolidated Results

- Total revenues increased by \$21.1 million, primarily due to the continued expansion and revenue growth of our franchise base, continued same-store sales growth and expansion of our corporate-owned or managed clinics portfolio.

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. As of December 31, 2022 and 2021, there were 126 and 96 company-owned or managed clinics in operation, respectively.

Franchise Operations

- Royalty fees and advertising fund revenue increased due to an increase in the number of franchised clinics in operation during 2022, along with continued sales growth in existing franchised clinics. As of December 31, 2022 and 2021, there were 712 and 610 franchised clinics in operation, respectively.
- Franchise fees revenue was relatively flat as the impact of an increase in executed franchise agreements was more than offset by the impact of accelerated revenue recognition resulting from the terminated franchise license agreements in the prior year period. There were no such comparable events during 2022. In addition, 17 and 12 franchise license agreements were terminated during the years ended December 31, 2022 and 2021, respectively, in connection with acquisitions, resulting in elimination of fees to be recognized ratably over the term of the original respective franchise agreements.
- Software fees revenue increased due to an increase in our franchised clinic base and the related revenue recognition over the term of the franchise agreement as described above.
- Regional developer fees revenue decreased due to the impact of repurchased regional developer rights during the year ended December 31, 2022.
- Other revenues primarily consisted of merchant income associated with credit card transactions.

Cost of Revenues

	<u>Year Ended December 31,</u>		<u>Change from Prior Year</u>	<u>Percent Change from Prior Year</u>
	<u>2022</u>	<u>2021</u>		
Cost of Revenues	9,830,162	8,513,777	\$ 1,316,385	15.5 %

For the year ended December 31, 2022, as compared with the year ended December 31, 2021, the total cost of revenues increased due to an increase in regional developer royalties and sales commissions of \$1.1 million and an increase in website hosting costs of \$0.3 million.

Selling and Marketing Expenses

	<u>Year Ended December 31,</u>		<u>Change from Prior Year</u>	<u>Percent Change from Prior Year</u>
	<u>2022</u>	<u>2021</u>		
Selling and Marketing Expenses	13,962,709	11,424,416	\$ 2,538,293	22.2 %

Selling and marketing expenses increased \$2.5 million for the year ended December 31, 2022, as compared to the year ended December 31, 2021, 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

	<u>Year Ended December 31,</u>		<u>Change from Prior Year</u>	<u>Percent Change from Prior Year</u>
	<u>2022</u>	<u>2021</u>		
Depreciation and Amortization Expenses	7,643,980	6,088,947	\$ 1,555,033	25.5 %

Depreciation and amortization expenses increased for the year ended December 31, 2022, as compared to the year ended December 31, 2021, primarily due to depreciation expenses associated with the expansion of our company-owned or managed clinics portfolio in 2021 and 2022 and the new IT platform used by clinics for operations and for the management of operations, which went live in July 2021.

General and Administrative Expenses

	Year Ended December 31,		Change from Prior Year	Percent Change from Prior Year
	2022	2021		
General and Administrative Expenses	67,987,482	49,453,305	\$ 18,534,177	37.5 %

General and administrative expenses increased during the year ended December 31, 2022 compared to the year ended December 31, 2021, primarily due to the increases in the following to support continued clinic count and revenue growth in both operating segments: (i) payroll and related expenses of \$14.3 million, (ii) general overhead and administrative expenses of \$2.6 million, (iii) professional and advisory fees of \$1.0 million, and (iv) software and maintenance expense of \$0.7 million. As a percentage of revenue, general and administrative expenses during the year ended December 31, 2022 and 2021 were 67% and 61%, respectively, reflecting the impact of the greenfields that opened in 2022.

Income from Operations

	Year Ended December 31,		Change from Prior Year	Percent Change from Prior Year
	2022	2021		
Income from Operations	2,076,861	5,352,419	\$ (3,275,558)	(61.2)%

Consolidated Results

Consolidated income from operations decreased by \$3.3 million for the year ended December 31, 2022 compared to the year ended December 31, 2021, primarily due to the increased expenses in the corporate clinics and unallocated corporate segments discussed below.

Corporate Clinics

Our corporate clinics segment had loss from operations of \$0.9 million for the year ended December 31, 2022, a decrease in income of \$5.3 million compared to income from operations of \$4.4 million for the year ended December 31, 2021. This decrease was primarily due to:

- A \$20.4 million increase in operating expenses primarily due to the increases in the following: (i) payroll-related expenses of \$14.7 million due to a higher head count to support the expansion of our corporate clinic portfolio and general wage increases to remain competitive in the current labor market, (ii) depreciation expense of \$1.1 million associated with the expansion of our company-owned or managed clinics portfolio in 2021 and 2022, (iii) selling and marketing expenses due to increased local marketing expenditures by the company-owned or managed clinics of \$1.4 million, (iv) general overhead and administrative expenses to support the expansion of our corporate clinic portfolio of \$2.9 million, and (v) impairment loss of \$0.3 million; partially offset by
- An increase in revenues of \$15.1 million from company-owned or managed clinics primarily due to improved same-store growth, as well as the expansion of our corporate-owned or managed clinics portfolio.

Franchise Operations

Our franchise operations segment had income from operations of \$19.6 million for the year ended December 31, 2022, an increase of \$2.9 million, compared to income from operations of \$16.7 million for the year ended December 31, 2021. This increase was primarily due to:

- An increase of \$6.0 million in total revenues due to an increase in the number of franchised clinics in operation, along with continued sales growth in existing franchised clinics; partially offset by
- An increase of \$1.4 million in cost of revenues, primarily due to an increase in regional developer royalties and website hosting costs and an increase of \$1.8 million in operating expenses, primarily due to an increase in: (i) selling

and marketing expenses resulting from a larger franchise base of \$1.2 million, (ii) depreciation expense associated with the new IT platform of \$0.4 million, and (iii) payroll-related expenses of \$0.2 million.

Unallocated Corporate

Unallocated corporate expenses for the year ended December 31, 2022 increased by \$0.8 million compared to the prior year period, primarily due to the increases in professional and advisory fees of \$0.8 million.

Income Tax Expense (Benefit)

	Year Ended December 31,		Change from Prior Year	Percent Change from Prior Year
	2022	2021		
Income tax expense (benefit)	766,510	(1,293,229)	\$ 2,059,739	(159.3)%

For the years ended December 31, 2022 and 2021, the effective tax rates were 39.4% and (24.5)%, respectively. The fluctuation in the effective rate was primarily attributable to state taxes including the change in rates, and stock-based compensation during the year ended December 31, 2022, as compared to the year ended December 31, 2021. Please see Note 9, "Income Taxes" in the Notes to consolidated financial statements included in Item 8 of this report for further discussion.

Non-GAAP Financial Measures

The table below reconciles net income to Adjusted EBITDA for the years ended December 31, 2022 and 2021.

	Year Ended December 31,	
	2022	2021
Non-GAAP Financial Data:		
Net income	\$ 1,177,250	\$ 6,575,770
Net interest	133,102	69,878
Depreciation and amortization expense	7,643,980	6,088,947
Income tax expense (benefit)	766,510	(1,293,229)
EBITDA	9,720,842	11,441,366
Stock compensation expense	1,273,989	1,056,015
Acquisition related expenses	110,085	68,716
Net loss on disposition or impairment	410,215	26,789
Adjusted EBITDA	\$ 11,515,131	\$ 12,592,886

Adjusted EBITDA consists of net income before interest, income taxes, depreciation and amortization, acquisition related expenses, stock-based compensation expense, bargain purchase gain, and (gain) loss on disposition or impairment. We have provided Adjusted EBITDA, a non-GAAP measure of financial performance because it is 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, 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 (gain) 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.

Liquidity and Capital Resources

Sources of Liquidity

As of December 31, 2022, we had cash and short-term bank deposits of \$9.7 million. We generated \$11.1 million of cash flow from operating activities in the year ended December 31, 2022. While the pandemic and the Ukraine War create potential liquidity risks, as discussed further below, we believe that our existing cash and cash equivalents, our anticipated cash flows from operations and amounts available under our development line of credit will be sufficient to fund our anticipated operating and investment needs for at least the next twelve months. However, due to the opportunistic nature of our acquisitions, we may have negative working capital from time to time. The primary reason for the increase in negative working capital from December 31, 2021 to December 31, 2022 is due to a decrease in net cash provided by operating activities and an increase in investing activities, as discussed below.

While the interruptions, delays and/or cost increases resulting from the pandemic, political instability and geopolitical tensions, such as the Ukraine War, economic weakness, inflationary pressures, increase in interest rates and other factors have created uncertainty as to general economic conditions for 2023, as of the date of this report, we believe we have adequate capital resources and sufficient access to external financing sources to satisfy our current and reasonably anticipated requirements for funds to conduct our operations and meet other needs in the ordinary course of our business. For 2023, we expect to use or redeploy our cash resources to support our business within the context of prevailing market conditions, which, given the ongoing uncertainties described above, could rapidly and materially deteriorate or otherwise change. Our long-term capital requirements, primarily for acquisitions and other corporate initiatives, could be dependent on our ability to access additional funds through the debt and/or equity markets. If the equity and credit markets deteriorate, including as a result of economic weakness, a resurgence of COVID-19, political unrest or war, including the Ukraine War, or any other reason, it may make any necessary equity or debt financing more difficult to obtain in a timely manner and on favorable terms, if at all, and if obtained, it may be more costly or more dilutive. 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. Given the ongoing uncertainties described above, the levels of our cash flows from operations for 2023 may be impacted. There can be no assurance that we will be able to generate sufficient cash flows or obtain the capital necessary to meet our short and long-term capital requirements.

Analysis of Cash Flows

Net cash provided by operating activities was \$11.1 million for the year ended December 31, 2022, compared to net cash provided by operating activities of \$15.2 million for the year ended December 31, 2021. The decrease was primarily attributable to the decreased net income, net of non-cash charges, in the year ended December 31, 2022 of \$11.2 million versus \$12.5 million in the prior year period and the changes in operating assets and liabilities of \$(0.1) million in the year ended December 31, 2022 versus \$2.8 million in the prior year period. The decrease in operating assets and liabilities for the year ended December 31, 2022 is primarily attributable to: i) a decrease in accrued expenses of \$1.2 million, mainly driven by the legal claim settlement of \$0.75 million and other non-recurring payments made during the year, ii) a decrease in payroll liabilities of \$1.9 million, mostly due to the short-term incentive compensation payments made during the year (without the comparable accrual as of December 31, 2022), and iii) an increase in deferred franchise cost of \$0.4 million related to the commissions paid for the sale of franchise licenses during the year. These decreases in operating assets and liabilities were partially offset by the increases in: i) deferred revenue of \$2.2 million related to the amounts collected for the sale of franchise license and membership and wellness packages sold during the year (which are recorded as deferred revenue until the service is performed), ii) accounts payable of \$0.8 million due to the general increase in operating expenses and timing of payments, and iii) prepaid expenses and other current assets of \$0.2 million, mainly driven by the general increase in operating expenses.

Net cash provided by operating activities was \$15.2 million for the year ended December 31, 2021, compared to net cash provided by operating activities of \$11.2 million for the year ended December 31, 2020. The increase was primarily attributable to the increased net income, net of non-cash charges, in the year ended December 31, 2021 of \$12.5 million versus \$8.6 million in the prior year period. The increase was partially offset by year-over-year growth in accounts receivable, which was 79% higher than in 2020, attributable to: i) an increase in royalties receivable due to an increase in the number of franchised clinics in operation during 2021 (with 610 open and operating franchise units at December 31, 2021 versus 515 at December 31, 2020), along with continued sales growth in existing franchised clinics, ii) timing of cash collected from franchise license sales, iii) an increase in software fee revenue related to the correction of the calculation of software fee revenue (see note 1 in the notes to consolidated financial statements included in Item 8 of the 2021 Form 10-K), and iv) an increase in receivables related to leasehold improvement incentives. In addition, increased deferred franchising costs contributed to a decrease in net cash provided by operating activities, which consist of franchise license sales commissions earned by the regional developers and the Company's sales force. The increase in payroll liabilities is attributable to the increased workforce at December 31, 2021 versus 2020 and the timing of the employee compensation payroll cycles.

Cash provided by operating activities is subject to variability period over period as a result of the timing of collections and payments related to accounts receivable, accrued expenses, and other operating assets and liabilities. Royalties and other fees are collected from our franchisees semi-monthly, two working days after each sales period has ended.

Net cash used in investing activities was \$20.8 million and \$14.1 million during the years ended December 31, 2022 and 2021, respectively. For the year ended December 31, 2022, this included clinic acquisitions for \$12.1 million, purchases of property and equipment for \$5.9 million, and reacquisition and termination of regional developer rights for \$2.9 million. For the year ended December 31, 2021, this included clinic acquisitions for \$5.8 million, purchases of property and equipment for \$7.0 million, and reacquisition and termination of regional developer rights for \$1.4 million.

Net cash provided by (used in) financing activities was \$0.3 million and \$(2.0) million during the years ended December 31, 2022 and 2021, respectively. For the year ended December 31, 2022, this included proceeds from the exercise of stock options of \$0.4 million. For the year ended December 31, 2021, this included repayment of the PPP loan of \$2.7 million and purchases of treasury stock for \$0.7 million, which were partially offset by the proceeds from the exercise of stock options of \$1.5 million.

The following table summarizes our material contractual obligations at December 31, 2022 and the effect that such obligations are expected to have on our liquidity and cash flows in future periods:

Material Contractual Cash Requirements

	Payments Due by Fiscal Year						
	Total	2023	2024	2025	2026	2027	Thereafter
Operating leases	\$ 27,149,598	6,280,108	5,689,672	5,084,585	3,264,579	2,268,960	4,561,694
Debt under the Credit Agreement	\$ 2,000,000	—	—	—	—	2,000,000	—

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.

Off-Balance Sheet Arrangements

During the year ended December 31, 2022, 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

Financial instruments held by us as of December 31, 2022 include cash and cash equivalents and short-term borrowings. A portion of our cash is affected by short-term interest rates, which are currently low. Given the low interest income generated from our cash, any reduction in interest rates would not have a material impact on our interest income.

Borrowings under the Revolver bear interest at a rate equal to an applicable margin plus a variable rate. As such, the Revolver exposes us to market risk for changes in interest rates. Given our short-term debt position as of December 31, 2022, the effect of a 10-basis point change in interest rates would not have a material impact on our variable interest expense.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
The Joint Corp.
Scottsdale, Arizona

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of The Joint Corp. (the “Company”) as of December 31, 2022 and 2021, the related consolidated statements of income, changes in stockholders’ equity, and cash flows for the years then ended, 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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 Public Company Accounting Oversight Board (United States) (“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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue growth rate utilized in the determination of the fair value of acquired member relationships and reacquired franchise rights for certain acquisitions

As described in Note 3 of the consolidated financial statements, the Company acquired certain clinics during the current year. As a result of the acquisitions, management was required to determine the estimated fair values of assets acquired and liabilities assumed, including certain identifiable intangible assets. Management utilized third-party valuation specialists to assist in the preparation of the valuation of certain identifiable intangible assets. Management exercised judgment to develop and select revenue growth rates in the measurement of the fair value of the acquired member relationships and reacquired franchise rights.

We identified the revenue growth rates utilized in the determination of the fair value of acquired member relationships and reacquired franchise rights for certain acquisitions as a critical audit matter. The principal considerations for our determination included the subjectivity and judgment required to determine the revenue growth rates used in the fair value measurement of acquired member relationships and reacquired franchise rights for certain acquisitions. Auditing these revenue growth rates involved especially subjective auditor judgment due to the nature and extent of audit effort required.

The primary procedures we performed to address this critical audit matter included:

Evaluating the reasonableness of the revenue growth rates by (i) reviewing the historical performance of the Company using its audited financial statements, (ii) assessing revenue projections against industry metrics, and (iii) comparing the actual post-acquisition net revenue to the forecast revenue.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2021.
Phoenix, Arizona

March 10, 2023

**THE JOINT CORP.
CONSOLIDATED BALANCE SHEETS**

ASSETS	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,745,066	\$ 19,526,119
Restricted cash	805,351	386,219
Accounts receivable	3,911,272	3,700,810
Deferred franchise and regional development costs, current portion	1,054,060	994,587
Prepaid expenses and other current assets	2,098,359	2,281,765
Total current assets	17,614,108	26,889,500
Property and equipment, net	17,475,152	14,388,946
Operating lease right-of-use asset	20,587,199	18,425,914
Deferred franchise and regional development costs, net of current portion	5,707,678	5,505,420
Intangible assets, net	12,867,529	5,403,390
Goodwill	8,493,407	5,085,203
Deferred tax assets	8,441,713	9,188,634
Deposits and other assets	756,386	567,202
Total assets	<u>\$ 91,943,172</u>	<u>\$ 85,454,209</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,966,589	\$ 1,705,568
Accrued expenses	1,069,610	1,809,460
Co-op funds liability	805,351	386,219
Payroll liabilities (\$0.6 million and \$0.4 million attributable to VIEs as of December 31, 2022 and 2021)	2,030,510	3,906,317
Operating lease liability, current portion	5,295,830	4,613,843
Finance lease liability, current portion	24,433	49,855
Deferred franchise and regional development fee revenue, current portion	2,955,851	3,191,892
Deferred revenue from company clinics (\$4.7 million and \$3.5 million attributable to VIEs as of December 31, 2022 and 2021)	7,471,549	5,235,745
Other current liabilities	499,250	539,500
Total current liabilities	23,118,973	21,438,399
Operating lease liability, net of current portion	18,672,719	16,872,093
Finance lease liability, net of current portion	63,507	87,939
Debt under the Credit Agreement	2,000,000	2,000,000
Deferred franchise and regional development fee revenue, net of current portion	15,661,412	15,458,921
Other liabilities	27,230	27,230
Total liabilities	59,543,841	55,884,582
Commitments and contingencies (note 10)		
Stockholders' equity:		
Series A preferred stock, \$0.001 par value; 50,000 shares authorized, 0 issued and outstanding, as of December 31, 2022 and 2021	—	—
Common stock, \$0.001 par value; 20,000,000 shares authorized, 14,560,353 shares issued and 14,528,487 shares outstanding as of December 31, 2022 and 14,451,355 shares issued and 14,419,712 outstanding as of December 31, 2021	14,560	14,450
Additional paid-in capital	45,558,305	43,900,157
Treasury stock 31,866 shares as of December 31, 2022 and 31,643 shares as of December 31, 2021, at cost	(856,642)	(850,838)
Accumulated deficit	(12,341,892)	(13,519,142)
Total The Joint Corp. stockholders' equity	32,374,331	29,544,627
Non-controlling Interest	25,000	25,000
Total equity	32,399,331	29,569,627
Total liabilities and stockholders' equity	<u>\$ 91,943,172</u>	<u>\$ 85,454,209</u>

See notes to consolidated financial statements.

THE JOINT CORP.
CONSOLIDATED INCOME STATEMENTS

	Year Ended December 31,	
	2022	2021
Revenues:		
Revenues from company-owned or managed clinics	\$ 59,422,294	\$ 44,348,234
Royalty fees	26,190,531	22,062,989
Franchise fees	2,441,325	2,659,097
Advertising fund revenue	7,456,696	6,298,924
Software fees	4,290,739	3,383,856
Regional developer fees	659,099	848,640
Other revenues	1,450,725	1,257,913
Total revenues	<u>101,911,409</u>	<u>80,859,653</u>
Cost of revenues:		
Franchise and regional developer cost of revenues	8,462,503	7,408,125
IT cost of revenues	1,367,659	1,105,652
Total cost of revenues	<u>9,830,162</u>	<u>8,513,777</u>
Selling and marketing expenses	13,962,709	11,424,416
Depreciation and amortization	7,643,980	6,088,947
General and administrative expenses	67,987,482	49,453,305
Total selling, general and administrative expenses	<u>89,594,171</u>	<u>66,966,668</u>
Net loss on disposition or impairment	410,215	26,789
Income from operations	2,076,861	5,352,419
Other expense, net	(133,101)	(69,878)
Income before income tax expense (benefit)	1,943,760	5,282,541
Income tax expense (benefit)	766,510	(1,293,229)
Net income	<u>\$ 1,177,250</u>	<u>\$ 6,575,770</u>
Earnings per share:		
Basic earnings per share	\$ 0.08	\$ 0.46
Diluted earnings per share	\$ 0.08	\$ 0.44
Basic weighted average shares	14,488,314	14,319,448
Diluted weighted average shares	14,868,093	14,935,577

See notes to consolidated financial statements.

**THE JOINT CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

	Common Stock			Treasury Stock			Total The Joint Corp. stockholder's equity	Non-controlling Interest	Total
	Shares	Amount	Additional Paid In Capital	Shares	Amount	Accumulated Deficit			
Balances, December 31, 2020	14,174,237	14,174	41,350,001	17,167	(143,111)	(20,094,912)	21,126,152	100	21,126,252
Stock-based compensation expense	—	—	1,056,015	—	—	—	1,056,015	—	1,056,015
Issuance of restricted stock	17,074	17	(17)	—	—	—	—	—	—
Exercise of stock options	260,044	259	1,519,058	—	—	—	1,519,317	—	1,519,317
Purchases of treasury stock under employee stock plans	—	—	—	14,476	(707,727)	—	(707,727)	—	(707,727)
Change in non-controlling interest	—	—	(24,900)	—	—	—	(24,900)	24,900	—
Net income	—	—	—	—	—	6,575,770	6,575,770	—	6,575,770
Balances, December 31, 2021	14,451,355	14,450	43,900,157	31,643	(850,838)	(13,519,142)	29,544,627	25,000	29,569,627
Stock-based compensation expense	—	—	1,273,989	—	—	—	1,273,989	—	1,273,989
Issuance of restricted stock	65,618	66	(66)	—	—	—	—	—	—
Exercise of stock options	43,380	44	384,225	—	—	—	384,269	—	384,269
Purchases of treasury stock under employee stock plans	—	—	—	223	(5,804)	—	(5,804)	—	(5,804)
Net income	—	—	—	—	—	1,177,250	1,177,250	—	1,177,250
Balances, December 31, 2022	<u>14,560,353</u>	<u>\$ 14,560</u>	<u>\$ 45,558,305</u>	<u>31,866</u>	<u>\$ (856,642)</u>	<u>\$ (12,341,892)</u>	<u>\$ 32,374,331</u>	<u>\$ 25,000</u>	<u>\$ 32,399,331</u>

See notes to consolidated financial statements.

THE JOINT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 1,177,250	\$ 6,575,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,643,980	6,088,947
Net loss on disposition or impairment (non-cash portion)	410,215	125,237
Net franchise fees recognized upon termination of franchise agreements	(68,537)	(133,007)
Deferred income taxes	746,921	(1,247,198)
Stock based compensation expense	1,273,989	1,056,015
Changes in operating assets and liabilities:		
Accounts receivable	(154,672)	(1,637,589)
Prepaid expenses and other current assets	183,406	(715,740)
Deferred franchise costs	(351,151)	(1,418,235)
Deposits and other assets	(189,184)	(148,516)
Accounts payable	818,265	(14,373)
Accrued expenses	(1,170,070)	886,738
Payroll liabilities	(1,875,807)	1,130,281
Deferred revenue	2,230,041	3,624,944
Other liabilities	409,938	1,059,506
Net cash provided by operating activities	<u>11,084,584</u>	<u>15,232,780</u>
Cash flows from investing activities:		
Acquisition of AZ clinics	(6,966,923)	(1,925,000)
Acquisition of NC clinics	(3,289,312)	(3,840,135)
Acquisition of CA clinics	(1,850,000)	—
Proceeds from sale of clinics	105,200	—
Purchase of property and equipment	(5,899,080)	(6,989,534)
Reacquisition and termination of regional developer rights	(2,875,000)	(1,388,700)
Net cash used in investing activities	<u>(20,775,115)</u>	<u>(14,143,369)</u>
Cash flows from financing activities:		
Payments of finance lease obligation	(49,855)	(80,322)
Purchases of treasury stock under employee stock plans	(5,804)	(707,727)
Proceeds from exercise of stock options	384,269	1,519,317
Repayment of debt under the Paycheck Protection Program	—	(2,727,970)
Net cash provided by (used in) financing activities	<u>328,610</u>	<u>(1,996,702)</u>
Decrease in cash	(9,361,921)	(907,291)
Cash, cash equivalents and restricted cash, beginning of period	19,912,338	20,819,629
Cash, cash equivalents and restricted cash, end of period	<u>\$ 10,550,417</u>	<u>\$ 19,912,338</u>
	December 31, 2022	December 31, 2021
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 9,745,066	\$ 19,526,119
Restricted cash	805,351	386,219
	<u>\$ 10,550,417</u>	<u>\$ 19,912,338</u>

During the years ended December 31, 2022 and 2021, cash refunded for income taxes was \$69,481 and cash paid for income taxes was \$566,808, respectively. During the years ended December 31, 2022 and 2021, cash paid for interest was \$71,255 and \$69,273, respectively.

See notes to consolidated financial statements.

Supplemental disclosure of non-cash activity:

As of December 31, 2022, accounts payable and accrued expenses included property and equipment purchases of \$42,756 and \$133,969, respectively. As of December 31, 2021, accounts payable and accrued expenses included property and equipment purchases of \$158,293 and \$152,501, respectively.

In connection with the acquisitions during the years ended December 31, 2022 and December 31, 2021, net deferred revenue of \$200,371 and \$134,539, respectively, relating to unrecognized net franchise fees collected upon the execution of the franchise agreements reduced the purchase price of the acquisitions.

In connection with the Company's reacquisition and termination of regional developer rights during the year ended December 31, 2022, the Company had deferred revenue of \$629,036 representing unrecognized license fees collected upon the execution of the regional developer agreement. The Company netted this amount against the aggregate purchase price of \$2,875,000.

In connection with the Company's reacquisition and termination of regional developer rights during the year ended December 31, 2021, the Company had deferred revenue of \$35,679 representing unrecognized license fees collected upon the execution of the regional developer agreements. The Company netted this amount against the aggregate purchase price of \$1,388,700.

THE JOINT CORP.**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"), which includes 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 accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amount of assets, liabilities, revenue, costs, expenses, other (expenses) income, and income taxes 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, accounting for leases, and accounting for income taxes, see Note 2, "Revenue Disclosures", Note 9, "Income Taxes", and Note 10, "Commitments and Contingencies".

Principles of Consolidation

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

Comprehensive Income

Net income and comprehensive income are the same for the years ended December 31, 2022 and 2021.

Nature of Operations

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

The following table summarizes the number of clinics in operation under franchise agreements and as company-owned or managed for the years ended December 31, 2022 and 2021:

	Year Ended December 31,	
	2022	2021
Franchised clinics:		
Clinics open at beginning of period	610	515
Opened during the period	121	110
Acquired during the period	2	—
Sold during the period	(16)	(12)
Closed during the period	(5)	(3)
Clinics in operation at the end of the period	712	610

	Year Ended December 31,	
	2022	2021
Company-owned or managed clinics:		
Clinics open at beginning of period	96	64
Opened during the period	16	20
Acquired during the period	16	12
Sold during the period	(2)	—
Closed during the period	—	—
Clinics in operation at the end of the period	126	96
Total clinics in operation at the end of the period	838	706
Clinic licenses sold but not yet developed	197	245
Executed letters of intent for future clinic licenses	38	38

Variable Interest Entities

Certain states prohibit the “corporate practice of chiropractic,” which restricts business corporations from practicing chiropractic care by exercising control over clinical decisions by chiropractic doctors. In states which prohibit the corporate practice of chiropractic, the Company typically enters into long-term management services agreements (“MSAs”) with professional corporations (“PCs”) that are owned by licensed chiropractic doctors, which, in turn, employ or contract with doctors who provide professional chiropractic care in its clinics. Under these management agreements with PCs, the Company provides, on an exclusive basis, all non-clinical services of the chiropractic practice. The Company has entered into such management agreements with three PCs, including one in Kansas, in connection with the opening of company-managed clinics in August 2022. An entity deemed to be the primary beneficiary of a VIE is required to consolidate the VIE in its financial statements. An entity is deemed to be the primary beneficiary of a VIE if it has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb the majority of losses of the VIE or the right to receive the majority of benefits from the VIE. In accordance with relevant accounting guidance, these PCs were determined to be VIEs. Such PCs are VIEs, as fees paid by the PCs to the Company as its management service provider are considered variable interests because the fees do not meet all the following criteria: 1) The fees are compensation for services provided and are commensurate with the level of effort required to provide those services; 2) The decision maker or service provider does not hold other interests in the VIE that individually, or in the aggregate, would absorb more than an insignificant amount of the VIE's expected losses or receive more than an insignificant amount of the VIE's expected residual returns; 3) The service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length. Additionally, the Company has determined that it has the ability to direct the activities that most significantly impact the performance of these PCs and have an obligation to absorb losses or receive benefits which could potentially be significant to the PCs. Accordingly, the PCs are variable interest entities for which the Company is the primary beneficiary and are consolidated by the Company.

The revenues of VIEs represent the revenues of Company-managed clinics in states that prohibit the corporate practice of chiropractic. The Company's involvement with VIEs affects its financial performance and cash flows primarily through amounts recorded in Revenues from company-owned or managed clinics and General and administrative expenses, which are principally comprised of payroll and related expenses. The management fees/income provided by the MSAs are considered intercompany transactions and therefore eliminated upon consolidation of VIEs.

The VIEs' total revenue and payroll and related expenses for the year ended December 31, 2022 were \$4.8 million and \$14.0 million, respectively. The VIE's total revenue and payroll and related expenses for the year ended December 31, 2021 were \$28.6 million and \$8.5 million, respectively.

The VIEs' deferred revenue liability balance for amounts collected in advance for membership and wellness packages was \$4.7 million and \$3.5 million as of December 31, 2022 and December 31, 2021, respectively. The VIEs' payroll liability balance as of December 31, 2022 and December 31, 2021 was \$0.6 million and \$0.4 million, respectively. The carrying amount of the other VIEs' assets and liabilities was immaterial as of December 31, 2022 and December 31, 2021.

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, 2022 and 2021.

Restricted Cash

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

Accounts Receivable

Accounts receivable primarily represent amounts due from franchisees for royalty and software fees. The Company records an allowance for credit losses as a reduction to its accounts receivables for amounts that the Company does not expect to recover. An allowance for credit losses is determined through assessments of collectability based on historical trends, the financial condition of the Company's franchisees, including any known or anticipated bankruptcies, and an evaluation of current economic conditions, as well as the Company's expectations of conditions in the future. Actual losses ultimately could differ materially in the near term from the amounts estimated in determining the allowance. As of December 31, 2022, and 2021, the Company had no allowance for credit losses on accounts receivable.

Deferred Franchise Costs and Regional Development Costs

Deferred franchise and regional development costs represent commissions that are direct and incremental to the Company and are paid in conjunction with the sale of a franchise license or regional development rights. These costs are recognized as an expense, in franchise and regional development cost of revenues when the respective revenue is recognized, which is generally over the term of the related franchise or regional developer 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, which is generally three to ten 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 cost, including costs to implement cloud computing arrangements that is a service contract. These capitalized costs are primarily related to software used by clinics for operations and by the Company for the management of operations. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct, are capitalized as assets in progress until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Software developed is recorded as part of property and equipment. Maintenance and training costs are expensed as incurred. Internal use software is amortized on a straight-line basis over its estimated useful life, which is generally three to five years. Implementation costs incurred in connection with a cloud computing arrangement that is a service contract are included in prepaid expenses in the Company's consolidated balance sheets.

Leases

The Company leases property and equipment under operating and finance leases. The Company leases its corporate office space and the space for each of the company-owned or managed clinic in the portfolio. The Company recognizes a right-of-use

("ROU") asset and lease liability for all leases. Certain leases include one or more renewal options, generally for the same period as the initial term of the lease. The exercise of lease renewal options is generally at the Company's sole discretion and, as such, the Company typically determines that exercise of these renewal options is not reasonably certain. As a result, the Company does not include the renewal option period in the expected lease term and the associated lease payments are not included in the measurement of the right-of-use asset and lease liability. 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. Variable lease payments, such as percentage rentals based on location sales, periodic adjustments for inflation, reimbursement of real estate taxes, any variable common area maintenance and any other variable costs associated with the leased property are expensed as incurred and are also included in general and administrative expenses on the consolidated income statements.

Intangible Assets

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

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired in the acquisitions of franchises. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are tested for impairment annually and more frequently if a triggering event occurs that makes it more likely than not that the fair value of a reporting unit is below carrying value. As required, the Company performs an annual impairment test of goodwill as of the first day of the fourth quarter or more frequently if a triggering event occurs. No impairments of goodwill were recorded for the years ended December 31, 2022 and 2021.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to estimated undiscounted future cash flows in its assessment of whether or not long-lived assets are recoverable. The Company records an impairment loss when the carrying amount of the asset is not recoverable and exceeds its fair value. During the year ended December 31, 2022, an operating lease ROU asset related to a closed clinic with a total carrying amount of approximately \$250,000 was written down to zero. As a result, the Company recorded a noncash impairment loss of approximately \$250,000 during the year ended December 31, 2022. During the year ended December 31, 2021, certain operating lease right-of-use assets related to closed clinics with a total carrying amount of \$0.5 million were written down to their fair value of \$0.4 million. As a result, the Company recorded a noncash impairment loss of approximately \$0.1 million during the year ended December 31, 2021.

In connection with the sale of two company-managed clinics to franchisees, the Company reclassified \$288,192 of property and equipment and \$359,807 of ROU assets to Assets held for sale and reclassified \$428,593 of ROU liability and \$54,351 of deferred revenue from company clinics to Liabilities to be disposed of in the consolidated balance sheet as of June 30, 2022. Long-lived assets that meet the held for sale criteria are reported at the lower of their carrying value or fair value, less estimated costs to sell. As a result, the Company recorded a valuation allowance of \$79,400 to adjust the carrying value of the disposal group to fair value less cost to sell during the year ended December 31, 2022. One of the two clinics was sold during August 2022, and the second clinic was sold in October 2022.

Advertising Fund

The Company has established an advertising fund for national or regional marketing and advertising of services offered by its clinics. The monthly marketing fee is 2% 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. Such costs are included in selling and marketing expenses on the consolidated income statements.

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 Co-Op Marketing Funds collected are segregated and used for the purposes specified by the Co-Ops' officers. The Co-Op 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 and through royalties, franchise fees, advertising fund contributions, IT related income and computer software fees from its franchisees.

Revenues from Company-Owned or Managed Clinics. The Company earns revenues from clinics that it owns and operates or manages throughout the United States. Revenues are recognized when services are performed. The Company offers a variety of membership and wellness packages which feature discounted pricing as compared with its single-visit pricing. Amounts collected in advance for membership and wellness packages are recorded as deferred revenue and recognized when the service is performed. Any unused visits associated with monthly memberships are recognized on a month-to-month basis. The Company recognizes a contract liability (or a deferred revenue liability) related to the prepaid treatment plans for which the Company has an ongoing performance obligation. The Company derecognizes this contract liability, and recognizes revenue, as the patient consumes his or her visits related to the package and the Company transfers its services. If the Company determines that it is not subject to unclaimed property laws for the portion of wellness package that it does not expect to be redeemed (referred to as "breakage") then it recognizes breakage revenue in proportion to the pattern of exercised rights by the patient.

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 revenue accounting standard provides an exception for the recognition of sales-based royalties promised in exchange for a license (which generally requires a reporting entity to estimate the amount of variable consideration to which it will be entitled in the transaction price). As the franchise agreement royalties, inclusive of advertising fund contributions, represent sales-based royalties that are related entirely to the Company's performance obligation under the franchise agreement, such sales-based royalties are recognized as franchisee clinic level sales occur. Royalties are collected semi-monthly, two working days after each sales period has ended.

Franchise Fees. The Company requires the entire non-refundable initial franchise fee to be paid upon execution of a franchise agreement, which typically has an initial term of five 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. Renewal franchise fees, as well as transfer fees, are also recognized as revenue on a straight-line basis over the term of the respective franchise agreement.

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

Regional Developer Fees. The Company has a regional developer program where regional developers are granted an exclusive geographical territory and commit to a minimum development obligation within that defined territory. Regional developer fees paid to the Company are non-refundable and are recognized as revenue ratably on a straight-line basis over the term of the regional developer agreement, which is considered to begin upon the execution of the agreement. The Company's services under regional developer agreements include site selection, grand opening support for the clinics, sales support for identification of qualified franchisees, general operational support and marketing support to advertise for ownership opportunities. The services provided by the Company are highly interrelated with the development of the territory and the resulting franchise licenses sold by the regional developer and as such are considered to represent a single performance obligation. In addition, regional developers receive fees which are funded by the initial franchise fees collected from franchisees

upon the sale of franchises within their exclusive geographical territory and a royalty of 3% of sales generated by franchised clinics in their exclusive geographical territory. Initial 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. This 3% fee is funded by the 7% royalties we collect from the franchisees in their regions. Certain regional developer agreements result in the regional developer acquiring the rights to existing royalty streams from clinics already open in the respective territory. In those instances, the revenue associated from the sale of the royalty stream is recognized over the remaining life of the respective franchise agreements.

Capitalized Sales Commissions. Sales commissions earned by the regional developers and the Company's sales force are considered incremental and recoverable costs of obtaining a franchise agreement with a franchisee. These costs are deferred and then amortized as the respective franchise fees are recognized ratably on a straight-line basis over the term of the franchise agreement.

Advertising Costs

Advertising costs are advertising and marketing expenses incurred by the Company, primarily through advertising funds. The Company expenses production costs of commercial advertising upon first airing and expenses the costs of communicating the advertising in the period in which the advertising occurs. Advertising expenses were \$5,163,381 and \$4,116,740, for the years ended December 31, 2022 and 2021, respectively.

Income Taxes

Income taxes are accounted for using a balance sheet approach known as the asset and liability method. The asset and liability method accounts for deferred income taxes by applying the statutory tax rates in effect at the date of the consolidated balance sheets to differences between the book basis and the tax basis of assets and liabilities. 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. The differences relate principally to depreciation of property and equipment and treatment of revenue for franchise fees and regional developer fees collected. Tax positions are reviewed at least quarterly and adjusted as new information becomes available. The recoverability of deferred tax assets is evaluated by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These estimates of future taxable income inherently require significant judgment. To the extent it is considered more likely than not that a deferred tax asset will be not recovered, a valuation allowance is established.

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, 2022 and 2021, 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, 2022, the Company is no longer subject to federal and state examinations by taxing authorities for tax years before 2018 and 2017, 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,	
	2022	2021
Net income	\$ 1,177,250	\$ 6,575,770
Weighted average common shares outstanding - basic	14,488,314	14,319,448
Effect of dilutive securities:		
Unvested restricted stock and stock options	379,779	616,129
Weighted average common shares outstanding - diluted	14,868,093	14,935,577
Basic earnings per share	\$ 0.08	\$ 0.46
Diluted earnings per share	\$ 0.08	\$ 0.44

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,	
	2022	2021
Unvested restricted stock	—	58
Stock options	40,349	4,658

Stock-Based Compensation

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

Retirement Benefit Plan

Employees of the Company are eligible to participate in a defined contribution retirement plan, the Joint Corp. 401(k) Retirement Plan (the “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 for the years ended December 31, 2022 and 2021, up to a maximum of 4% of the employee’s eligible compensation. Employer contributions totaled \$478,277 and \$346,561, for the years ended December 31, 2022 and 2021, respectively.

Loss Contingencies

ASC Topic 450 governs the disclosure of loss contingencies and accrual of loss contingencies in respect of litigation and other claims. The Company records an accrual for a potential loss when it is probable that a loss will occur and the amount of the loss can be reasonably estimated. When the reasonable estimate of the potential loss is within a range of amounts, the minimum of the range of potential loss is accrued, unless a higher amount within the range is a better estimate than any other amount within the range. Moreover, even if an accrual is not required, the Company provides additional disclosure related to litigation and other claims when it is reasonably possible (i.e., more than remote) that the outcomes of such litigation and other claims include potential material adverse impacts on the Company. Legal costs to be incurred in connection with a loss contingency are expensed as such costs are incurred.

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 loss contingencies, share-based compensations, useful lives and realizability of long-lived assets, deferred revenue and revenue recognition related to breakage, deferred franchise costs, calculation of ROU assets and liabilities related to leases, realizability of deferred tax assets, impairment of goodwill, intangible assets, other long-lived assets, and purchase price allocations and related valuations.

Recently Adopted Accounting Guidance and Accounting Pronouncements Not Yet Adopted

None.

Note 2: Revenue Disclosures

Company-owned or Managed Clinics

The Company earns revenues from clinics that it owns and operates or manages throughout the United States. Revenues are recognized when services are performed. The Company offers a variety of membership and wellness packages which feature discounted pricing as compared with its single-visit pricing. Amounts collected in advance for membership and wellness packages are recorded as deferred revenue and recognized when the service is performed 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 39 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. Generally, the revenue accounting standard requires the reporting entity to estimate the amount of variable consideration to which it will be entitled in the transaction price. However, the revenue accounting standard provides an exception, and it allows a reporting entity to recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs: (i) the subsequent sale or usage occurs, (ii) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied). In accordance with the revenue accounting standard exception, royalty and advertising revenue are recognized when the franchisee's sales occur.

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

- Initial and renewal franchise fees, as well as transfer fees, are recognized as revenue ratably on a straight-line basis over the term of the respective franchise agreement commencing with the execution of the franchise, renewal, or transfer agreement. As these fees are typically received in cash at or near the beginning of the contract 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 consolidated 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, neither of which requires estimation. The Company believes its franchising arrangements do not contain a significant financing component.

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

Regional Developer Fees

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

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

Disaggregation of Revenue

The Company believes that the captions contained on the consolidated income statements appropriately reflect the disaggregation of its revenue by major type for the years ended December 31, 2022 and 2021. Other revenues primarily consist of merchant income associated with credit card transactions.

The following table shows the Company's revenues disaggregated according to the timing of transfer of services:

	December 31,	
	2022	2021
Revenue recognized at a point in time	\$ 94,520,246	\$ 73,968,060
Revenue recognized over time	\$ 7,391,163	\$ 6,891,593
Balance at Total Revenue	\$ 101,911,409	\$ 80,859,653

Rollforward of Contract Liabilities and Contract Costs

Changes in the Company's contract liability for deferred franchise and regional development fees during the years ended December 31, 2022 and 2021 were as follows:

	Deferred Revenue short and long-term
Balance at December 31, 2020	\$ 16,504,114
Revenue recognized that was included in the contract liability at the beginning of the year	(3,503,417)
Net increase during the year ended December 31, 2021	5,650,116
Balance at December 31, 2021	\$ 18,650,813
Revenue recognized that was included in the contract liability at the beginning of the year	(2,909,569)
Net increase during the year ended December 31, 2022	2,876,019
Balance at December 31, 2022	\$ 18,617,263

The Company's deferred franchise and development costs represent capitalized sales commissions. Changes during the years ended December 31, 2022 and 2021 were as follows:

	Deferred Franchise and Development Costs short and long-term
Balance at December 31, 2020	\$ 5,238,307
Recognized as cost of revenue during the year	(1,099,892)
Net increase during the year ended December 31, 2021	2,361,592
Balance at December 31, 2021	\$ 6,500,007
Recognized as cost of revenue during the year	(938,736)
Net increase during the year ended December 31, 2022	1,200,467
Balance at December 31, 2022	\$ 6,761,738

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, 2022:

Contract liabilities expected to be recognized in	Amount
2023	\$ 2,955,851
2024	2,732,210
2025	2,536,034
2026	2,434,666
2027	2,256,867
Thereafter	5,701,635
Total	\$ 18,617,263

Note 3: Acquisitions

2022 Acquisitions

On May 19, 2022, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller four operating franchises in Arizona. The Company operates the franchises as company-owned

clinics. The total purchase price for the transaction was \$5,761,256, less \$70,484 of net deferred revenue, resulting in total purchase consideration of \$5,690,772.

On July 5, 2022, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller one operating franchise in Arizona (collectively, including the May 19th purchase, the "AZ Clinics Purchase"). The Company operates the franchise as a company-owned clinic. The total purchase price for the transaction was \$1,205,667, less \$13,241 of net deferred revenue, resulting in total purchase consideration of \$1,192,426.

Based on the terms of the purchase agreements, the AZ Clinics Purchase has been treated as a business combination under U.S. GAAP using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

The allocation of the total purchase price of AZ Clinics Purchase was as follows:

Property and equipment	\$	241,511
Operating lease right-of-use asset		912,937
Intangible assets		3,689,100
Total assets acquired		4,843,548
Goodwill		3,408,205
Deferred revenue		(455,317)
Operating lease liability - current portion		(128,516)
Operating lease liability - net of current portion		(784,722)
Net purchase consideration	\$	6,883,198

Intangible assets in the table above consist of re-acquired franchise rights of \$2,892,100, amortized over estimated useful lives of approximately four to eight years and customer relationships of \$797,000, amortized over estimated useful lives of two to three years. The fair value of re-acquired franchise rights are estimated using the multi-period excess earnings method. The multi-period excess earnings method model estimates revenues and cash flows derived from the primary asset and then deducts portions of the cash flow that can be attributed to supporting assets, such as assembled workforce and working capital that contributed to the generation of the cash flows. The resulting cash flow, which is attributable solely to the primary asset acquired, is then discounted at a rate of return commensurate with the risk of the asset to calculate a present value. Customer relationships are also calculated using the multi-period excess earnings method.

The valuation method involved the use of significant estimates and assumptions primarily related to forecasted revenue growth rates, gross margin, contributory asset charges, customer attrition rates, and market-participant discount rates. These measures are based on significant Level 3 inputs not observable in the market. Key assumptions developed based on the Company's historical experience, future projections and comparable market data include future cash flows, long-term growth rates, attrition rates and discount rates

Goodwill represents the excess of the purchase consideration over the fair value of the underlying acquired net tangible and intangible assets. The factors that contributed to the recognition of goodwill included synergies and benefits expected to be gained from leveraging the Company's existing operations and infrastructures, as well as the expected associated revenue and cash flow projections. Goodwill has been allocated to the Company's Corporate Clinics segment based on such expected benefits. Goodwill related to the acquisition is expected to be deductible for income tax purposes over 15 years. The Company completed the purchase price allocation during the fourth quarter of 2022.

On July 29, 2022, the Company entered into Asset and Franchise Purchase Agreements under which the Company repurchased from the sellers three operating franchises in North Carolina. The Company operates the franchises as company-managed clinics. The total purchase price for the transactions was \$1,317,312, less \$31,647 of net deferred revenue, resulting in total purchase consideration of \$1,285,665.

On October 13, 2022, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller an operating franchise in North Carolina. The Company operates the franchise as a company-

managed clinic. The total purchase price for the transaction was \$761,384, less \$5,108 of net deferred revenue, resulting in total purchase consideration of \$756,276.

On October 24, 2022, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller an operating franchise in North Carolina (collectively, including the July 29th and October 13th purchases, the "NC Clinics Purchase"). The Company operates the franchise as a company-managed clinic. The total purchase price for the transaction was \$1,391,112, less \$9,262 of net deferred revenue, resulting in total purchase consideration of \$1,381,850.

On December 23, 2022, the Company entered into Asset and Franchise Purchase Agreements under which the Company repurchased from the sellers six operating franchises and one undeveloped clinic in California (the "CA Clinics Purchase"). The Company operates the franchises as company-managed clinics. The total purchase price for the transactions was \$1,965,755, less \$70,628 of net deferred revenue, resulting in total purchase consideration of \$1,895,127.

Based on the terms of the purchase agreement, the NC and CA Clinics Purchases have been treated as asset purchases under U.S. GAAP as there were no outputs or processes to generate outputs acquired as part of these transactions. Under an asset purchase, assets are recognized based on their cost to the acquiring entity. Cost is allocated to the individual assets acquired or liabilities assumed based on their relative fair values and does not give rise to goodwill.

The allocation of the total purchase price of NC Clinics Purchase was as follows:

Property and equipment	\$	198,236
Operating lease right-of-use asset		521,222
Intangible assets		<u>3,544,456</u>
Total assets acquired		4,263,914
Deferred revenue		(326,332)
Operating lease liability - current portion		(146,255)
Operating lease liability - net of current portion		<u>(367,536)</u>
Net purchase consideration	\$	3,423,791

Intangible assets in the table above consist of reacquired franchise rights of \$2,042,658 amortized over their estimated useful lives of two to nine years, customer relationships of \$909,828 amortized over an estimated useful life of two to three years, and assembled workforce of \$591,970 amortized over an estimated useful life of two years.

The allocation of the total purchase price of CA Clinics Purchase was as follows:

Property and equipment	\$	677,518
Tenant improvement allowance		55,790
Operating lease right-of-use asset		1,520,353
Intangible assets		<u>1,480,359</u>
Total assets acquired		3,734,020
Deferred revenue		(215,555)
Operating lease liability - current portion		(200,877)
Operating lease liability - net of current portion		<u>(1,422,461)</u>
Net purchase consideration	\$	1,895,127

Intangible assets in the table above primarily consist of reacquired franchise rights of \$1,151,272 amortized over their estimated useful lives of six to seven years, customer relationships of \$20,531 amortized over an estimated useful life of two years, and assembled workforce of \$308,556 amortized over an estimated useful life of two years.

Pro Forma Results of Operations (Unaudited)

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The following table summarizes selected unaudited pro forma consolidated income statements for the years ended December 31, 2022 and 2021 for all 2022 acquisitions, as if the AZ Clinics Purchase (which has been accounted for as a business combination) and the NC and CA Clinics Purchases (which have been accounted for as asset purchases) in 2022 had been completed on January 1, 2021.

	Year Ended December 31,	
	2022	2021
Revenues, net	\$ 107,681,146	\$ 88,129,230
Net income	721,860	5,434,738

The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the purchases had taken place on January 1, 2021 or of results that may occur in the future. For 2022, this information includes actual data recorded in the Company's consolidated financial statements for the period subsequent to the date of the acquisition.

The Company's consolidated income statements for the year ended December 31, 2022 include net revenue and net income, excluding corporate clinics segment overhead costs, of the acquired clinics in Arizona, North Carolina, and California as follows:

	Year Ended December
	31,
	2022
Revenues, net	\$ 3,351,521
Net income	947,551

2021 Acquisitions

On April 1, 2021, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller two operating franchises in Phoenix, Arizona (the "2021 AZ Clinics Purchase"). The Company operates the franchises as company-owned clinics. The total purchase price for the transaction was \$1,925,000, less \$29,417 of net deferred revenue, resulting in total purchase consideration of \$1,895,583. Based on the terms of the purchase agreement, the 2021 AZ Clinics Purchase has been treated as a business combination under U.S. GAAP using the acquisition method of accounting.

The allocation of the purchase price was as follows:

Property and equipment	\$ 4,928
Operating lease right-of-use asset	651,197
Intangible assets	1,579,500
Total assets acquired	2,235,625
Goodwill	459,599
Deferred revenue	(123,976)
Operating lease liability - current portion	(49,303)
Operating lease liability - net of current portion	(626,362)
Net purchase consideration	\$ 1,895,583

Intangible assets in the table above consist of re-acquired franchise rights of \$1,376,400 amortized over an estimated useful life of eight to nine years and customer relationships of \$203,100 amortized over an estimated useful life of three years.

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

On November 1, 2021, the Company entered into an Asset and Franchise Purchase Agreement under which the Company repurchased from the seller four operating franchises in North Carolina (collectively, including the April 1 2021 purchase, the “2021 NC Clinics Purchase”). The Company operates the franchises as company-managed clinics. The total purchase price for the transaction was \$1,272,107, less \$46,681 of net deferred revenue, resulting in total purchase consideration of \$1,225,426.

Based on the terms of the purchase agreement, the 2021 NC Clinics Purchase has been treated as an asset purchase under U.S. GAAP as there were no outputs or processes to generate outputs acquired as part of this transaction.

The allocation of the purchase price for the six North Carolina clinics on April 1, 2021 was as follows:

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

Intangible assets in the table above consist of reacquired franchise rights of \$1,195,327 amortized over an estimated useful life of three to four years and customer relationships of \$92,145 amortized over an estimated useful life of three years.

The allocation of the purchase price for the four North Carolina clinics on November 1, 2021 was as follows:

Property and equipment	\$	252,631
Operating lease right-of-use asset		1,341,482
Intangible assets		<u>1,092,341</u>
Total assets acquired		2,686,454
Deferred revenue		(144,383)
Operating lease liability - current portion		(135,784)
Operating lease liability - net of current portion		<u>(1,180,861)</u>
Net purchase consideration	\$	1,225,426

Intangible assets in the table above primarily consist of reacquired franchise rights of \$977,244 amortized over an estimated useful life of four to nine years and customer relationships of \$55,786 amortized over an estimated useful life of two years.

In 2022 and 2021, acquisition-related costs were not significant. These costs are included in general and administrative expenses on the consolidated income statements.

Note 4: Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2022	2021
Office and computer equipment	\$ 5,207,833	\$ 3,704,425
Leasehold improvements	17,842,901	13,457,765
Internally developed software	5,843,758	5,044,339
Finance lease assets	151,396	267,252
	29,045,888	22,473,780
Accumulated depreciation and amortization	(12,675,085)	(9,184,932)
	16,370,803	13,288,847
Construction in progress	1,104,349	1,100,099
Property and Equipment, net	\$ 17,475,152	\$ 14,388,946

Depreciation expense was \$4,092,669 and \$2,329,697 for the years ended December 31, 2022 and 2021, respectively.

Amortization expense related to finance lease assets was \$55,572 and \$85,300 for the years ended December 31, 2022 and 2021, respectively.

Construction in progress at December 31, 2022 principally related to development and construction costs for the Company-owned or managed clinics. Construction in progress at December 31, 2021 principally relate to development costs for software used by clinics for operations and by the Company for the management of operations.

Note 5: Fair Value Consideration

The Company's financial instruments include cash, restricted cash, accounts receivable, notes receivable, accounts payable, accrued expenses and debt under the Credit Agreement. The carrying amounts of its financial instruments, excluding the debt under the Credit Agreement, approximate their fair value due to their short maturities. The carrying value of the Company's debt under the Credit Agreement approximates fair value due to its interest rate being calculated from observable quoted prices for similar instruments, which is considered a Level 2 fair value measurement.

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, 2022 and 2021, the Company did not have any financial instruments that were measured on a recurring basis as Level 1, 2 or 3.

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

During the years ended December 31, 2022 and 2021, certain operating lease right-of-use assets related to closed clinics with a total carrying amount of \$0.2 million and \$0.5 million, respectively, were written down to their respective fair value of zero and \$0.4 million. Fair value of the Company's operating lease right-of-use assets was determined based on the discounted cash flows of the estimated market rents. As a result, the Company recorded a noncash impairment loss of approximately \$0.2 million and \$0.1 million during the years ended December 31, 2022 and 2021, respectively.

Note 6: Intangible Assets and Goodwill

On March 18, 2022, the Company entered into an agreement under which the Company repurchased the right to develop franchises in various counties in New Jersey. The total consideration for the transaction was \$0.3 million. The Company carried a deferred revenue balance associated with this transaction of \$0.1 million, representing the unrecognized fee collected upon the execution of the regional developer agreement. The Company accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price. The Company recognized the net amount of \$0.2 million as reacquired development rights on March 18, 2022, which is amortized over the remaining original contract period of approximately 5.5 years.

On April 1, 2022, the Company entered into an agreement under which the Company repurchased the right to develop franchises in various counties in California. The total consideration for the transaction was \$2.4 million. The Company carried a deferred revenue balance associated with this transaction of \$0.4 million, representing the unrecognized fee collected upon the execution of the regional developer agreement. The Company accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price. The Company recognized the net amount of \$2.0 million as reacquired development rights on April 1, 2022, which is amortized over the remaining original contract period of approximately 5.3 years.

On October 12, 2022, the Company entered into an agreement under which the Company repurchased the right to develop franchises in various counties in Philadelphia. The total consideration for the transaction was \$0.2 million. The Company carried a deferred revenue balance associated with this transaction of \$0.2 million, representing the unrecognized fee collected upon the execution of the regional developer agreement. The Company accounted for the termination of development rights associated with unsold or undeveloped franchises as a cancellation, and the associated deferred revenue was netted against the aggregate purchase price. The Company recognized the net amount of \$48,882 as reacquired development rights on October 12, 2022, which is amortized over the remaining original contract period of approximately 4.2 years.

During 2022, the Company recognized \$6.1 million, \$1.7 million, and \$0.9 million of reacquired franchise rights, customer relationships, and assembled workforce, respectively, from the acquisitions (reference Note 3). Intangible assets consisted of the following:

	December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization:			
Reacquired franchise rights	\$ 12,881,895	\$ 4,755,286	\$ 8,126,609
Customer relationships	4,330,365	2,352,500	1,977,865
Reacquired development rights	6,652,186	4,712,953	1,939,233
Assembled workforce	959,837	136,015	823,822
	<u>\$ 24,824,283</u>	<u>\$ 11,956,754</u>	<u>\$ 12,867,529</u>

	December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization:			
Reacquired franchise rights	\$ 6,795,865	\$ 3,153,037	\$ 3,642,828
Customer relationships	2,603,006	1,587,443	1,015,563
Reacquired development rights	4,406,221	3,715,594	690,627
Assembled workforce	59,311	4,939	54,372
	<u>\$ 13,864,403</u>	<u>\$ 8,461,013</u>	<u>\$ 5,403,390</u>

The following is the weighted average amortization period for the Company's intangible assets:

	Amortization (Years)
Reacquired franchise rights	5.8
Customer relationships	2.6
Reacquired development rights	4.0
Assembled workforce	2.0
All intangible assets	4.6

Amortization expense related to the Company's intangible assets was \$3,495,739 and \$3,673,950 for the years ended December 31, 2022 and 2021, respectively.

Estimated amortization expense for 2023 and subsequent years is as follows:

2023	\$ 4,080,779
2024	3,006,408
2025	1,970,149
2026	1,653,049
2027	888,625
Thereafter	1,268,519
Total	<u>\$ 12,867,529</u>

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

	Corporate Clinic Segment
Balance as of December 31, 2021	
Goodwill, gross	\$ 5,140,197
Accumulated impairment losses	(54,994)
Goodwill, net	5,085,203
2022 acquisition	3,408,204
Balance as of December 31, 2022	
Goodwill, gross	8,548,401
Accumulated impairment losses	(54,994)
Goodwill, net	<u>\$ 8,493,407</u>

Note 7: Debt

Credit Agreement

On February 28, 2020, the Company entered into a Credit Agreement (the "Credit Agreement"), with JPMorgan Chase Bank, N.A., individually, and as Administrative Agent and Issuing Bank ("JPMorgan Chase" or the "Lender"). The Credit Agreement provided 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 included 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 were due on February 28, 2022.

On February 28, 2022, the Company entered into an amendment to its Credit Facilities (as amended, the "2022 Credit Facility") with the Lender. Under the 2022 Credit Facility, the Revolver increased to \$20,000,000 (from \$2,000,000), the portion of the Revolver available for letters of credit increased to \$5,000,000 (from \$1,000,000), the uncommitted additional amount increased to \$30,000,000 (from \$2,500,000) and the developmental line of credit of \$5,500,000 was terminated. The Revolver will be used for working capital needs, general corporate purposes and for acquisitions, development and capital improvement uses. At the option of the Company, borrowings under the 2022 Credit Facility bear interest at: (i) the adjusted Secured Overnight Financing Rate ("SOFR"), which is the daily simple SOFR, plus 0.10%, plus 1.75%, payable on the last day of the selected interest period of one, three or six months, and on the three-month anniversary of the beginning of any six-month interest period, if applicable; or (ii) an Alternative Base Rate (ABR), plus 1.00%, payable monthly. The ABR is the greatest of: (A) the prime rate (as published by the Wall Street Journal), (B) the Federal Reserve Bank of New York rate, plus 0.5%, and (C) the adjusted one-month term SOFR rate. Amounts outstanding under the Revolver on February 28, 2022 continued to bear interest at the rate selected under the Credit Facilities prior to the amendment until the last day of the interest period in effect, at which time, if not repaid, the amounts outstanding under the Revolver will bear interest at the 2022 Credit Facility rate. As a result of this refinance, \$2,000,000 of current maturity of long-term debt has been reclassified to long-term as of December 31, 2021. The 2022 Credit Facility will terminate and all principal and interest will become due and payable on the fifth anniversary of the amendment (February 28, 2027).

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 for acquiring and developing new chiropractic clinics. The interest rate on funds borrowed under the Revolver as of December 31, 2022 was 6.43%. As of December 31, 2022, the Company was in compliance with all applicable financial and non-financial covenants under the Credit Agreement, and \$2,000,000 remains outstanding as of December 31, 2022.

In connection with the issuance of the Credit Facilities and the 2022 Credit Facility, the Company incurred debt issuance costs of \$2,648 and \$76,415, respectively. Interest expense and amortization expense related to debt issuance costs are being amortized to "Other expense, net" and was \$129,118 and \$60,178 for the years ended December 31, 2022 and 2021, respectively.

Paycheck Protection Program Loan

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

Note 8: Stock-Based Compensation

The Company grants stock-based awards under its 2014 Incentive Stock Plan (the “2014 Plan”). 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. Through December 31, 2022, the Company has granted under the 2014 Plan (i) non-qualified stock options; (ii) incentive stock options; and (iii) restricted stock. There were no stock appreciation rights and restricted stock units granted under the 2014 Plan as of December 31, 2022.

Stock Options

The Company’s closing price on the date of grant is the basis of fair value of its common stock used in determining the value of share-based awards. To the extent the value of the Company’s share-based awards involves a measure of volatility, the Company uses available historical volatility of the Company’s common stock over a period of time corresponding to the expected stock option term. The Company uses the simplified method to calculate the expected term of stock option grants to employees as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term of stock options granted to employees. Accordingly, the expected life of the options granted is based on the average of the vesting term, which is generally four years and the contractual term, which is generally ten years. The Company will continue to evaluate the appropriateness of utilizing such method. The risk-free interest rate is based on United States Treasury yields in effect at the date of grant for periods corresponding to the expected stock option term. Forfeitures are estimated based on historical and forecasted turnover, which is approximately 5%.

The Company did not grant options during the year ended December 31, 2022. The Company has computed the fair value of all options granted using the Black-Scholes-Merton model during the year ended December 31, 2021, using the following assumptions:

	Year Ended December 31, 2021
Expected volatility	57%
Expected dividends	None
Expected term (years)	7
Risk-free rate	0.97% to 1.27%

The information below summarizes the stock options activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2020	835,601	\$ 6.65	6.6	\$ 16,153,117
Granted at market price	48,192	47.01		
Exercised	(260,044)	5.84		\$ 15,244,054
Cancelled	(28,660)	18.17		
Outstanding at December 31, 2021	595,089	\$ 9.72	5.9	\$ 33,336,794
Granted at market price	—			
Exercised	(43,380)	8.86		\$ 657,058
Expired	(2,795)	28.45		
Cancelled	(16,991)	24.96		
Outstanding at December 31, 2022	531,923	\$ 9.20	4.7	\$ 3,797,904
Exercisable at December 31, 2022	454,315	\$ 6.43	4.3	\$ 3,772,164
Vested and expected to vest at December 31, 2022	528,981	\$ 9.07	4.7	\$ 3,797,670

The weighted-average grant-date fair value of the Company's stock options granted during 2021 was \$6.40.

The aggregate fair value of the Company's stock options vested during 2022 and 2021 was \$631,512 and \$481,404, respectively.

The Company recognizes compensation costs ratably over the period of service using the straight-line method. Forfeitures are estimated based on historical and forecasted turnover, which is approximately 5%. For the years ended December 31, 2022 and 2021, stock-based compensation expense for stock options was \$15,279 and \$625,291, respectively.

Unrecognized stock-based compensation expense for stock options as of December 31, 2022 was \$712,933, which is expected to be recognized ratably over the next 1.9 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 summarizes the restricted stock activity:

Restricted Stock Awards	Shares	Weighted Average Grant-Date Fair Value per Award
Non-vested at December 31, 2020	45,595	\$ 13.13
Granted	10,010	58.25
Vested	(26,143)	13.61
Cancelled	(1,742)	20.63
Non-vested at December 31, 2021	27,720	28.51
Granted	68,125	29.47
Vested	(17,240)	29.13
Cancelled	(8,293)	30.51
Non-vested at December 31, 2022	70,312	\$ 29.05

For the years ended December 31, 2022 and 2021, stock-based compensation expense for restricted stock was \$58,710 and \$430,724, respectively. Unrecognized stock-based compensation expense for restricted stock awards as of December 31, 2022 was \$1,492,530 to be recognized ratably over 2.8 years.

Tax Benefits

Net income for 2022 and 2021 included pre-tax expense related to stock-based compensation of \$1.3 million and \$1.1 million, respectively. The company recognized income tax benefits of \$0.1 million and \$3.3 million from the exercises of stock options and restricted stock awards for 2022 and 2021, respectively.

Note 9: Income Taxes

Income tax expense (benefit) reported in the consolidated income statements is comprised of the following:

	December 31,	
	2022	2021
Current expense (benefit):		
Federal	\$ —	\$ —
State, net of state tax credits	19,589	(46,031)
Total current expense (benefit)	19,589	(46,031)
Deferred expense (benefit):		
Federal	610,210	(969,628)
State	136,711	(277,570)
Total deferred expense (benefit)	746,921	(1,247,198)
Total income tax expense (benefit)	\$ 766,510	\$ (1,293,229)

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

	December 31,	
	2022	2021
Deferred income tax assets:		
Accrued expenses	\$ 109,437	\$ 938,916
Deferred revenue	5,338,821	4,546,130
Lease liability	6,582,122	5,839,233
Goodwill - component 2	72,033	53,946
Nonqualified stock options	339,076	255,921
Net operating loss carryforwards	3,400,019	4,210,605
Tax credits	35,850	35,850
Intangibles	2,595,312	1,719,484
Total deferred income tax assets	18,472,670	17,600,085
Deferred income tax liabilities:		
Lease right-of-use asset	(5,694,797)	(5,022,052)
Deferred franchise costs	(100,558)	(122,431)
Goodwill - component 1	(537,421)	(405,964)
Asset basis difference related to property and equipment	(2,545,455)	(1,902,389)
Restricted stock compensation	(145,956)	(98,958)
Total deferred income tax liabilities	(9,024,187)	(7,551,794)
Valuation allowance	(1,006,770)	(859,657)
Net deferred tax asset	\$ 8,441,713	\$ 9,188,634

The Joint Corp., without its consolidated VIEs, has federal net operating loss carryforwards of \$4.8 million and \$17.1 million as of December 31, 2022 and 2021, respectively. \$8.7 million of the federal net operating loss is subject to a 20-year carryforward, with a portion beginning to expire in 2036. \$6.1 million of the federal net operating loss has an indefinite carryforward period.

The Joint Corp., without its consolidated VIEs, has various state net operating loss carryforwards. The determination of the state net operating loss carryforwards is dependent upon apportionment percentages and state laws that can change from year to year and impact the amount of such carryforwards. If such net operating loss carryforwards are not utilized, they will begin to expire in 2025.

The Joint Corp. has research and development credits of \$14,229 that will begin to expire in 2031 and \$21,621 California AMT credits that do not expire.

The VIEs have net operating loss carryforwards of \$30.3 million and \$29.4 million as of December 31, 2022 and 2021, respectively. \$17.3 million of the federal net operating loss is subject to a 20-year carryforward, with a portion beginning to expire in 2036. \$12.9 million of the federal net operating loss has an indefinite carryforward period. The VIEs have various state net operating loss carryforwards. The determination of the state net operating loss carryforwards is dependent upon apportionment percentages and state laws that can change from year to year and impact the amount of such carryforwards. If such net operating loss carryforwards are not utilized, they will begin to expire in 2036. These federal and state net operating loss carryforwards are reserved with a full valuation allowance because, based on the available evidence and due to the structures of the management service agreements, the Company believes it is more likely than not that the Company would not be able to utilize those deferred tax assets in the future. Since the VIEs are separate legal entities and do not file consolidated tax returns with The Joint Corp, the net operating losses from the VIEs cannot offset income from The Joint Corp or vice versa.

The following is a reconciliation of the statutory federal income tax rate applied to pre-tax accounting net income, compared to the income tax benefit in the consolidated income statements:

	For the Years Ended December 31,			
	2022		2021	
	Amount	Percent	Amount	Percent
Expected federal tax expense (benefit)	\$ 408,190	21.0 %	\$ 1,109,334	21.0 %
State tax provision (benefit), net of federal benefit	160,187	8.2 %	(382,181)	(7.2)%
Change in valuation allowance	147,113	7.6 %	174,008	3.3 %
Other permanent differences	199,927	10.3 %	311,360	5.9 %
Stock compensation	(91,454)	(4.7)%	(2,519,083)	(47.7)%
Change in tax rate	(85,536)	(4.4)%	—	— %
Other adjustments	28,083	1.4 %	13,333	0.3 %
Expense (Benefit)	<u>\$ 766,510</u>	<u>39.4 %</u>	<u>\$ (1,293,229)</u>	<u>(24.4)%</u>

Changes in the Company's income tax expense (benefit) relate primarily to state taxes and stock-based compensation, as well as changes in pre-tax income during the year ended December 31, 2022, as compared to the year ended December 31, 2021. For the years ended December 31, 2022 and December 31, 2021, effective tax rates were 39.4% and (24.4)%, respectively. The difference between the statutory federal income tax rate and the Company's effective tax rate was primarily due to state taxes, stock-based compensation, and other permanent differences.

For the years ended December 31, 2022 and December 31, 2021, 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, 2022, the Company is no longer subject to federal and state examinations by taxing authorities for tax years before 2019 and 2018, respectively.

Note 10: Commitments and Contingencies

Leases

The table below summarizes the components of lease expense and income statement location for the years ended December 31, 2022 and December 31, 2021:

	Line Item in the Company's Consolidated Income Statements	Years Ended December 31,	
		2022	2021
Finance lease costs:			
Amortization of assets	Depreciation and amortization	\$ 55,572	\$ 85,300
Interest on lease liabilities	Other expense, net	4,516	9,012
Total finance lease costs		\$ 60,088	\$ 94,312
Operating lease costs	General and administrative expenses	\$ 5,647,185	\$ 4,590,571
Total lease costs		<u>\$ 5,707,273</u>	<u>\$ 4,684,883</u>

Supplemental information and balance sheet location related to leases for the years ended December 31, 2022 and December 31, 2021 was as follows:

	Years Ended December 31,	
	2022	2021
Operating Leases:		
Operating lease right-of-use asset	\$ 20,587,199	\$ 18,425,914
Operating lease liability, current portion	\$ 5,295,830	\$ 4,613,843
Operating lease liability, net of current portion	18,672,719	16,872,093
Total operating lease liability	<u>\$ 23,968,549</u>	<u>\$ 21,485,936</u>
Finance Leases:		
Property and equipment, at cost	\$ 151,396	\$ 267,252
Less accumulated amortization	(87,652)	(147,937)
Property and equipment, net	<u>\$ 63,744</u>	<u>\$ 119,315</u>
Finance lease liability, current portion	\$ 24,433	\$ 49,855
Finance lease liability, net of current portion	63,507	87,939
Total finance lease liabilities	<u>\$ 87,940</u>	<u>\$ 137,794</u>
Weighted average remaining lease term (in years):		
Operating leases	5.4	5.4
Finance lease	3.4	3.6
Weighted average discount rate:		
Operating leases	4.8 %	4.6 %
Finance leases	4.3 %	4.8 %

Supplemental cash flow information related to leases for the years ended December 31, 2022 and December 31, 2021 were as follows:

	Years Ended December 31,	
	2022	2021
Cash paid for amounts included in measurement of liabilities:		
Operating cash flows from operating leases	\$ 5,931,114	\$ 4,484,737
Operating cash flows from finance leases	4,516	9,012
Financing cash flows from finance leases	49,855	80,322
Non-cash transactions: ROU assets obtained in exchange for lease liabilities		
Operating lease	7,222,822	10,007,188
Finance lease	—	15,140

Maturities of lease liabilities as of December 31, 2022 were as follows:

	Operating Leases	Finance Lease
2023	\$ 6,280,108	\$ 27,600
2024	5,689,672	27,600
2025	5,084,585	27,600
2026	3,264,579	11,500
2027	2,268,960	—
Thereafter	4,561,694	—
Total lease payments	27,149,598	94,300
Less: Imputed interest	(3,181,049)	(6,360)
Total lease obligations	23,968,549	87,940
Less: Current obligations	(5,295,830)	(24,433)
Long-term lease obligation	<u>\$ 18,672,719</u>	<u>\$ 63,507</u>

The Company entered into various operating leases for its new corporate clinics' spaces that had not yet commenced as of the year ended December 31, 2022. These leases are expected to result in additional ROU asset and liability of approximately \$1.5 million. These leases are expected to commence during the first and second quarter of 2023, with lease terms of five to ten years.

Guarantee in Connection with the Sale of the Divested Business

In connection with the sale of a company-managed clinic in 2022, the Company guaranteed one future operating lease commitment assumed by the buyers. The Company is obligated to perform under the guarantee if the buyers fail to perform under the lease agreement at any time during the remainder of the lease agreement, which expires on May 31, 2027. At the date of sale, the undiscounted maximum potential future payments totaled \$247,296. As of the year ended December 31, 2022, the undiscounted remaining lease payments under the agreement totaled \$234,696. The Company had not recorded a liability with respect to the guarantee obligation as of December 31, 2022, as the Company concluded that payment under the lease guarantee was not probable.

Litigation

In the normal course of business, the Company is party to litigation and claims from time to time. The Company maintains insurance to cover certain litigation and claims.

Note 11: Segment Reporting

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

The Company has two operating business segments. The Corporate Clinics segment is comprised of the operating activities of the company-owned or managed clinics. As of December 31, 2022, the Company operated or managed 126 clinics under this segment. The Franchise Operations segment is comprised of the operating activities of the franchise business unit. As of December 31, 2022, the franchise system consisted of 712 clinics in operation. Corporate is a non-operating segment that develops and implements strategic initiatives and supports the Company's two operating business segments by centralizing key administrative functions such as finance and treasury, information technology, insurance and risk management, legal and human resources. Corporate also provides the necessary administrative functions to support the Company as a publicly-traded company. A portion of the expenses incurred by Corporate are allocated to the operating segments.

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

	Year Ended December 31,	
	2022	2021
Revenues:		
Corporate clinics	\$ 59,422,294	\$ 44,348,234
Franchise operations	42,489,115	36,511,419
Total revenues	<u>\$ 101,911,409</u>	<u>\$ 80,859,653</u>
Depreciation and amortization:		
Corporate clinics	\$ 6,554,852	\$ 5,446,663
Franchise operations	744,172	334,945
Corporate administration	344,956	307,339
Total depreciation and amortization	<u>\$ 7,643,980</u>	<u>\$ 6,088,947</u>
Segment operating income:		
Corporate clinics	\$ (887,101)	\$ 4,432,872
Franchise operations	19,586,367	16,706,643
Unallocated corporate	(16,622,405)	(15,787,096)
Total segment operating income	<u>\$ 2,076,861</u>	<u>\$ 5,352,419</u>
Reconciliation of total segment operating income to consolidated earnings before income taxes:		
Total segment operating income	\$ 2,076,861	\$ 5,352,419
Other (expense), net	(133,101)	(69,878)
Income before income tax expense (benefit)	<u>\$ 1,943,760</u>	<u>\$ 5,282,541</u>
	December 31, 2022	December 31, 2021
Segment assets:		
Corporate clinics	\$ 57,947,468	\$ 40,722,898
Franchise operations	12,360,878	12,593,912
Total segment assets	<u>\$ 70,308,346</u>	<u>\$ 53,316,810</u>
Unallocated cash and cash equivalents and restricted cash	\$ 10,550,417	\$ 19,912,338
Unallocated property and equipment	915,216	857,176
Other unallocated assets	10,169,193	11,367,885
Total assets	<u>\$ 91,943,172</u>	<u>\$ 85,454,209</u>

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

Note 12: Related Party Transaction

In December 2020, we sold two franchise licenses at \$39,900 and \$29,900 each (which reflects the \$10,000 multi-unit discount for the second license per the Franchise Disclosure Document) to Marshall Gramm, who is a family member of the Managing Partner of Bandera Partners LLC. Bandera Partners LLC was a significant shareholder of more than 5% of our outstanding common stock (approximately 17% as of December 31, 2022). The transaction involved terms no less favorable to us than those that would have been obtained in the absence of such affiliation. Although we have no way of estimating the aggregate amount of franchise fees, royalties, advertising fund fees, IT related income and computer software fees that Mr. Gramm will pay over the life of the franchise licenses, Mr. Gramm is subject to such fees under the same terms and conditions as all other franchisees. Mr. Gramm paid \$34,262 and \$11,046 in 2022 and 2021, respectively, for such royalties and other fees.

Note 13: Subsequent Events

The employee retention credit ("ERC"), as originally enacted through the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") on March 27, 2020, is a refundable credit against certain employment taxes equal to 50% of the qualified wages an eligible employer paid to employees from March 17, 2020 to December 31, 2020. The Disaster Tax Relief Act, enacted on December 27, 2020, extended the employee retention credit for qualified wages paid from January 1, 2021 to June 30, 2021, and the credit was increased to 70% of qualified wages an eligible employer paid to employees during the extended period. The American Rescue Plan Act of 2021, enacted on March 11, 2021, further extended the employee retention credit through December 31, 2021.

In October 2022, the Company filed an application with the IRS for the ERC. Employers are eligible for the credit if they experienced full or partial suspension or modification of operations during any calendar quarter because of governmental orders due to the pandemic or a significant decline in gross receipts based on a comparison of quarterly revenue results for 2020 and/or 2021 with the comparable quarter in 2019. The Company's ERC application was equal to 70% of qualified wages paid to employees during the period from January 1, 2021 to June 30, 2021 for a maximum quarterly credit of \$7,000 per employee. In March 2023, the Company received notice from the IRS related to the overpayment of Federal Employment Tax plus interest in the amount of \$4.8 million related to the ERC application. The \$4.8 million ERC is subject to a 20% consulting fee. The Company's eligibility remains subject to audit by the IRS for a period of five years.

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

Our 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 Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of December 31, 2022 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

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.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

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, 2022, 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).

As disclosed in Part II Item 9A Controls and Procedures in our Annual Report on Form 10-K for the year ended December 31, 2021, we previously identified material weaknesses as discussed below. 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 material weaknesses in internal control related to: (i) risk assessment and scoping – we did not effectively design and maintain controls in response to the risks of material misstatement. Specifically, the design of existing controls or the implementation of new controls has not been sufficient to respond to the risks of material misstatement related to the incremental borrowing rate for our leases, deferred costs and related expenses, other revenues, breakage revenue, intangible asset amortization, determination of reporting units, reassessment of our VIEs, stock option exercises, and the accuracy and completeness of certain financial statements; (ii) segregation of duties - we did not design and maintain effective controls such that all accounting duties are sufficiently segregated within the our business processes and certain financial applications. Specifically, we failed to have the appropriate Company personnel monitor users with administrative access to certain financial applications and data, and we did not design and maintain effective controls such that all accounting duties are sufficiently segregated; (iii) accounting related to significant complex accounting areas- we did not design and maintain effective controls over the accounting of complex accounting areas, including taxes and business combination and asset acquisition transactions. Specifically, we failed to properly design controls to appropriately review the accuracy and completeness of inputs provided to and outputs provided by third-party service providers, and we failed to consistently memorialize accounting treatment conclusions for acquisitions; and (iv) accounting related to revenue recognition and leases – we did not design and maintain effective controls over the proper accounting treatment for certain revenue streams and leases. Specifically, we failed to properly design controls to appropriately determine the proper accounting treatment for certain revenue streams and leases.

During 2022, management implemented our previously disclosed remediation plan that included: (i) enhancing the annual risk assessment, (ii) implementing new internal controls, (iii) removing administrative access to the financial reporting and accounting system for all accounting personnel, and (iv) modifying internal controls to address completeness of documentations on revenue recognition and adoptions of the revenue and the lease accounting standards.

During the fourth quarter of 2022, we completed our testing of the operating effectiveness of the implemented controls and found them to be effective. As a result, we have concluded the material weaknesses have been remediated as of December 31, 2022.

Changes in Internal Controls over Financial Reporting

Other than the changes in connection with our implementation of the remediation plan discussed above, no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) occurred during the fourth quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

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, 2022 in connection with our 2023 Annual Meeting of Stockholders, or the 2023 Proxy Statement, and is incorporated herein by reference.

Code of Ethics and Business Conduct

We have adopted a Code of Ethics and Business Conduct 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 Ethics and

Business Conduct is posted on our website at <https://ir.thejoint.com/governance-docs>. 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 Ethics and Business Conduct by posting such information on our website.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in the 2023 Proxy Statement and is incorporated herein by reference, except for the information required by Item 402(v) of Regulation S-K, which is specifically not incorporated herein by reference.

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

The information required by this Item will be included in the 2023 Proxy Statement and is incorporated herein by reference.

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

Policies and Procedures for Related Person Transactions

The Board of Directors adopted a written policy requiring certain transactions with related persons to be approved by the Audit Committee. A related person includes any director or executive officer, 5% or greater stockholders, or the immediate family members of the foregoing for purposes of this policy. The transactions subject to review include any transaction, arrangement or relationship (or any series of similar transactions, arrangements and relationships) in which (i) we or one of our subsidiaries will be a participant, (ii) the aggregate amount involved exceeds \$120,000 (which threshold amount was previously \$100,000 in an earlier policy replaced by the current policy adopted in November 2021), and (iii) a related person will have a direct or indirect material interest. In reviewing any such transactions, the Audit Committee will consider all of the relevant facts and circumstances, including the benefits to us, of the proposed transaction, the effect of the proposed transaction on the director's independence (if the related person is a director), the materiality and character of the related person's interest, the availability and opportunity costs of other sources for comparable products or services, the terms of the proposed transaction, and whether those terms are comparable to the terms available to an unrelated third-person or to employees generally. A related person transaction will be approved or ratified if, after considering all relevant factors, it is determined in good faith that the transaction is not inconsistent with our or our stockholders' best interests. Under the policy, any director who has an interest in a related person transaction will recuse himself or herself from any formal action with respect to the transaction.

Related Person Transactions

In December 2020, we sold two franchise licenses at \$39,900 and \$29,900 each (which reflects the \$10,000 multi-unit discount for the second license per the Franchise Disclosure Document) to Marshall Gramm, who is a family member of the Managing Partner of Bandera Partners LLC. Bandera Partners LLC was a beneficial holder of more than 5% of our outstanding common stock (approximately 17% as of December 31, 2022). The transaction involved terms no less favorable to us than those that would have been obtained in the absence of such affiliation. Although we have no way of estimating the aggregate amount of franchise fees, royalties, advertising fund fees, IT related income and computer software fees that Mr. Gramm will pay over the life of the franchise licenses, Mr. Gramm is subject to such fees under the same terms and conditions as all other franchisees. Mr. Gramm paid \$34,262 and \$11,046 in 2022 and 2021, respectively, for such royalties and other fees.

Director Independence

The Board has determined that each of our non-employee directors, Matthew E. Rubel, James H. Amos, Jr., Ronald V. DaVella, Suzanne M. Decker, Abe Hong, and Glenn J. Krevlin, are independent in accordance with the listing standards of the Nasdaq Stock Market and SEC rules. The Board has further determined that all members of the Audit Committee, Nominating and Governance Committee, and Compensation Committee are independent in accordance with the listing standards of the Nasdaq Stock Market and SEC rules applicable to such committees. Peter D. Holt, a director, is not independent due to his relationship with us as President and Chief Executive Officer.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be included in the 2023 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 consolidated 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

Exhibit Number	Description	Incorporated by Reference				Provided Herewith
		Form	File No.	Exhibit(s)	Filing Date	
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	10-K	001-36724	4.1	3/6/2020	
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#	2012 Stock Plan.	S-1	333-198860	10.2	9/19/2014	
10.3#	Amended and Restated 2014 Incentive Stock Plan.	S-1	333-207632	10.3	10/27/2015	
10.4#	Amendment to Amended and Restated 2014 Incentive Stock Plan	10-K	001-36724	10.6	3/6/2020	
10.5#	Amendment to Amended and Restated 2014 Incentive Stock Plan	10-K	001-36724	10.5	3/14/2022	
10.6#	Form of Incentive Stock Option Agreement under 2014 Stock Plan.	S-1	333-207632	10.4	10/27/2015	
10.7#	Form of Incentive Stock Option Agreement under Amended and Restated 2014 Stock Plan	8-K	333-207632	10.1	4/3/2019	
10.8#	2020 Amended Form of Incentive Stock Option Agreement under Amended and Restated 2014 Stock Plan	10-K	001-36724	10.9	3/6/2020	
10.9#	Form of Nonstatutory Stock Option Agreement under 2014 Stock Plan.	S-1	333-207632	10.5	10/27/2015	
10.10#	Form of Nonstatutory Stock Option Agreement under Amended and Restated 2014 Stock Plan	8-K	333-207632	10.2	4/3/2019	
10.11#	Amended Form of Nonstatutory Stock Option Agreement under Amended and Restated 2014 Stock Plan	10-K	001-36724	10.12	3/6/2020	
10.12#	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	
10.13#	Form of Restricted Stock Award under Amended and Restated 2014 Stock Plan	10-K	001-36724	10.54	3/9/2018	
10.14#	2019 Amended Form of Restricted Stock Award Agreement under Amended and Restated 2014 Stock Plan	8-K	333-207632	10.3	4/3/2019	
10.15#	2020 Amended Form of Restricted Stock Award Agreement under Amended and Restated 2014 Stock Plan	10-K	001-36724	10.16	3/6/2020	
10.16#	Executive Short-Term Incentive Plan (amended January 25, 2021)	8-K	001-36724	10.1	1/27/2021	
10.17#	Executive Short-Term Incentive Plan (amended May 2, 2021)	10-Q	001-36724	10.1	8/6/2021	
10.18#	Employment Letter Agreement between The Joint Corp. and Jake Singleton dated November 6, 2018	8-K	001-36724	10.1	11/8/2018	
10.19#	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	

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10.20#	Amendment to Employment Letter Agreement between The Joint Corp. and Jake Singleton dated November 6, 2018	10-K	001-36724	10.32	3/6/2020	
10.21#	Employment Letter Agreement between The Joint Corp. and Peter Holt dated December 11, 2018	8-K	001-36724	10.1	12/6/2018	
10.22#	Confidentiality, Noncompetition and Nonsolicitation Agreement between The Joint Corp. and Peter Holt dated December 11, 2018	10-K	001-36724	10.47	3/11/2019	
10.23	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	10-K	001-36724	10.20	3/6/2020	
10.24	Form of Registrant's Regional Developer License Agreement.					X
10.25	Form of Registrant's Franchise Agreement.					X
10.26	Credit Agreement, dated as of February 28, 2020, among the Company, JPMorgan Chase Bank, N.A., as the Lender, and JPMorgan Chase Bank, N.A., as Administrative Agent and Sole Bookrunner and Sole Lead Arranger	8-K	001-36724	10.1	3/3/2020	
10.27	Pledge and Security Agreement, dated as of February 28, 2020, among the Company and JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	001-36724	10.2	3/3/2020	
10.28	Term A Loan Note dated February 28, 2020	8-K	001-36724	10.3	3/3/2020	
10.29	Revolving Loan Note dated February 28, 2020	8-K	001-36724	10.4	3/3/2020	
10.30	Loan Note dated as of April 9, 2020	8-K	001-36724	10.1	4/15/2020	
10.31	Corrected Second Amendment to Credit Agreement, dated as of February 28, 2022 (the "2022 Amendment") with Annex 1 Credit	10-Q	001-36724	10.1	5/6/2022	
10.32	Amended and Restated Revolving Loan Note dated February 28, 2022	8-K	001-36724	10.2	3/4/2022	
10.33	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	
10.34	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	
10.35	North Carolina Regional Developer License Purchase Agreement dated as of December 31, 2020 by and among the Company as purchaser, Wellness Incorporated, a North Carolina corporation as seller, and Paul Trindel as guarantor	10-K	001-36724	10.40	3/5/2021	

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10.36	Georgia Regional Developer License Purchase Agreement dated as of January 1, 2021 by and among the Company as purchaser, Midtown Health Solutions, Inc., a Georgia corporation as seller, and Dr. Patrick Greco as guarantor	10-K	001-36724	10.41	3/5/2021	
10.37	Asset and Franchise Purchase Agreement dated May 19, 2022 among the Company, SJV Tempe Marketplace, LLC, an Arizona limited liability company (" TM "), Shakarian Joint Ventures, LLC, an Arizona limited liability company (" SJV "), SJV East Mesa, LLC, an Arizona limited liability company (" EM "), SJV Apache Junction, LLC, an Arizona limited liability company (" AJ "), Dr. Aaron Shakarian, an individual and Stacie Shakarian, an individual (TM, SJV, EM, AJ, Dr. Aaron Shakarian and Stacie Shakarian, collectively, the "Seller "), and Shakarian Holdings, LLC, an Arizona limited liability company, Dr. Aaron Shakarian, an individual and Stacie Shakarian, an individual (collectively, the " Shareholder ")	10-Q	001-36724	10.1	8/5/2022	
21	List of subsidiaries of The Joint Corp.	S-1	333-198860	21.1	9/19/2014	
23.1	Consent of BDO USA, LLP					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 (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document)					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X
# Management contract or compensatory plan or arrangement						
** Furnished, not filed						

ITEM 16. FORM 10-K SUMMARY

None.



THE JOINT CORP.

REGIONAL DEVELOPER AGREEMENT

Date of Agreement

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THE JOINT CORP.
REGIONAL DEVELOPER AGREEMENT

THIS REGIONAL DEVELOPER AGREEMENT (the "Agreement") is made and entered into this ___ day of _____, 202_____, (the "Effective Date"), by and between THE JOINT CORP., a Delaware corporation ("Company", "we", "us" or "our"), and _____ corporation/limited liability company/partnership (Circle One) ("Regional Developer"), with reference to the following facts:

- A. We and our affiliates have designed and developed valuable and proprietary formats and systems for the development and operation of businesses operating single unit franchises at a specific location ("Location Franchise(s)" or "Franchise(s)"). Location Franchises offer affordable, convenient and accessible chiropractic care to the general public through licensed chiropractors.
- B. We have developed and use, promote and license certain trademarks, service marks and other commercial symbols in operating our Location Franchises, including "The Joint®", "The Joint® Chiropractic", "The Joint...The chiropractic place®", and we may create, use and license other trademarks, service marks and commercial symbols for use in operating our franchises (collectively, the "Marks").
- C. We offer prospects persons or entities the right to own and operate a Location Franchise offering the products and services we authorize (and only the products and services we authorize) and using our business formats, methods, systems, procedures, signs, designs and layouts, standards, specifications and Marks, all of which we may improve, further develop and otherwise modify from time to time (collectively, the "System").
- D. We seek a Regional Developer who will open and operate, or solicit and assist the owners of Location Franchises (referred to as a "Franchisee(s)") in opening and operating numerous Location Franchises within a specified geographic area described in Exhibit 1 (the "Development Area").
- E. Regional Developer desires to establish a business (a "Regional Developer Business") under which it will solicit, qualify, train and assist Franchisees to build and operate Location Franchises within the Development Area, and we desire to grant to Regional Developer the right to operate the Regional Developer Business in accordance with the terms and upon the conditions contained in this Agreement.

WHEREFORE, IT IS AGREED

1. GRANT OF RIGHTS.

Subject to the terms of this Agreement, we hereby grant to Regional Developer, and Regional Developer hereby accepts, the rights during the Term to solicit, screen, qualify for final approval by us, train and assist Franchisees to open and operate, Location Franchises in the Development Area.

2. REGIONAL DEVELOPER'S DEVELOPMENT OBLIGATION.

2.1 Minimum Development Obligation and Development Schedule.

Regional Developer shall solicit, screen, qualify, train and assist Franchisees to construct, equip, open and operate, within the Development Area, the total number of Location Franchises set forth in Exhibit 2 (the "Minimum Development Obligation"), in the manner and within each of the time periods specified therein (the "Development Schedule"). You must do so in accordance with the following:

(a) You shall market the Location Franchises within the Development Area in accordance with all applicable laws (including without limitation all franchise laws pursuant to any Federal Trade Commission regulation and any registration states' laws). You may not use any advertising material which has not been either provided by us or approved by us in writing prior to its publication. Neither you nor any of your employees or representatives shall solicit prospective Franchisees until we have registered our current Franchise Disclosure Document ("FDD") in applicable jurisdictions and have provided you with the requisite documents or at any time

when we notify you that its registration is not then in effect or its documents are not then in compliance with applicable laws. If your activities pursuant to this Agreement require the preparation, amendment, registration, or filing of information or any disclosure or other documents, all requisite franchise disclosure documents, ancillary documents, and registration applications shall be prepared and filed by us or our designee, and registration secured, before you may solicit prospective Franchisees. At your cost, you shall: (1) promptly provide all information we reasonably require to prepare all requisite disclosure documents and ancillary documents for the offering of franchises throughout your Development Area; and (2) execute all documents we require for the purpose of registering us and you to offer franchises throughout the Development Area. You agree to review all information pertaining to you prepared to comply with legal requirements for selling franchises in the Development and verify its accuracy if we so request. You acknowledge that we and our affiliates and designees shall not be liable to you for any errors, omissions, or delays which occur in the preparation of such materials. You shall be responsible for advertising, recruiting, screening, and interviewing prospective Franchisees within the Development Area. You shall provide prospective Franchisees with written information regarding a Location Franchise approved by us or communicate information regarding Location Franchises via the telephone, face-to-face meetings, or visits with other Location Franchises within the Development Area. You shall submit each qualified prospective Franchisee to us for approval. You further agree that all prospective Franchisees submitted to us by you shall be individuals who are of good character, have adequate financial resources, and meet our criteria for Franchisees.

(b) Throughout the Term, you shall use your commercially-reasonable efforts to develop the Development Area.

(c) Subject to the possible suspension of the Minimum Development Obligation as set forth in Section 2.1(g)(iii) of this Agreement, you shall be responsible for satisfying the Minimum Development Obligation in connection with the Development Schedule that is set forth in Exhibit 2.

For purposes of this Agreement, "Minimum Development Obligation" shall mean: your requirements to achieve that number of Sales by the deadlines set forth in the Development Schedule (Exhibit 2) both with regard to (1) the minimum number of completed Sales that must be achieved each year of this Agreement, by the annual anniversary dates measured from the Effective Date of this Agreement; and (2) the cumulative minimum number of Location Franchises that must be opened and operating within your Development Area by the annual anniversary dates measured from the Effective Date of this Agreement. "Cumulative" means the net sum of (a) Franchisees in your Development Area that became Sales in a previous year, (b) plus the Sales in your Development Area that took place in the applicable current year, (c) minus the number of Franchisees in your Development Area that were closed (due to non renewal of Franchise Agreement, abandonment, etc.) in the applicable current year. The number of Sales and deadlines shall be negotiated in good faith and mutually agreed upon by the parties.

For purposes of this Agreement, "Sale" or "Sales" means: that moment when: (1) the Initial Franchise Fee has been collected, and (2) a copy of the Franchise Agreement has been executed. Only newly constructed Location Franchises qualify as a completed Sale.

(d) For each proposed Franchisee, you shall submit to us a report which shall include a completed written application by such proposed Franchisee together with such additional information and comments, as specified by us and on forms provided by us.

(e) We may approve or disapprove each Franchisee candidate proposed by you, which such approval shall not be unreasonably withheld. Our good faith disapproval of any such candidate shall not excuse you from failing to meet the Minimum Development Obligation.

(f) If you are not in compliance with the Minimum Development Obligation, it is understood and agreed that we retain the right (either directly or through our designees) but not the obligation, throughout the Term, to market, negotiate, and sell franchises for Franchisees within the Development Area.

(g) Relief from sales responsibilities:

(i) We may from time to time, as mutually agreed upon by the parties, relieve you from the duty to sell Location Franchises in the Development Area. If we do so, we (or our designee) will exercise commercially-reasonable efforts to sell such Location Franchises within the Development Area. However, neither we nor our designees make any promise or warranty that it will sell any number of Location Franchises within the

Development Area during this relief period, including any number lesser or greater than the Minimum Development Obligation.

(ii) With regard to the "commercially-reasonable efforts" obligation in Section 2.1(g)(i) above, it is understood that we (either directly or through our designee) will be responsible for all sales duties (prospective Franchisee calls, presentations, follow-up and closings), and your franchise sales duties will be limited to reasonable support of, and cooperation with, us and (as applicable) our designees.

(iii) For so long as we relieve you of the franchise sales responsibilities in your Development Area and you perform the required support and cooperation duties, you shall be fully relieved of the Minimum Development Obligation. However, if we later decide to relinquish and re-delegate back to you such franchise sales responsibilities in your Development Area, then you will be required, for the remainder of the Term, to satisfy the remainder of the Minimum Development Obligation. We will proportionately reduce the non-achieved portion of the Minimum Development Obligation for the time period that we handled sales from the total of your Minimum Development Obligation.

(iv) During any relief period, we shall pay to you a reduced commission of 20% of the Initial Franchise Fee we collect.

(h) If the opening of any Location Franchise within the Development Area is delayed on account of an act of God, war, riot, natural disaster or fire which is beyond your reasonable control or if we are unable to provide you a registered Franchise Disclosure Document (as applicable, a "Delaying Event"), then the date by which you must have the required number of Location Franchises open and operating will be extended for the time which we consider, in our business judgment following consultation with you, necessary to remedy the effects of the Delaying Event. If a Location Franchise within the Development Area is destroyed or damaged such that the Location Franchise cannot continue to operate, such destroyed or damaged Location Franchise shall continue to count toward satisfaction of the Minimum Development Obligation (during the period until such Location Franchise reopens at the same location or at a substitute location acceptable to us) but only if you or such Franchisee, as applicable, shall repair and restore such Location Franchise to our Then-Current standards and specifications within one hundred and twenty (120) days after the occurrence of such destruction or damage, subject to a further extension of time as a result of any Delaying Events.

(i) You shall not cause or allow any proposed Franchisee or any other person or entity to operate or acquire any Location Franchise in the Development Area, except pursuant to a Franchise Agreement executed in accordance with the terms of this Agreement.

(j) Each Location Franchise opened within the Development Area, whether owned by you or by a Franchisee procured by you, shall be the subject of a separate Franchise Agreement between the Franchisee and us on our then-current form at the time executed.

(k) Promptly following the Effective Date, and each year thereafter, you shall develop an annual business plan in the form designated by us which among other items shall specify an amount, acceptable to us, that you shall spend during the ensuing year on franchise recruitment advertising and franchise recruitment marketing costs which shall in no event be less than \$750 per month or \$9,000 per year per Development Area owned by you. You shall submit to us on quarterly basis copies of receipts confirming advertising and franchise recruitment marketing expenditures for the previous quarter. If you fail to do so within ten (10) business days after receipt of notice from us, we shall have the right to deduct the unspent amount from your payments for commission on Royalty Fees and to spend such funds on your behalf for franchise solicitation advertising, provided that we have notified you of such failure and provide you thirty (30) days to cure. As provided in Section 6.7 below, we reserve the right at any time to increase the amount of franchise recruitment advertising and franchise recruitment marketing costs that you must reasonably expend, but we shall not increase such costs greater than twenty-five percent (25%) per year.

We may require you to submit to corporate your yearly lead generation marketing plan for review and approval.

(l) You shall not: (i) make any representation or promise to any prospective Franchisee which is inconsistent with or in addition to the representations or promises expressly authorized by us, or made in any applicable FDD provided to prospective Franchisees, or which is not in compliance with any applicable law; (ii) attempt or purport to bind us (or any affiliate of us) to any obligation or duty to any person, or entity, including any prospective Franchisee; (iii) attempt or purport to modify or amend any Franchise Agreement; or (iv) except as expressly permitted hereunder and by applicable law and with full disclosure thereof to us and with our prior

written approval, receive, directly or indirectly, any fee or other consideration from any person, including without limitation, prospective or existing Franchisees or vendors to Location Franchises.

(m) You shall assist Franchisees with their respective Grand Opening obligations, including planning, execution and the collection of any marketing or pre-opening information.

2.2 Regional Developer Sales Office and Opening. Regional Developer shall establish and operate a franchise sales office ("Regional Developer Sales Office" or "Sales Office") within the Development Area. We will not approve or disapprove the location of the Sales Office. You must open your Regional Developer Business within 45 days after you receive your initial training from us, or 90 days after signing your Regional Developer Agreement, whichever occurs first.

3. TERRITORIAL RIGHTS AND LIMITATIONS.

3.1 Territorial Rights. Except as provided in Section 3.2, as long as this Agreement is in effect, and you are in compliance with this Agreement, and meet the Minimum Development Obligation set forth in this Agreement, then neither we nor our affiliates will not operate, establish or grant in your Development Area another Regional Developer Business offering Location Franchises, or any Location Franchises not required to be developed under this Agreement.

3.2 Rights Maintained by Company. We (and any affiliates that we might have from time to time) shall at all times have the right to engage in any activities we deem appropriate that are not expressly prohibited by this Agreement, whenever and wherever we desire, including, but not limited to:

(a) We expressly reserve the right to establish and operate, or grant others the right to establish and operate, Clinics that are located within Non-Traditional Sites that are located anywhere, including within your Development Area. A "Non-Traditional Site" means any site or channel that generates customer traffic flow that is independent from the general customer traffic flow of the surrounding area, including on or within the confines or premises of military bases, shopping malls or centers, stadiums, major industrial or office complexes, parking lots or structures, mobile vehicles, airports, hotels, resorts, school campuses, train stations, travel plazas, toll roads, casinos, hospitals, theme parks, and sports or entertainment venues. A "Non-Traditional Site" also includes the establishment and operation of a Clinic within a pre-existing business that does not operate under the Marks. For example, Clinics established within an urgent care center, retail store, or medical spa would qualify as Non-Traditional Sites.

(b) We expressly reserve the right to grant Location Franchises and/or Regional Developer Business rights to others as follows: (i) in our sole and absolute discretion with regard to the Marks, outside of your Development Area, (ii) in our sole and absolute discretion with regard to products or services unrelated to the Marks, inside of your Development Area.

(c) We expressly reserve the engage in an Acquisition, including acquisitions that involve competitive businesses located within your Development Area. An "Acquisition" means either (i) a competitive or non-competitive company, franchise system, network or chain directly or indirectly acquiring us, whether in whole or in part, including by asset or stock purchase, change of control, merger, affiliation or otherwise or (ii) us directly or indirectly acquiring another competitive or non-competitive company, franchise system, network or chain, whether in whole or in part, including by asset or stock purchase, change of control, merger, affiliation or otherwise. If we convert such business(es) to operate under the Marks, then for so long as such business(es) operate under the Marks within your Development Area: (i) you must provide support services to such business(es) and you will receive from us fifty percent (50%) of any royalties that we actually collect from such converted business(es); and (ii) any such converted business(es) shall count toward your Minimum Development Obligation.

4. TERM AND RENEWAL.

4.1 Initial Term and Renewals. The term of this Agreement (the "Term") shall be for a period of ten (10) years commencing on the Effective Date, unless sooner terminated in accordance with the provisions of Section 13. Regional Developer shall have the right to extend the Term for an additional period of ten (10) years on the conditions set forth in Section 4.2.

4.2 Conditions to Renew. As conditions to renew, you must:

- a. Provide us with written notice ("Renewal Notice") of your intent to renew the Rights granted pursuant to this Agreement not less than twelve (12) months, nor more than eighteen (18) months prior to the end of the Term.
 - b. Pay a Renewal Fee equal to the greater of: a) 10% of the Royalties we actually receive and pay to you during the 12 consecutive months immediately preceding the date of the Renewal Notice; or b) 25% of the original Development Fee set forth in Section 7.
 - c. Execute the Then Current form of Regional Developer Agreement, except the fee amounts and the fee splits stated within this Agreement will not change to your detriment (e.g. royalty percentage), and all other documents or instruments required by us in connection therewith, including a new mutually agreed upon Development Schedule based on then existing population, demographics and other market conditions. Notwithstanding that such the current form of the renewal Regional Developer Agreement may contain terms and conditions different from those contained in this Agreement.
 - d. Be in material compliance with this Agreement (including strict compliance with this Agreement's Minimum Development Obligation), the requirements as described in the Manuals, and all other agreements then in effect between us or our affiliates and any of our other policies.
 - e. Be current with all financial obligations owed to us and any third party, including your landlord and other vendors of products or services to your Regional Developer Business.
 - f. Prior to the expiration of the Term, (and not applicable if we were to grant a written waiver of your requirement to own a Location Franchise) upgrade, remodel and refurbish your Location Franchise, both exterior and interior, to comply with our then current image, equipment, technology and other standards and specifications as described in any of our Manuals, unless you Location Franchise's Franchise Agreement was renewed or the Location Franchise has been upgraded as approved by us within one (1) year prior to the last day of this Agreement's Term.
 - g. Execute a mutual general release with us whereby all parties expressly reserve any and all rights to indemnification pursuant to Sections 15.2 hereof.
 - h. Submit to us in a form and at a time designated by us prior to renewal, a business plan for the contemplated renewal term and attend a renewal meeting at our Headquarters.
 - i. Consistent with Section 5, you and/or your general manager must successfully complete such "refresher" training at our current training center, or at other locations designated by us. The scope and content of such "refresher" training shall be determined by us. You shall be solely responsible for all travel expenses and related expenses in connection with such "refresher" course training.
- 4.3 Company's Repurchase Option. Notwithstanding the foregoing, any time after five (5) full years from the Effective Date, Company has the option of repurchasing the Development Area and all of your Regional Developer rights associated with this Agreement for any opened and unopened Franchises within your Development Area ("Repurchase Option"). Company must notify Regional Developer in writing of Company's intent to exercise its Repurchase Option at least thirty (30) days prior to the date such option shall take effect ("Repurchase Notice"). The total number of Franchises for which Regional Developer has acquired the Development rights to open under this Agreement is set forth in Exhibit 1.

The Repurchase Option includes the acquisition of the following Franchise types on the date of the Repurchase Notice:

- (a) all Franchises open and operating in the Development Area ("Opened Franchises")*
- (b) all active licenses granted through executed and active franchise agreements, but the applicable clinics have not yet opened ("Unopened Franchises")

*Take note that on the date of the Repurchase Notice, any licenses or franchises agreements in the Development Area that have been terminated, or any clinics that have been opened and then closed, shall not be included in the calculation of the purchase price. Further, any Franchises that were opened in the Development Area prior to Regional Developer's execution of this Agreement will be transferred to Company at no cost to Company if Company exercises its Repurchase Option.

Following delivery of the Repurchase Notice to Regional Developer, the parties shall negotiate in good faith to determine a purchase price for the Development Area (and associated rights set forth in this Agreement). In the event the parties cannot determine a purchase price within thirty (30) days following delivery of the Repurchase Notice, the parties agree during the subsequent thirty (30) day period to mutually select and retain the services of a third party valuation expert to determine a purchase price. The parties agree to mutually select and retain the third party valuation expert, to each timely pay 50% of the costs, and to be bound by the established purchase price (or in the event a range of purchase prices is established, to take the average of the low and the high purchase prices). The parties agree that the closing on the Repurchase Option shall occur within (30) days of the determination of the purchase price.

Failure by either party to actively and in good faith cooperate with the other party and the third party valuation expert shall constitute a default of the terms of this Agreement. In the event the Regional Developer fails to act in good faith as required above, the Company shall have the 30-day right to repurchase the Development Area in accordance with the following formula:

- (a) \$29,000 for each Opened Franchise; plus
- (b) \$7,250 for each Unopened Franchise

Company and Regional Developer agree to execute and deliver any and all documents or instruments required to effectuate the repurchase by the Company, including providing documents and information to the third party valuation expert and documenting the transaction of the Development Area through the execution of the Company's standard form of "Asset Purchase Agreement", which is attached at Exhibit G-2 to the Franchise Disclosure Document you received prior to your execution of this Agreement.

5. ADDITIONAL OBLIGATIONS OF COMPANY AND REGIONAL DEVELOPER.

5.1 Regional Developer Training. This training program may include classroom training and/or hands-on training and will be conducted at our corporate headquarters in Scottsdale, Arizona, and/or at any other location(s) we designate. Before opening for business, your Owners and any others that will be directly involved in the operation of the Regional Developer Business, including a general manager, must attend and complete the initial training to our satisfaction and participate in all other activities we require before soliciting Franchisees in the Development Area. Although we provide this training at no additional cost to Regional Developer, Regional Developer must pay all travel and living expenses which it and its attendees incur.

If we determine that Regional Developer cannot complete initial training to our satisfaction, we may, at our option, either (1) require Regional Developer to attend additional training at Regional Developer's expense (for which we may charge reasonable fees), or (2) terminate this Agreement.

Regional Developer shall participate in periodic webinars and sales calls scheduled by us for Regional Developer Businesses, and attend a national business meeting or convention of up to three days each year. We may also require Regional Developer to attend up to two (2) additional or refresher training courses each year at our corporate offices, or another location we designate. We may charge reasonable fees for these courses, conventions, webinars, sales calls, and programs. Regional Developer is responsible for all travel and living expenses.

5.2 Regional Developer Manual.

(a) We shall loan to Regional Developer one (1) copy of our Manual for Regional Developer Businesses ("Manual for RDs"). Regional Developer shall conduct all business activities in strict accordance with our standard operational methods and procedures as prescribed from time to time in the Manual for RDs. As used in the Agreement, the term "Manuals" shall be deemed to include the Manual for RDs delivered to Regional Developer, all amendments to the Manual for RDs, and all supplemental bulletins, notices, exhibits, and memoranda which prescribe standard methods or techniques of operation, and which we may from time to time deliver to Regional Developer.

(b) We shall have the right to modify or supplement the Manuals. Such modifications and supplements shall be effective and binding on Regional Developer fifteen (15) days after Notice thereof is mailed or otherwise delivered to Regional Developer. Regional Developer acknowledges and agrees that modifications of and supplements to the Manuals may obligate Regional Developer to invest reasonable amounts of additional capital or incur reasonable higher operating costs.

(c) The Manuals are our property and may not be duplicated, copied, disclosed or disseminated in whole or in part in any manner except with our express prior written consent. Regional Developer shall maintain the confidentiality of the Manuals. Upon the termination of this Agreement, Regional Developer shall return to us all copies of the Manuals in its possession or control.

5.3 General Guidance and Site Assistance/Review.

(a) General. We will provide guidance to Regional Developer in the Manuals and other bulletins or other written materials, by electronic media, and/or by telephone consultation. If Regional Developer requests and we agree to provide additional or special guidance, assistance or training, Regional Developer must pay our then applicable charges, including our personnel per diem charges and any travel and living expenses.

(b) Site Assistance and Review.

(i) You shall submit to us for review each proposed site and proposed territory for each Franchisee prior to such Franchisee's execution of any Franchise Agreement or lease for a proposed location inside of your Development Area (whether or not such proposed location is in connection with a new Location Franchise, a relocation of an existing Location Franchise, or a conversion to a Location Franchise). You shall comply with all of our requirements, policies and procedures as to site assistance, including participation in and assistance in conducting any market study required by us. You hereby acknowledge and agree that only we may approve of the territorial boundaries for any Franchisee's territory.

(ii) Regarding the re-sale (transfer) of an existing Location, you must receive our prior written approval if and when you seek to communicate our modification of the territorial boundaries of any such existing Location Franchise.

(iii) You shall use your commercially-reasonable efforts to assist Franchisees in their execution of a premises lease with their landlord and shall ensure that our required lease language is contained within the lease or an addendum to the lease as required in the then-current form of Franchise Agreement or as specified by us in writing. You shall use your commercially-reasonable efforts to have the Franchisees provide us with a copy of the lease prior to execution for our approval.

(iv) You shall assist us with regard to each Franchisee's execution of any and all documents related to the selling, opening, and operating of a Location Franchise.

(v) Notwithstanding the site assistance responsibilities delegated by us to you above, we may mutually agree during the Term to collaborate on the following items listed below; however we reserve the unrestricted right, during the Term of this Agreement and within your Development Area to do all of the following if you fail to satisfy the Minimum Development Obligation, at which time our right to conduct these responsibilities becomes unrestricted:

- A. search for and consider potential site locations for possible Location Franchises;
- B. acquire real estate rights, under a letter of intent, lease, sublease, or otherwise (as owner, lessor, sub-lessor, or otherwise) for potential site locations for Location Franchises;
- C. assign, lease, sub-lease, or otherwise any real estate rights directly to franchisees or prospective franchisees or option holders;
- D. notify (directly or through you) existing franchisees or prospective Franchisees of potential site locations for Location Franchises so that they may consider acquiring real estate rights for such site locations;
- E. require that you visit, evaluate and complete any required site review for us on any potential site locations that we have identified to become Location Franchises.

5.4 Franchise Registration and Disclosure. Neither Regional Developer nor any representative of Regional Developer shall solicit prospective Franchisees of Location Franchises until we have registered our current Franchise Disclosure Document in applicable jurisdictions in the Development Area and have provided Regional Developer with the requisite documents, or at any time when we notify Regional Developer that our

registration is not then in effect or our documents are not then in compliance with applicable law. If Regional Developer's activities pursuant to this Agreement require the preparation, amendment, registration, or filing of information or any disclosure or other documents, then all requisite disclosure documents, ancillary documents, and registration applications shall be prepared and filed by us or our designee, and registration secured, before Regional Developer may solicit prospective Franchisees for Location Franchises. Costs of such registration applicable to Regional Developer shall be borne by Regional Developer. In particular, Regional Developer shall:

- (a) prepare and forward to us verified financial statements of Regional Developer in such form and for such periods as shall be designated by us, including audited financial statements, if necessary and appropriate to comply with applicable legal disclosure, filing or other legal requirements;
- (b) promptly provide all information reasonably required by us to prepare all requisite disclosure documents and ancillary documents for the offering of franchises throughout the Development Area; and
- (c) execute all documents required by us for the purpose of registering Regional Developer and us to offer franchises throughout the Development Area.

Regional Developer agrees to review all information pertaining to Regional Developer prepared to comply with legal requirements for selling franchises in the Development Area and verify its accuracy if so requested by us. Regional Developer acknowledges that we and our affiliates and designees shall not be liable to Regional Developer for any errors, omissions or delays which occur in the preparation of such materials.

5.5 Investigation and Qualification of Prospective Franchisees.

- (a) Each Location Franchise opened by a Franchisee pursuant to this Agreement shall be the subject of a separate Franchise Agreement with us, upon our then current form. Regional Developer shall have no right to modify or offer to modify any Franchise Agreement or other contract.
- (b) Regional Developer shall be responsible for disclosing (or re-disclosing, when there are updates or supplements) to prospects our most current form of the Franchise Disclosure Document.
- (c) If we shall approve a Franchisee and a prospective franchise location, Regional Developer shall transmit to such Franchisee for execution copies of our then-current Franchise Agreement pertaining to the approved site and providing for a protected territory surrounding said Location Franchise, as determined by us.
- (d) Regional Developer shall investigate the qualifications of each prospective Franchisee and the suitability of each prospective franchise location in the Development Area in accordance with our standards, policies and procedures relating to qualification of Franchisees then in effect, and shall obtain all information required of prospective Franchisees by us.
- (e) After Regional Developer is satisfied that a prospective Franchisee meets the standards established by us, Regional Developer may recommend to us the approval of such prospective Franchisee. Regional Developer shall then furnish to us all information relating to the prospective Franchisee which shall be required by us in the form and manner customarily required by us.
- (f) We may thereafter conduct or obtain such credit reports and background checks on prospective franchisees as we deem necessary or convenient. We may then approve or disapprove a prospective franchisee for any reason and may seek further information with respect to the prospective Franchisee. Regional Developer shall cooperate with us in any further investigation of the prospective Franchisee. If we shall reject a prospective Franchisee, we shall provide Regional Developer with a written explanation of the reasons therefor.
- (g) Regional Developer shall deliver to us a copy of all correspondence with Franchisees that is material to the franchise relationship, concurrently with its being sent or received by Regional Developer.

5.6 Training and Support.

- (a) Initial and Ongoing Assistance to Franchisees.

Unless we designate otherwise, you shall provide Franchisees with such initial and ongoing assistance, supervision, training and other services as we delegate to you as specified in the Manuals or other written directives to you, including the following responsibilities:

- (i) You shall provide initial and ongoing training to Franchisees within the Development Area pursuant to Section 5.6(b) below.
 - (ii) You shall comply with all aspects of our Opening Process as set forth in the Manuals and as prescribed by us from time to time.
 - (iii) You shall perform field support and coordination responsibilities for Franchisees within the Development Area and shall act as a liaison to facilitate communication between Franchisees and us.
 - (iv) You shall at all times employ a sufficient number of qualified staff, and shall maintain adequate office facilities to: (i) satisfy the Minimum Development Obligation and (ii) supervise, assist, train and provide services to Franchisees in the Development Area, as required by this Agreement and the Manuals.
 - (v) All Owners owning at least a thirty percent (30%) equity stake in you shall at your expense, attend such conferences and meetings as required by us from time to time, including, without limitation, each franchisee convention.
 - (vi) You shall assist us to collect from Franchisees within your Development Area the following: Royalty, National Marketing Fee, or any other fees due to us or any affiliate of us.
 - (vii) You shall assist us in the enforcement and compliance by each Franchisee within your Development Area as to the proper maintenance and submission of records and reports as set forth in the Franchise Agreement and the Manuals. You shall assist us to inspect and review each Franchisee's Location Franchise located within your Development Area to achieve the Franchisee's compliance with our specifications and standards, systems, operation manuals and the terms of their Franchise Agreement.
 - (viii) You shall, in our determination, conduct or assist us with operational review of any Franchisees within your Development Area, as well as provide us with ongoing information, as requested from time to time by us, subject to your ability to obtain such information concerning any Location Franchise within your Development Area.
 - (ix) You shall comply with the Manuals, Specifications and Standards, and our Systems provided from time to time by us describing your responsibilities pertaining to the sales, transfer or renewal of a Franchisee's Franchise Agreement for franchises within the Development Area.
 - (x) You shall conduct networking meetings, on-site visits, and provide ongoing communication to the Franchisees within your Development Area.
 - (xi) You shall provide coordination to Franchisees who do any of the following within your Development Area: (i) open a new Location Franchise; (ii) remodel a Location Franchise; (iii) relocate a Location Franchise; (iv) convert a competitor into a Location Franchise; and/or (v) conduct an upgrade to a Location Franchise within your Development Area.
 - (xii) You shall provide the support and assistance to Franchisees in the Development Area as set forth in the Manuals, the Standards and Specifications, the Systems, this Agreement, or as otherwise communicated by us to you in writing from time to time.
 - (xiii) We may from time to time, as mutually agreed upon by the parties, relieve you from the duty to provide the initial and on-going support and coordination to Franchisees in the Development Area stated within this Section 5.6. You hereby agree that we do not have to pay you any portion of fees (including any fees stated in Section 8.2 of this Agreement) that we actually Collect from Franchisees in the Development Area during the relief period.
- (b) Training Programs Provided to Franchisees.
- (xiv) You shall provide training programs for Franchisees within the Development Area in accordance with the procedures set forth in this Agreement, the Franchise Agreement, the Manuals, our Standards and Specifications, the Systems, and you shall distribute to the Franchisee the training and other materials made available by us to you.

- training.
- (xv) You shall provide Franchisees in the Development Area with additional training as may be required by us from time to time and you shall be solely responsible for all expenses associated with such additional training.
 - (xvi) You shall promote and facilitate cooperation between us and any Franchisee as required by the Manuals, including but not limited to the following:
 - A. Ensuring that Franchisees stay advised of activities conducted by us in support to the System;
 - B. Pursuant to the Manuals or as communicated to you by us in writing, scheduling and conducting meetings of Franchisees in the Development Area to distribute, review and explain materials provided by us to its franchisees and to provide a forum for Franchisees to share information and ideas;
 - C. Ensuring that we are advised of any and all major issues or problems raised at any franchisee meetings or otherwise in the Development Area;
 - D. You shall notify us immediately of any Location Franchise located within the Development Area that is operated by a person or contains individuals who have not successfully completed all training programs as required from time to time; and
 - E. All training provided by you to Franchisees must be conducted by personnel that have successfully completed our applicable training.

5.7 Inspection of Location Franchises and Operations. Regional Developer shall conduct inspections of all of the Location Franchises in the Development Area, and of its operations and the review of the operations of all Location Franchises in the Development Area, in accordance with the standards from time to time established by us, upon such schedules and according to such procedures as shall be agreed upon by us and Regional Developer, acting in good faith, but, in any event, at least the minimum number of times each calendar quarter prescribed in the Manual for RDs. Regional Developer shall provide reports to us with respect to the findings of such inspections, in such form and at such time as we shall require. We reserve the right to conduct periodic reviews or inspections of your Regional Developer Business operations to ensure that you are in compliance with this Agreement, the Manual for RDs, standards, and any of our other written directives to you.

5.8 Marketing and Promotion. Regional Developer shall participate in all promotion and marketing activities required by us of our Regional Developers, as required in the Franchise Agreements, or otherwise. In addition:

- (a) You shall assist Franchisees to establish, support and remain members in good standing of the National Advertising Fund and any applicable Co-ops within the Development Area.
- (b) You shall monitor the Franchisees' advertising within the Development Area for compliance with our standards and specifications (including required advertising expenditures), systems, operation manuals, or as otherwise specified in writing by us from time to time.
- (c) You shall promote and support all national media advertising campaigns initiated by us and otherwise provide such assistance and support to Franchisees regarding the advertising and marketing of their Location Franchises.
- (d) You shall assist Franchisees with the Grand Opening planning and execution for their Location Franchises, including the collection of at least two hundred (200) leads from prospective new patients prior the opening of their Location Franchise(s).

5.9 Operation of a Location Franchise. You must own, operate and maintain at least one Location Franchise within your Development Area throughout the term of this Agreement. You must execute a Franchise Agreement and pay our then-current initial franchise fee for Location Franchise at the same time you execute this Agreement. The following requirements will apply to such Location Franchise: (a) the business must be located within your Development Area, unless we agree otherwise; and (b) you shall be required to remit the Royalty Fee, as that term is defined in your Franchise Agreement, and any other fees due to us or our affiliates pursuant to the terms of said agreement, and receive the reimbursement pursuant to the terms of this Agreement. The Initial Franchise Fee for the Location Franchise you own and operate in the Development Area will not be covered by the Initial Regional Developer Fee paid to us pursuant to this Agreement.

5.10 Report of Material Franchisee Violations. If you receive notice, or are informed, of any material violation or breach by any Franchisee within your Development Area of the manuals, standards and specifications, systems, or applicable Franchise Agreement, you must promptly notify us in writing of the same.

6. OPERATING STANDARDS.

6.1 Standard of Service. Regional Developer shall at all times give prompt, courteous and efficient service to Location Franchises in the Development Area. Regional Developer shall, in all dealings with Franchisees, prospective Franchisees and the public, adhere to the highest standards of honesty, integrity, fair dealings and ethical conduct.

6.2 Compliance with Laws and Good Business Practices. Regional Developer shall secure and maintain in force all required licenses, permits and certificates relating to Regional Developer's activities under this Agreement and operate in full compliance with all applicable laws, ordinances and regulations. Regional Developer acknowledges being advised that many jurisdictions have enacted laws concerning the advertising, sale, renewal and termination of, and continuing relationship between parties to a franchise agreement, including, without limitation, laws concerning disclosure requirements. Regional Developer agrees promptly to become aware of and to comply with all such laws and legal requirements in force in the Development Area and to utilize only disclosure documents that we have approved for use in the applicable jurisdiction.

6.3 Accuracy of Information. Before it solicits any prospective franchisee, Regional Developer shall each time take reasonable steps to confirm that the information contained in any written materials, agreements and other documents related to the offer or sale of franchises is true, correct and not misleading at the time of such offer or sale and that the offer or sale of such franchise will not at that time be contrary to or in violation of any applicable state law related to the registration of the franchise offering. We shall provide Regional Developer with any changes to our disclosure documents and other agreements on a timely basis and, upon request, provide Regional Developer with confirmation that the information contained in any written materials, agreements or documents being used by Regional Developer is true, correct and not misleading, except for information specifically relating to disclosures regarding Regional Developer. If Regional Developer notifies us of an error in any information in our documents, we shall have a reasonable period of time to attempt to correct any deficiencies, misrepresentations or omissions in such information.

6.4 Notification of Litigation. Regional Developer shall notify us in writing within five (5) days after the commencement of any action, suit, arbitration, proceeding, or investigation, or the issuance of any order, writ, injunction, award and decree, by any court agency or other governmental instrumentality, which names Regional Developer or any of its Owners or otherwise concerns the operation or financial condition of Regional Developer, the Regional Developer Business or any Franchisee.

6.5 Insurance. Regional Developer shall at all times during the term of this Agreement maintain in force, at Regional Developer's sole expense, insurance written on an occurrence basis for the Regional Developer Business of the types, in the amounts and with such terms and conditions as we may from time to time prescribe in the Regional Developer Manual or otherwise. All of the required insurance policies shall name us and affiliates designated by us as additional insured, contain a waiver of the insurance company's right of subrogation against us and the designated affiliates, and provide that we will receive thirty (30) days' prior written notice of termination, expiration, cancellation or modification of any such policy. You are responsible for any and all claims, losses or damages, including to third persons, originating from, in connection with, or caused by your failure to name us as an additional insured on each insurance policy. You agree to defend, indemnify and hold us harmless of, from, and with respect to any such claims, loss or damage arising out of your failure to name us as additional insured, which indemnity shall survive the termination or expiration and non-renewal of this Agreement.

Notwithstanding the existence of such insurance, you are and will be responsible for all loss or damage and contractual liability to third persons originating from or in connection with the operation of the Regional Developer franchise, and for all claims or demands for damages to property or for injury, illness or death of persons directly or indirectly resulting therefrom; and you agree to defend, indemnify and hold us harmless of, from, and with respect to any such claims, loss or damage, which indemnity shall survive the termination or expiration and non-renewal of this Agreement. In addition to the requirements of the foregoing paragraphs of this Paragraph 6.5, you must maintain any and all insurance coverage in such amounts and under such terms and conditions as may be required in connection with your lease or purchase of any premises used to operate your Regional Developer franchise.

Your obligation to maintain insurance coverage as described in this Agreement will not be reduced in any manner by reason of any separate insurance we maintain on our own behalf, nor will our maintenance of that insurance relieve you of any obligations under this Agreement.

If you fail to pay the premiums for insurance required to operate your franchise, we may obtain insurance for you and you will be required to reimburse us within ten (10) days of receipt of a demand for reimbursement from us. We will have the right to debit your account the amounts owed to us for such premiums if you fail to pay us within ten (10) days of our request for reimbursement.

6.6 Proof of Insurance Coverage. Regional Developer will provide proof of insurance to us before beginning operations of its Regional Developer Business. This proof will show that the insurer has been authorized to inform us in the event any policies lapse or are cancelled or modified. We have the right to change the types, amount and terms of insurance that Regional Developer is required to maintain by giving Regional Developer prior reasonable notice. Noncompliance with these insurance provisions shall be deemed a material breach of this Agreement, and in the event of any lapse in insurance coverage, we shall have the right, in addition to all other remedies, to demand that Regional Developer cease operations of its Regional Developer Business until coverage is reinstated or, in the alternative, to pay any delinquencies in premium payments and charge the same back to Regional Developer.

6.7 Advertising Requirement and Cooperatives. You must meet the minimum advertising requirement we establish for your Regional Developer Business ("Minimum Advertisement Requirement"). We will establish the Minimum Advertising Requirement at the time you sign this Agreement. However, your Minimum Advertising Requirement will be no event be less than \$750 per month, or \$9,000 per year per Development Area owned by you. You may be required to provide receipts to show you are meeting this requirement. We reserve the right to increase the Minimum Advertisement Requirement for your Regional Developer Business if we determine that it is necessary for you to meet your Minimum Development Obligation. We may require you to submit to corporate your yearly lead generation marketing plan for review and approval.

If one is created, you will be required to join and participate in an Advertising Cooperative ("Co-op"), which is an association of Regional Developers who are located within a Designated Market Area ("DMA"). A DMA is a geographic area around a city in which the radio and television stations based in that city account for a greater proportion of the listening/viewing public than those based in the neighboring cities. One function of the Co-op is to establish a local advertising pool, of which the funds must be used for advertising only and for the mutual benefit of each Co-op member. We have the right to specify the manner in which any Co-ops are organized and governed, and require any and all Co-ops to be legal entities of the state where they are located. Co-ops must operate according to written bylaws which have been approved by us. Co-ops must provide us a copy of their organizational documents and bylaws prior to commencing any marketing or other activities. Currently, there are no Co-ops, however, if established, each Regional Developer must contribute to a Co-op according to the Co-op's rules and regulations, and bylaws, as determined by its members. Amounts contributed to Co-ops may be considered as spent toward your Minimum Advertising Requirement under this Agreement, if appropriately documented and spent according to our defined criteria for advertising.

6.8 Approval of Advertising. Prior to their use by Regional Developer, samples of all advertising and promotional materials not prepared or previously approved by us shall be submitted to us for approval, which approval shall not be unreasonably withheld. Regional Developer shall not use any advertising or promotional materials that we have not approved or have disapproved. Regional Developer acknowledges and understands that certain states require the filing of franchise sales advertising materials with the appropriate state agency prior to dissemination. Regional Developer agrees fully and timely to comply with such filing requirements at Regional Developer's own expense unless such advertising has been previously filed with the state by us. We may charge Regional Developer for the costs incurred by us in printing large quantities of advertising and marketing materials supplied by us to Regional Developer at Regional Developer's request. We may require you to submit to corporate your yearly lead generation marketing plan for review and approval.

6.9 Websites. As used in this Agreement, the term "Website" means an interactive electronic document contained in a network of computers linked by communications software that refers to the Franchise Locations, Regional Developers, the System, or the Marks. The term "Website" includes, but is not limited to, Internet and World Wide Web pages. In connection with any Website, Regional Developer agrees to the following:

(a) Regional Developer shall not operate or establish a Website separate from our Website. All franchise leads should be directed to www.thejointfranchise.com. We shall have the right, but not the obligation, to designate one or more web page(s) to describe Regional Developer. Such web page(s) will most likely be located on our Website.

6.10 **Accounting, Bookkeeping and Records.** Regional Developer shall maintain at its business premises in the Development Area all original invoices, receipts, checks, contracts, licenses, acknowledgement of receipt forms, and bookkeeping and business records we require from time to time. Regional Developer shall furnish to us, within one hundred twenty (120) days after the end of Regional Developer's fiscal year, a balance sheet and profit and loss statement (audited by a CPA, if requested by us) for Regional Developer's Business for such year (or a monthly or quarterly statement if required by us, in which case such statements also shall reflect year-to-date information). In addition, upon our request, within ten (10) days after such returns are filed, exact copies of federal and state income, sales and any other tax returns and such other forms, records, books and other information as we periodically require regarding Regional Developer's Business, shall be furnished to us. Regional Developer shall maintain all records and report of the business conducted pursuant to this Agreement for at least two (2) years after the date of termination or expiration of this Agreement.

6.11 **Reports and Annual Business Plan.**

(a) **Reports.** Regional Developer shall, as often as required by us, deliver to us a written report of its Regional Developer Business activities in such form and detail as we may from time to time specify, including information about efforts to solicit prospective Franchisees, the status of pending real estate transactions and the status of Location Franchisees.

(b) **Annual Business Plan.** On or before the one-hundred and twentieth (120th) day following each calendar year (or fiscal year, if you are on a non-calendar fiscal year) during the Term, you shall submit an annual business plan in the form designated by us. If you have a business plan on file with us, an update of such business plan, in the form designated by us will satisfy this requirement

6.12 **Computer Systems.** You are not required to purchase any particular computer system, operating software or hardware to operate your Regional Developer Business, however, you will be required to use a computer and printer to operate your Regional Developer Business, and need to have access to a broadband Internet connection in order to operate your Regional Developer Business.

6.13 **Technology Systems.**

(a) **Generally.** You must acquire and utilize all information and communication technology systems that we specify from time to time, including, without limitation, computer systems, webcam systems, telecommunications systems, security systems, disclosure systems, electronic signature systems and similar systems, together with the associated hardware, software (including cloud-based software) and related equipment, software applications, mobile apps, and third-party services relating to the establishment, use, maintenance, monitoring, security or improvement of these systems (collectively referred to as the "**Technology Systems**"). The Technology Systems may relate to matters such as purchasing, pricing, accounting, order entry, inventory control, contact management, delivery of Franchise Disclosure Documents, document preparation, facilitation of electronic signatures, security, information storage, retrieval and transmission, customer information, customer loyalty, marketing, communications, copying, printing and scanning, or any other business purpose that we deem appropriate. We may require that you, at your expense, acquire new or substitute Technology Systems, and/or replace, upgrade or update existing Technology Systems, upon reasonable prior notice.

(b) **Use and Access.** You must utilize your Technology Systems in accordance with the Manual. You may not load or permit any unauthorized programs or games on your Technology Systems. You must ensure that your employees are adequately trained in the use of the Technology Systems. You agree to take all steps necessary to enable us to have independent and unlimited access to the operational data collected through your Technology Systems, including information regarding your revenues and expenses. Upon our request, you agree to provide us with the user IDs and passwords for your Technology Systems, including upon termination or expiration of this Agreement.

(c) **Disruptions.** You are solely responsible for protecting against computer viruses, bugs, power disruptions, communication line disruptions, internet access failures, internet content failures, date-related problems, and attacks by hackers and other unauthorized intruders. Upon our request, you must obtain and maintain cyber insurance and business interruption insurance for technology disruptions.

(d) **Fees and Costs.** You are responsible for all fees, costs and expenses associated with acquiring, licensing, utilizing, updating and upgrading the Technology Systems. Certain components of the Technology Systems must be purchased or licensed from third party suppliers. We and/or our affiliate may develop proprietary software, technology or other components of the Technology Systems that will become part of our

System. If this occurs: (i) you agree to pay us (or our affiliate) commercially reasonable licensing, support and maintenance fees; and (ii) upon our request, you agree to enter into a license agreement with us (or our affiliate) in a form that we prescribe governing your use of the proprietary software, technology or other component of the Technology Systems. We also reserve the right to enter into master agreements with third-party suppliers relating to any components of the Technology Systems and then charge you for all amounts that we must pay to these suppliers based upon your use of the software, technology, equipment, or services provided by the suppliers. The "technology fee" includes all amounts that you must pay us or our affiliates relating to the Technology Systems, including amounts paid for proprietary items and amounts that we collect from you and remit to third-party suppliers based on your use of their systems, software, technology or services. The amount of the technology fee may change based upon changes to the Technology Systems or the prices charged by third-party suppliers with whom we enter into master agreements. The technology fee does not include any amounts that you directly pay to third party suppliers for any component of the Technology Systems. The technology fee is due 10 days after invoicing or as otherwise specified by us from time to time.

6.13 Management of Business. You must personally participate in the direct operation of your Regional Developer Business. If you do not personally participate in the direct operation of your Regional Developer Business on a full-time basis, then you are obligated to have a fully trained Manager operate the franchise. We believe that only a person with an equity interest can adequately ensure that our standards of quality and competence are maintained. We required that you be directly involved in the day-to-day operations and utilize your best efforts to promote and enhance the performance of the Regional Developer Business.

Any Manager you employ at the launching of your franchise operations must complete the initial management-training course required by the Company. All subsequent Managers must be trained fully according to our standards by either the franchise owner or the Company. However, the Company may charge a fee for this additional training.

7. DEVELOPMENT FEE; SHARING OF COSTS IN THE DEVELOPMENT AREA.

7.1 Regional Developer shall pay to us a non-refundable "Development Fee" of _____ Dollars (\$ _____), payable upon execution of this Agreement.

7.2 Regional Developer shall pay us, on demand, one-half (1/2) of documented Model Defense Costs (the "RD Expense Share" (as further set forth at Section 7.3 below)). For purposes of this Section 7, "Model Defense Costs" shall mean documented third-party expenses (including without limitation, attorneys' fees and applicable court or expert witness costs) incurred by the Company to defend threats to The Joint business model in the Development Area arising from newly enacted or proposed, revised or otherwise amended restrictions, legislation, rules, ordinances, and other administrative, state, or governmental actions attempted to be put in place at the Federal, State, County, or local level governing all or a portion of the Development Area, including potential actions by the applicable state Chiropractic Board or similarly named entity that governs Chiropractic practice in all or a portion of the Development Area. The RD Expense Share shall be due upon demand from the Company, so long as the demand includes documentation of all third-party costs and expenses incurred and paid by the Company that comprise the Model Defense Costs (the "Expense Notice"). If the Regional Developer does not pay the RD Expense Share to the Company within fifteen (15) days of receipt of the Expense Notice, so long as the Company provides prior written notice to Regional Developer, the Company may offset all or a portion of the RD Expense Share detailed in the Expense Notice against monies due and owing the Regional Developer under Section 8 below.

7.3 Regional Developer shall pay us, on demand as set forth above, the RD Expense Share of one-half (1/2) of documented costs and expenses in the event that: (i) the Company in its sole discretion agrees to pay a Franchisee in the Development Area any amount arising from the termination of that Franchisee's franchise agreement (or if the Company waives collection of any amount to which it is entitled), (ii) a court or arbitrator of competent jurisdiction determines that the Company must pay that Franchisee any amount (or that the Company must waive collection of any amount to which it is entitled); or (iii) the Company otherwise suffers a loss or damages in connection with a Franchisee in the Development Area.

8. PAYMENTS TO REGIONAL DEVELOPER.

8.1 Initial Fee Commission and Conditions of Payment. During the term of this Agreement, Regional Developer shall be paid a commission, as set forth in this Section, paid from the initial franchise fees paid by

Franchisees and/or Regional Developer for the purchase of Location Franchises to be located within the Development Area (the "Initial Fee Commission"), subject to fulfillment of the following conditions: (a) the Franchisee (or Regional Developer) executes a Franchise Agreement with us and an initial franchise fee has been paid to and actually received by us (we shall not be deemed to have received any fees paid into escrow, if applicable, until such fees actually have been remitted to us); and (b) Regional Developer has complied with all of its other obligations under this Agreement with respect to such sale and has verified the same to us in writing in a form prescribed by us. The Initial Fee Commission shall be fifty percent (50%) of the initial franchise fee for each Location Franchise that is sold pursuant to this Agreement minus any referral fees or sales commissions, if any, and will be payable to Regional Developer within twenty (20) days after the conditions of this Section 8.1 have been fulfilled. In addition, Regional Developer shall be entitled to a commission of 50% of any transfer and/or renewal fees Company collects from Location Franchises within the Development Area.

If we are required to refund any portion of the initial franchise fees paid by the Franchisee for the purchase of a Location Franchise, Regional Developer shall share fifty percent (50%) of the refunding responsibility.

If we and you mutually agree for us to relieve you of your franchise sales responsibilities and if we (or our designees) undertake said responsibility in originating and closing the sales lead which results in a sale of a Location Franchise located in the Development Area, then we shall pay to you a commission equal to twenty-five percent (25%) of the initial franchise fee we actually collect. If we decide to offer initial Franchisees a limited time promotional discount of the initial franchise fee, then you hereby agree to your share of any such reduced fee shall also be reduced proportionately.

8.2 Commissions on Royalty Fees. We shall pay to Regional Developer, on or before the 20th day of each month, 42.9577% of the royalty fees (which excludes advertising and marketing fees) actually received by us from each Location Franchisee located in the Development Area during the applicable period pursuant to their Franchise Agreement ("Royalty Fees"). Notwithstanding the foregoing, if Regional Developer has failed to conduct the periodic inspections described in Section 5.7 and failed to perform in any material respect, with respect to one (1) or more Franchisees located in the Development Area, the other services described in Section 5 to be provided to Franchisees located in the Development Area during any applicable month, then Regional Developer shall not be entitled to receive commissions on Royalty Fees with respect to such Franchisees for the period during which reports or services were not provided.

8.3 Commissions After Termination. All payments under this Section 8 shall immediately and permanently cease after the expiration or termination of this Agreement, although Regional Developer shall receive all amounts which have accrued to Regional Developer as of the effective date of expiration or termination.

8.4 Application of Payments. Our payments to Regional Developer shall be based on amounts actually collected from Franchisees, not on payments accrued, due or owing. In the event of termination of a Franchise Agreement for an Location Franchise within the Development Area, we shall apply any payments received from a Franchisee to pay past due indebtedness of that Franchisee for Royalty Fees, advertising contributions, purchases from us or our affiliates, interest or any other indebtedness on that Franchisee to us or our affiliates. To the extent that such payments are applied to a Franchisee's overdue Royalty Fee payments, Regional Developer shall be entitled to its pro rata share of such payments, less its pro rata share of the costs of collection paid to third parties.

8.5 Setoffs and Refunds. Regional Developer shall not be allowed to set off amounts owed to us for fees or other amounts due under this Agreement against any monies owed to Regional Developer by us, which right to set off is hereby expressly waived by Regional Developer. We shall be allowed to set off against amounts owed to Regional Developer for commissions, Royalty Fees or other amounts due under this Agreement any monies owed to us by Regional Developer. In the event that we are required to refund any monies paid to us by a Franchisee within your Development Area, you agree to refund or return to us any monies you have received from us relating to such Franchisee.

9. MARKS.

9.1 Ownership and Goodwill of Marks. Regional Developer's right to use the Marks is derived only from this Agreement and is limited to Regional Developer's operation of its Regional Developer Business. Regional Developer's unauthorized use of the Marks is a breach of this Agreement and infringes our rights in the Marks. Regional Developer acknowledges and agrees that Regional Developer's use of the Marks and any goodwill established by that use are for our exclusive benefit and that this Agreement does not confer any goodwill or other interests in the Marks upon Regional Developer (other than the right to operate a Regional Developer Business under this Agreement). All provisions of this Agreement relating to the Marks apply to any additional and substitute trademarks and service marks we authorize Regional Developer to use.

9.2 Limitations on Regional Developer's Use of Marks. Regional Developer may not use any Mark: (1) as part of any corporate or legal business name; (2) with any prefix, suffix or other modifying words, terms, designs, symbols other than logos we have licensed to Regional Developer; (3) in selling any unauthorized services or products; (4) as part of any domain name, electronic address or search engine, without our consent; or (5) in any other manner we have not expressly authorized in writing. Regional Developer may not use any Mark in advertising the transfer, sale or other disposition of Regional Developer's business under this Agreement or an ownership interest in Regional Developer (if a corporation, partnership, limited liability company or another business entity holds the franchise at any time during this Agreement's term) without our prior written consent.

9.3 Notification of Infringements and Claims. Regional Developer agrees to notify us immediately of any apparent infringement of or challenge to Regional Developer's use of any Mark, or of any person's claim of any rights in any Mark, and not to communicate with any person other than us and our attorneys and Regional Developer's attorneys regarding any infringement, challenge or claim. We may take action we deem appropriate (including no action) and control exclusively any litigation, U.S. Patent and Trademark Office proceeding or other administrative proceeding arising from any infringement, challenge or claim or otherwise concerning any Mark. Regional Developer agrees to sign any documents and take any actions that, in the opinion of our attorneys, are necessary or advisable to protect and maintain our interests in any litigation or Patent and Trademark Office or other proceeding or otherwise to protect and maintain our interests in the Marks.

9.4 Discontinuance of Use of Marks. If we believe at any time that it is advisable for us and/or Regional Developer to modify or discontinue using any Mark and/or use one or more additional or substitute trademarks or service marks, Regional Developer agrees to comply with our directions within a reasonable time after receiving notice. We need not reimburse Regional Developer for Regional Developer's expenses in complying with these directions, for any loss of revenue due to any modified or discontinued Mark, or for Regional Developer's expenses of promoting a modified or substitute trademark or service mark.

9.5 Indemnification For Use of Marks. We agree to indemnify and reimburse Regional Developer against and for all damages for which Regional Developer is held liable in any trademark infringement proceeding arising out of Regional Developer's authorized use of any Mark pursuant to and in compliance with this Agreement, and for all costs Regional Developer reasonably incurs in the defense of any such claim in which Regional Developer is named as a party, so long as Regional Developer has timely notified us of the claim, and have otherwise complied with this Agreement. At our option, we may defend and control the defense of any proceeding relating to any Mark.

10. CONFIDENTIAL INFORMATION.

We possess (and may continue to develop and acquire) certain confidential information relating to the development and operation of Location Franchises and Regional Developer Businesses (the "Confidential Information"), which includes (without limitation):

- (1) site selection criteria;
- (2) methods, formats, specifications, standards, systems, procedures, sales and marketing techniques, knowledge and experience used in developing and operating Location Franchises and Regional Developer Businesses;
- (3) marketing research and promotional, marketing and advertising programs for Location Franchises and Regional Developer Businesses;
- (4) knowledge of specifications for and suppliers or, and methods of ordering, certain operating assets and products that Location Franchises and Regional Developer Businesses use;
- (5) knowledge of the operating results and financial performance of Location Franchises and Regional Developer Businesses;
- (6) customer communication and retention programs, along with data used or generated in connection with those programs; graphic designs and related intellectual property;
- (7) information generated by or used or developed in the operation of Location Franchises and Regional Developer Businesses, including customer names, addresses, telephone numbers and related information; and

- (8) any other information designated confidential or proprietary by us.

Regional Developer acknowledges and agrees that by entering into this Agreement, Regional Developer will not acquire any interest in Confidential Information, other than the right to use certain Confidential Information in accordance with this Agreement, and that Regional Developer's use of any Confidential Information in any other business would constitute an unfair method of competition with us and our franchisees. Regional Developer further acknowledges and agrees that the Confidential Information is proprietary, includes our trade secrets, and is disclosed to Regional Developer only on the condition that Regional Developer agrees, and it does agree, that Regional Developer:

- (1) will not use any Confidential Information in any other business or capacity;
- (2) will keep the Confidential Information absolutely confidential during and after this Agreement's term;
- (3) will not make unauthorized copies of any Confidential Information disclosure via electronic medium or in written or other tangible form;
- (4) will adopt and implement all reasonable procedures that we periodically prescribe to prevent unauthorized use or disclosure of Confidential Information, including, without limitation: (i) restricting its disclosure to Regional Developer's personnel and Franchisees needing to know such Confidential Information in order to develop and operate the Location Franchises; and (ii) requiring those having access to Confidential Information to sign confidentiality and non-disclosure agreements. We have the right to regulate the form of agreement that Regional Developer uses and to be a third party beneficiary of that agreement with independent enforcement rights; and
- (5) will not sell, trade or otherwise profit in any way from the Confidential Information, except using methods approved by us.

All ideas, concepts, techniques or materials relating to a Location Franchise or Regional Developer Business, whether or not protectable intellectual property and whether created by or for Regional Developer or its employees, must be promptly disclosed to us and will be deemed to be our sole and exclusive property and works made-for-hire for us. To the extent any item does not qualify as a "work made-for-hire" for us, by this paragraph, Regional Developer assigns ownership of that item, and all related rights to that item, to us and agrees to sign whatever assignment or other documents we request to evidence our ownership or to help us obtain intellectual property rights in the item.

"Confidential Information" does not include information, knowledge or know-how which is or becomes generally known in business consulting industry or which Regional Developer knew from previous business experience before we provided it to Regional Developer (directly or indirectly) or before Regional Developer attended our initial training program. If we include any matter in Confidential Information, anyone who claims that it is not Confidential Information must prove that the exclusion in this paragraph is fulfilled.

11. ASSIGNABILITY.

11.1 Assignability by Company.

(a) We shall have the right, but not the obligation, to cause a subsidiary or affiliate of ours to perform any or all of our obligations and exercise any or all of our rights under this Agreement and under any Franchise Agreement, and to require regional Developer to perform any or all of its obligations hereunder, in favor of such subsidiary or affiliate, by delivery of written Notice thereof to Regional Developer.

(b) We shall have the right to assign this Agreement, or any of our rights and privileges under this Agreement to any other person, firm or corporation, other than a subsidiary or affiliate of ours, without Regional Developer's prior consent, and we shall not be liable for any obligations accruing under this Agreement after the effective date of such assignment; provided the assignee shall expressly assume and agree to perform our obligations under this Agreement and is reasonably capable of performing them.

11.2 Assignments by Regional Developer.

(a) We have entered into this Agreement in reliance upon and in consideration of the singular personal skills, character, aptitude, business ability, financial capacity and qualifications of Regional Developer and the trust and confidence reposed in Regional Developer or, in the case of a business entity Regional Developer, its owners (individually, an "Owner"). Therefore, neither Regional Developer's interest in this Agreement nor any of its rights or privileges hereunder shall be assigned or transferred, voluntarily or involuntarily, in whole or in part, by operation of law or otherwise, in any manner, without our prior written approval.

(b) Any assignment or transfer without our approval is a breach of this Agreement and has no effect. In this Agreement, the term "transfer" includes any voluntary, involuntary, direct or indirect assignment, sale, gift or other disposition and includes the following events:

(1) transfer of record or beneficial ownership of capital stock in Regional Developer (if Regional Developer is a corporation), a partnership or membership interest (if Regional Developer is a partnership or limited liability company), or any other ownership interest or right to receive all or a portion of Regional Developer's profits or losses;

(2) a merger, consolidation or exchange of shares or other ownership interests, or issuance of additional ownership interest or securities representing or potentially representing shares or other ownership interests, or a redemption of shares or other ownership interests;

(3) any sale or exchange of voting interests or securities convertible to voting interests, or any agreement granting the right to exercise or control the exercise of the voting rights of any owner or to control Regional Developer's operations or affairs;

(4) transfer of an interest in Regional Developer, this Agreement, or Regional Developer Business or its assets (or any right to receive all or a portion of Regional Developer's or the Regional Development Business' profits or losses or any capital appreciation relating to the Regional Development Business) in a divorce, insolvency or entity dissolution proceeding, or otherwise by operation of law;

(5) if Regional Developer or an Owner (if Regional Developer is a business entity) dies, transfer of an interest in Regional Developer, this Agreement, or the Regional Development Business or its assets (or any right to receive all or a portion of Regional Developer's or the Regional Development Business' profits or losses or any capital appreciation relating to the Regional Development business) by will, declaration or transfer in trust, or under the law of intestate succession; or

(6) pledge of this Agreement (to someone other than us) or of an ownership interest in Regional Developer (if Regional Developer is a business entity) as security, foreclosure upon the development area franchises, or Regional Developer's transfer, surrender or loss of the area development franchise possession, control or management.

11.3 Conditions for Approval of Assignment or Transfer. We may impose any reasonable condition(s) to the granting of our consent to such assignments. Without limiting the generality of the foregoing, the imposition by us of any or all of the following conditions to our consent to any such assignment shall be deemed to be reasonable:

(a) that the assignee (or the principal officers, shareholders, directors or general partners of the assignee in the case of a business entity assignee) demonstrates that it has the skill, qualifications and economic resources necessary, in our judgment, reasonably exercised, to own and operate the Regional Developer Business;

(b) that Regional Developer has paid all amounts owed to us;

(c) that the assignee shall expressly assume in writing for our benefit all of the obligations of Regional Developer under this Agreement and any other agreements proposed to be assigned to such assignee;

(d) that neither the assignee nor its owners or affiliates operates, has an ownership interest in or performs services for a Competitive Business (defined in Section 12.2);

(e) that the assignee shall have completed (or agreed to complete) our training program;

(f) that the assignee signs our then current form of Regional Developer Agreement, the provisions of which may differ materially from any and all of those contained in this Agreement, and the term of which shall be the remaining term of this Agreement;

- (g) that as of the date of any such assignment, the assignor shall have strictly complied with all of its obligations to us, whether under this Agreement or any other agreement, arrangement or understanding with us;
- (h) that the assignee is not then in default of any of the obligation to us under any agreement between such assignee and us;
- (i) that the assignor shall pay to us a transfer fee of Ten Thousand Dollars (\$10,000) per transfer, except for transfers pursuant to Section 11.4 below;
- (j) that the assignor and the assignor's spouse (if any) shall sign a general release, in a form satisfactory to us, of any and all claims against us and our affiliates and our and their respective shareholders, officers, directors, employees, representatives, agents, successors and assigns; and
- (k) that assignor will not directly or indirectly at any time or in any manner identify himself, herself or itself or any business as a current or former Franchise or as one of our Franchisees or Regional Developers, use any Mark, any colorable imitation of a Mark, or other indicia of a Location Franchise or Regional Developer Business in any manner or for any purpose, or utilize for any purpose any trade name, trademark, service mark or other commercial symbol that suggests or indicates a connection or association with us.

Regional Developer shall not in any event have the right to pledge, encumber, charge, hypothecate or otherwise give any third party a security interest in this Agreement in any manner whatsoever without our express prior written permission, which permission may be withheld for any reason whatsoever in our sole subjective judgment.

11.4 Assignment to Entity Principally Controlled By You. The Regional Developer franchise business and its assets and liabilities may be assigned to a newly-formed corporation or other legal entity that conducts no business other than the operation of the franchise and in which you and any of your principals own and control in the aggregate not less than ninety percent (90%) of the equity and voting power of all outstanding capital stock or ownership interest, provided as follows:

- (a) that the proposed transferee complies with the provisions of this Agreement; and
- (b) that you are empowered to act for said corporation or other legal entity; and
- (c) that you shall submit to us documentation that we may reasonably request to effectuate the transfer, including the approving and acknowledging execution of this Agreement; and
- (d) that you shall submit to us a true and complete list of the shareholders, members or partners, showing number of shares or interests owned, and a list of the officers and directors if a corporation or managers if a limited liability company, or managing partners if a partnership. We shall be promptly notified of any changes in said lists; and
- (e) that all certificates of shares or interests issued by transferee at any time shall be endorsed thereon the appropriate legend to conform with state law, referring to this Agreement by date and name of parties hereto and stating "Transfer to This Certificate is Limited by the Terms and Conditions of a Regional Development Agreement dated _____," and
- (f) that a copy of this Agreement shall be given to every shareholder, member or partner; and
- (g) that a copy of the organizational documents and any corporate resolutions and a Certificate of Good Standing will be furnished to us at our reasonable request, and prompt notification in writing of any amendments thereto will be provided to us; and
- (h) that the number of shares or interests issued or outstanding in the transferee will not be increased or decreased without prior written Notice to us, which notice will in its terms guarantee compliance with this Agreement. In addition, new shareholders, members of partners must be approved by us and agree to be bound by this entire Agreement. Shareholders, members or partners may make a separate agreement among them providing for purchase by the survivors of them of the shares of any shareholders or interests of any members or partners upon death, or other agreements affecting ownership or voting rights, so long as voting control and a majority representation of the board of directors or members or partners remains with those individuals who

initially applied for and were approved as Franchisees under this Agreement. Shareholders, members or partners must notify us in writing of any such agreement that affects control of the transferee.

11.5 Death or Disability.

(a) Upon the death or disability of Regional Developer or an Owner, the executor, administrator, conservator, guardian or other personal representative must assign, sell, or transfer Regional Developer's interest in this Agreement, the Regional Developer Business and its assets, or the Owner's ownership interest in Regional Developer, to a third party approved by us. That transfer (including, without limitation, transfer by bequest or inheritance) must occur, subject to our rights, within a reasonable time, not to exceed nine (9) months from the date of death or disability, and is subject to all of the terms and conditions in this Section 11. A failure to transfer such interest within this time period is a breach of this Agreement. The term "disability" means a mental or physical disability, impairment or condition that is reasonably expected to prevent or actually does prevent Regional Developer from supervising the Development Area management and operation for ninety (90) or more consecutive days.

(b) If, upon the death or disability of Regional Developer or an Owner, a trained manager who we approve is not managing the day-to-day operations, then the executor, administrator, conservator, guardian or other personal representative must, within a reasonable time not to exceed thirty (30) days from the date of death or disability, appoint a manager that we must approve to operate the Regional Developer Business. The manager must, at Regional Developer's or the Owner's estate's expense, satisfactorily complete the training we designate with the specified time period.

11.6 Company's Right of First Refusal. If Regional Developer at any time determines to sell or transfer an interest in this Agreement or the Regional Developer Business, or if Owner determines to sell or transfer a controlling ownership interest in Regional Developer, then Regional Developer or the Owner, as applicable (the "Seller") must obtain from a responsible and fully disclosed buyer, and send us a true and complete copy of a bona fide, executed and binding purchase agreement relating exclusively to an interest in Regional Developer or this Agreement and the Regional Developer Business. The executed purchase agreement must include details of the payment terms of the proposed sale and the sources and terms of any financing for the purchase price. To be a valid, bona fide offer, the purchase price must be in a fixed dollar amount and without any contingent payments of purchase price (such as earn-out payments), and a record of an earnest money deposit equal to five percent (5%) or more of the purchase price.

We may, by delivering written Notice to the Seller within sixty (60) days after we receive both an exact copy of the offer and all other information requested, elect to purchase the interest for the price and on the terms and conditions contained in the offer, provided that: (1) we may substitute cash for any form or payment proposed in the offer; (2) our credit will be deemed equal to the credit of any proposed buyer; (3) the closing will be not less than sixty (60) days after notifying the Seller of our election to purchase or, if later, the closing date proposed in the offer; (4) we will be entitled to purchase the interest through the use of our then-current standard form of asset purchase agreement; and (5) we must receive, and the Seller agrees to make, all customary representations and warranties, given by the seller of the assets of a business or ownership interests in a legal entity, as applicable, including, without limitation, representations and warranties regarding ownership and condition of, and title to, assets and (if applicable) ownership interests and validity of contracts and the liabilities, contingent on otherwise, relating to the assets or ownership interests being purchased. We will have the right during such sixty (60) day period to request documentation related to the offer, including without limitation financial and legal information related to the purchase of the interest. The thirty (30) day period shall be extended in the event you fail to provide us with the requested documentation. Our purchase of the interest may require financial accounting audits of the interest to ensure our compliance with state and federal financial reporting requirements. If we exercise our right of first refusal, the Seller agrees that, for two (2) years beginning on the closing date, the Seller and members of its immediate family will be bound by the non-competition covenant contained in Section 12.2 below.

If we do not exercise our right of first refusal, the Seller may complete the sale to the proposed buyer on the original offer's terms, subject to our approval of the transfer as provided above. If the Seller does not complete the sale to the proposed buyer within sixty (60) days after we notify the Seller that we do not intend to exercise our right of first refusal, or if there is a material change in the terms of the sale (which the Seller must let us know promptly), we will have an additional right of first refusal during the sixty (60) day period following either the expiration of the sixty (60) day period or receipt of Notice of the material change(s) in the sale's terms, either on the terms originally offered or the modified terms, at our option.

11.7 Ownership Structure. Regional Developer represents and warrants that all persons holding direct or indirect, legal or beneficial ownership interests in Regional Developer (collectively, the "Owners") are listed in

Exhibit 3 and that its ownership structure is as set forth on Exhibit 3. In consideration of, and as an inducement to, the execution of this Agreement, each Owner of the Regional Developer and their respective spouses shall personally and unconditionally sign our form Guaranty and Acceptance of Obligations (Exhibit 4), guaranteeing to us and our successors and assigns that the Regional Developer will punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and agreeing to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement. Regional Developer shall not change its ownership structure without complying with all of the terms and conditions of this Section 11. Within ten (10) days of any change in Regional Developer's ownership structure, Regional Developer shall submit a revised Exhibit 3 to us showing the new ownership structure, and any new Owners shall sign our form Owner's Guaranty and assumption of Obligations (Exhibit 4).

12. NON-COMPETITION.

12.1 In Term – Exclusive Relationship. Franchisor has entered into this Agreement with Regional Developer on the condition that, except as Franchisor shall approve in writing, Regional Developer will deal exclusively with Franchisor insofar as any business defined below as a Competitive Business. Franchisor acknowledges that Regional Developer may perform similar service for other franchise systems or engage in unrelated business activities, however, without violating the terms of this Agreement. If the Regional Developer is engaged in any other business activities, Regional Developer shall disclose such business activities to Franchisor in writing prior to signing this Agreement.

Regional Developer acknowledges and agrees that Franchisor would be unable to protect its Confidential Information and would be unable to encourage a free exchange of ideas and information among Regional Developers and Franchisor if Regional Developers were permitted to hold an interest in any Competitive Business. Regional Developer therefore agrees that, after the Effective Date of this Agreement, without the prior written approval of Franchisor, which approval may be withheld by Franchisor in Franchisor's sole and absolute discretion, neither Regional Developer, Regional Developer's shareholders, members or partners who participate in the management of Regional Developer, nor Regional Developer's spouse, and, if applicable, the Operating Principal shall:

- (a) have any direct or indirect interest as a disclosed or beneficial owner in a "Competitive Business", which shall be defined as a business operating or granting franchises or licenses to others to operate any business other than those licenses by franchisor;
- (b) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for a Competitive Business, wherever located or operating;
- (c) divert or attempt to divert any business related to, or any customer or account of, the Regional Developer Business, Franchisor's business or any other Regional Developer's or Franchisees' Business, by direct inducement or otherwise.

Notwithstanding the foregoing, (i) Regional Developer shall not be prohibited from owning securities in a Competitive Business if such securities are listed on a stock exchange or traded on the over-the-counter market and represent five percent (5%) or less of that class of securities issued and outstanding; (ii) Regional Developer will not be deemed to be operating a Competitive Business, as that term is defined above, if the Regional Developer operates a The Joint Location Franchise under an approved Franchise Agreement.

12.2 Post-Term. For a eighteen (18) month period following the assignment, expiration or termination of this Agreement, for any reason, neither Regional Developer, any Owner, nor any member of Regional Developer's or an Owner's immediate family will have any direct or indirect interest (e.g., through a spouse) as a disclosed or beneficial owner, investor, partner, director, officer, employee, consultant, representative or agent, or in any other capacity, in any Competitive Business located or operating: (a) within the Development Area; (b) within the development area of any of our other regional developers; (c) within twenty-five (25) miles of any Location Franchise or Regional Developer franchise or in operation or development on the date of assignment, expiration or termination; or (d) within any unsold development areas. The term "Competitive Business" means any business in which you perform the franchise development/sales, training and/or operational support responsibilities for a pain management franchise or license brand, or if you currently have an independent chiropractic clinic that uses a non-insurance based/membership model.

13. TERMINATION.

13.1 Termination by You.

You may terminate this Agreement due to a material default of our obligations hereunder, which default is not cured by us within sixty (60) days after our receipt of prompt written Notice by you to us detailing the alleged default with specificity. Failure to give such Notice within thirty (30) days of having actual or constructive knowledge of the alleged default shall constitute a waiver by you of any such alleged default. If you terminate this Agreement pursuant to this Section 13.1, you shall comply with all of this Agreement's post termination covenants, terms and conditions. So long as we have performed our obligations as stated within this Agreement, you hereby agree and irrevocably waive any rights you may possess under this Agreement or any applicable law to terminate or rescind this Agreement.

13.2 Termination by Company.

(a) With Notice and Opportunity to Cure.

(i) Except for any default under Section 13.2(a)(ii), Section 13.2(b) or by applicable law, you shall have sixty (60) days after our written Notice of default within which to remedy any default under this Agreement, and to provide evidence of such remedy to us. If any such default is not cured within that time period, or such longer time period as applicable law may require or as we may specify in the notice of default, this Agreement and all rights granted by it shall thereupon automatically terminate without further notice or opportunity to cure.

(ii) If you do not strictly comply with the Minimum Development Obligation at any time during the term of this Agreement (except during such time when we shall have relieved you of your sales responsibilities in accordance with Section 2.1(g)), then it shall be your sole responsibility to incorporate within your annual business plan (required under Section 6.11(b)) an action plan for curing your default of the Minimum Development Obligation. Your failure to fully cure a default of the Minimum Development Obligation within six (6) months of such default shall cause an immediate termination of this Agreement, without any further opportunity to cure.

(b) Without Opportunity to Cure.

Subject to any controlling applicable laws to the contrary, you shall be deemed to be in material default and we may, at our option, terminate this Agreement and all rights granted hereunder, without affording you any opportunity to cure the default, effective immediately upon delivery or attempted delivery to you of Notice by us of the occurrence of any of the following events:

(iii) You are adjudicated bankrupt or judicially determined to be insolvent (subject to any contrary provisions of any applicable state or federal laws), or fail to meet your financial obligations as they become due, or make a disposition for the benefit of your creditors.

(iv) You or any of your Owners allows a judgment against you or them in an amount of more than \$50,000 arising out of your duties under this Agreement that remains unsatisfied for a period of more than thirty (30) days (unless an appeal bond has been filed).

(v) Your assets are seized, taken over or foreclosed by a government official in the exercise of its duties, or seized, taken over, or foreclosed by a creditor or lien holder provided that a final judgment against the you remains unsatisfied for thirty (30) days (unless an appeal bond has been filed).

(vi) A levy of execution or attachment has been made upon the franchise rights granted by this Agreement or upon any property used in your business, and it is not discharged within eleven (11) days of your receipt of notice of such levy or attachment.

(vii) If any judgment is entered against us or our subsidiaries or affiliated corporations, arising out of or relating to your operation of your business and if you are obligated to indemnify us pursuant to Section 15.2 and such judgment is not satisfied or stayed pending appeal by us or by our subsidiaries or affiliated companies.

(viii) You abandon your business. Abandonment in this context means any action or omission that demonstrates your intention to permanently relinquish and renounce your rights and duties under this Agreement.

(ix) You receive three (3) or more written notices of default from us, within any period of twelve (12) consecutive months, concerning any material breach by you, whether or not such breaches shall have been cured, such repeated course of conduct shall itself be grounds for termination of this Agreement without further notice or opportunity to cure.

(x) You (or any of your owners) participate in in-term competition contrary to Section 12.1.

(xi) You or any of your Owners, officers or directors is convicted of or pleads guilty or nolo contendere to a felony or any other crime or offense that is likely, in our reasonable business judgment, to adversely affect our reputation, the franchise system, the Marks or the goodwill associated therewith, or our interest therein.

(xii) You purport, threaten, or take any action to make an assignment or transfer without our prior written consent or otherwise that will violate Section 11 of this Agreement.

(xiii) You materially misuse or make any unauthorized use of the Marks or otherwise materially impair the goodwill associated therewith or our rights therein, or take any action that reflects materially and unfavorably upon the operation and reputation of the Company or the Company's network generally.

(xiv) Your unauthorized use, disclosure, or duplication of the Confidential Information, excluding independent acts of employees or others if you shall have exercised commercially-reasonable efforts to prevent such disclosures or use.

(xv) You make any material misrepresentations in connection with the application for, execution of, or performance under this Agreement.

13.3 Rights and Obligations Upon Termination or Expiration.

(a) Except to the extent that you have rights (if any) granted under a Franchise Agreement that has not terminated or expired, upon expiration or termination of this Agreement, you shall immediately take such action as we may require to accomplish the following:

(xvi) Cease to assist in the sale of The Joint® franchises, cease to use the system and Marks in any form, cease to hold yourself out as an Regional Developer of us and you shall not use or identify in any business name, any of the words "The Joint®", "The Joint® Chiropractic", or "The Joint...the chiropractic place®"; or any combination of such Marks or words, in any combination, form or fashion.

(xvii) Pay all sums due to us, including but not limited to all obligations, trade accounts, promissory notes, financing agreements and equipment leases owing to us.

(xviii) Submit such reports as we require, including but not limited to profit and loss statements for the two (2) year period preceding the date of termination or expiration.

(xix) Return to us or to our designee the Manuals, Confidential Information, proprietary hardware, software, computer disks and all other trade secrets, trade dress, and other information and instructions delivered to you and all copies thereof.

(xx) Surrender to us such stationery, printed matter, signs and advertising materials containing the "The Joint®", "The Joint® Chiropractic", and/or "The Joint...the chiropractic place®" names and/or Marks.

(xxi) Transfer, assign disconnect and forward the business telephone number, fax number, business Internet e-mail address and any other identifying information, listings or commercial holding out for your business to us or our designee. You shall not be required to transfer and assign to us any home or personal telephone number, fax number or e-mail address.

(xxii) Transfer your "white" and "yellow" page telephone listings, references and advertisements and all trade and similar name registrations and business licenses and cancel any interest which you may have in the same.

(xxiii) Promptly take any action necessary to cancel any assumed name or equivalent registration that contains the mark "The Joint®", "The Joint® Chiropractic", and/or "The Joint...the chiropractic place®"; , or any other Mark, and submit to us proof of compliance with this obligation.

(b) Upon termination or expiration of this Agreement, all monies earned or payable to us on account of Franchisees within the Development Area shall belong solely to us and you hereby forfeit any and all rights to the same upon the termination or expiration of the Agreement. Such monies shall not include unpaid obligations of us to you, which monies will be paid by us to you after we have first deducted any monies owed by you to us.

(c) In the event of termination or expiration of this Agreement, you hereby authorize and appoint us or our designee to act as special agent or attorney-in-fact for you to transfer any listed telephone and fax numbers, transfer "white" pages and "yellow" pages listings, e-mail address, Internet presence and any other identifying information, listings or commercial holding out relating to your business and to enforce the conditional assignment of same to you or to our designee.

(d) In the event of termination or expiration of this Agreement, you hereby authorize us to notify Franchisees, your customers, vendors, suppliers, landlord, banks, local advertisers and any other appropriate third-party that this Agreement has been terminated.

(e) In the event of a termination or expiration of this Agreement, you hereby authorize and acknowledge that we will disclose your name, your address, your phone number, and other applicable information pursuant to any applicable law in all future Franchise Disclosure Documents.

13.4 Reserved.

13.5 General Provisions. Notwithstanding anything to the contrary contained in this Section 13, in the event any valid applicable law of a competent Governmental Authority having jurisdiction over this Agreement and the parties hereto shall limit our rights of termination hereunder or shall require longer notice or cure periods than those set forth above, this Agreement shall be deemed amended to conform to the minimum notice or cure periods or restrictions upon termination required by such laws and regulations. The parties shall not, however, be precluded from contesting the validity, enforceability or application of such laws or regulations in any action, hearing or dispute relating to this Agreement or the termination thereof. Our rights as stated in this Section 13 shall be without prejudice to any other rights or remedies provided by law or under this Agreement which include, but are not limited to, injunctive relief, damages or specific performance. Our failure to terminate this Agreement upon the occurrence of one or more of the above events shall not constitute a waiver or otherwise affect our right to terminate this Agreement because of any other occurrence of one or more of the events set forth above.

14. MEDIATION AND LITIGATION.

14.1 MEDIATION. MEDIATION. DURING THE TERM OF THIS AGREEMENT CERTAIN DISPUTES MAY ARISE THAT YOU AND WE ARE UNABLE TO RESOLVE, BUT THAT MAY BE RESOLVABLE THROUGH MEDIATION. TO FACILITATE SUCH RESOLUTION, YOU AND WE AGREE TO SUBMIT ANY CLAIM, CONTROVERSY OR DISPUTE BETWEEN US OR ANY OF OUR AFFILIATES (AND THEIR RESPECTIVE OWNERS, OFFICERS, DIRECTORS, AGENTS, REPRESENTATIVES AND/OR EMPLOYEES) AND YOU (AND YOUR OWNERS, AGENTS, OFFICERS, DIRECTORS, REPRESENTATIVES AND/OR EMPLOYEES) ARISING OUT OF OR RELATED TO (a) THIS AGREEMENT OR ANY OTHER AGREEMENT BETWEEN US AND YOU, (b) OUR RELATIONSHIP WITH YOU, OR (c) THE VALIDITY OF THIS AGREEMENT OR ANY OTHER AGREEMENT BETWEEN US AND YOU, TO MEDIATION BEFORE EITHER OF US MAY BRING ANY SUCH CLAIM, CONTROVERSY OR DISPUTE IN COURT.

(a) THE MEDIATION SHALL BE CONDUCTED BY A MEDIATOR THAT YOU AND WE MUTUALLY SELECT FROM THE THEN CURRENT PANEL APPROVED BY THE AMERICAN ARBITRATION ASSOCIATION ("AAA") FOR PHOENIX, ARIZONA OR AS WE AND YOU OTHERWISE AGREE. IN THE EVENT WE ARE UNABLE TO REACH AGREEMENT ON A MEDIATOR WITHIN FIFTEEN (15) DAYS AFTER EITHER PARTY HAS NOTIFIED THE OTHER OF ITS DESIRE TO SEEK MEDIATION, YOU AND WE AGREE THAT THE MEDIATOR MAY BE SELECTED BY THE AAA BASED ON SELECTION CRITERIA THAT YOU OR WE SUPPLY TO THE AAA. THE COSTS AND EXPENSES OF THE MEDIATION, INCLUDING THE MEDIATOR'S COMPENSATION AND EXPENSES (BUT EXCLUDING ATTORNEYS' FEES INCURRED BY EITHER PARTY), SHALL BE BORNE BY THE PARTIES EQUALLY.

(b) NOTWITHSTANDING THE FOREGOING PROVISIONS OF THIS SECTION 14.1, YOUR AND OUR AGREEMENT TO MEDIATE SHALL NOT APPLY TO ANY CONTROVERSIES, DISPUTES OR CLAIMS RELATED TO OR BASED ON THE MARKS OR THE CONFIDENTIAL INFORMATION. MOREOVER, REGARDLESS OF YOUR AND OUR AGREEMENT TO MEDIATE, YOU AND WE EACH HAVE THE RIGHT TO SEEK TEMPORARY RESTRAINING ORDERS AND TEMPORARY OR PRELIMINARY INJUNCTIVE RELIEF IF WARRANTED BY THE CIRCUMSTANCES OF THE DISPUTE.

14.2 JURISDICTION AND FORUM SELECTION. WITH RESPECT TO ANY CONTROVERSIES, DISPUTES OR CLAIMS THAT ARE NOT FULLY RESOLVED THROUGH MEDIATION AS PROVIDED IN SECTION 14.1 ABOVE, THE PARTIES IRREVOCABLY AGREE TO SUBMIT THEMSELVES TO THE JURISDICTION OF THE SUPERIOR COURT OF MARICOPA COUNTY, ARIZONA OR THE U.S. DISTRICT COURT FOR THE DISTRICT OF ARIZONA AND HEREBY WAIVE ANY AND ALL OBJECTIONS TO PERSONAL OR SUBJECT MATTER JURISDICTION IN THESE COURTS. YOU AND WE FURTHER AGREE THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE THE COURTS OF MARICOPA COUNTY, ARIZONA.

15. GENERAL CONDITIONS AND PROVISIONS.

15.1 Relationship of Regional Developer to Company. It is expressly agreed that the parties intend by this Agreement to establish between us and Regional Developer the relationship of franchisor and franchisee. Except as expressly provided herein, it is further agreed that Regional Developer has no authority to create or assume in our name or on our behalf, any obligation, express or implied, or to act or purport to act as agent or representative on our behalf for any purpose whatsoever. In no event shall either party be deemed to be fiduciaries of the other. Neither we nor Regional Developer is the employer, employee, agent, partner or co-venturer of or with the other, each being independent contractors. Regional Developer agrees that it will not hold himself out as the agent, employee, partner or co-venturer of ours, or as having any of the aforesaid authority. All Employees hired by or working for Regional Developer shall be the employees of Regional Developer and shall not, for any purpose, be deemed employees of us or subject to our control.

15.2 Indemnification. To the fullest extent permitted by law, Regional Developer agrees to indemnify, defend and hold harmless us, our affiliates, and our and their respective shareholders, directors, officers, employees, agents, representatives, successors and assigns (the "Indemnified Parties") from and against, and to reimburse any one or more of the Indemnified Parties for any and all claims, obligations and damages directly or indirectly arising out of: (1) the Regional Developer Business conducted by Regional Developer pursuant to this Agreement, (2) Regional Developer's breach of this Agreement, or (3) Regional Developer's non-compliance or alleged non-compliance with any law, ordinance, rule or regulation. For purposes of this indemnification, "claims" include all obligations, damages (actual, consequential, punitive or otherwise) and costs that any Indemnified Party reasonably incurs in defending any claim against it, including, without limitation, reasonable accountants', arbitrators', attorneys' and expert witness' fees, costs of investigation and proof of facts, court costs, travel and living expenses and other expenses of litigation, arbitration or alternative dispute resolution, regardless of whether litigation or alternative dispute resolution is commenced. Each Indemnified Party may defend and control the defense of any claim against it which is subject to this indemnification at Regional Developer's expense, and Regional Developer may not settle any claim or take any other remedial, corrective or other actions relating to any claim without our consent. This indemnity will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination. An Indemnified Party need not seek recovery from an insurer or other third party, or otherwise mitigate its losses and expenses, in order to maintain and recover fully a claim against Regional Developer. Regional Developer agrees that a failure to pursue a recovery or mitigate a loss will not reduce or alter the amounts that an Indemnified Party may recover from Regional Developer.

15.3 Waiver and Delay. Except as otherwise expressly provided to the contrary, no waiver by us of any breach or series of breaches or defaults in performance by the Regional Developer, and no failure, refusal or neglect of or by us to exercise any right, power or option given to us under this Agreement or under any other agreement between us and Regional Developer, whether entered into before, after or contemporaneously with the execution of this Agreement (and whether or not related to this Agreement) or to insist upon strict compliance with or performance of the Regional Developer's obligations under this Agreement or any other agreement between us and Regional Developer, whether entered into before, after or contemporaneously with the execution of this Agreement (and whether or not related to this Agreement), shall constitute a novation, or a waiver of the provisions of this Agreement with respect to any subsequent breach thereof or a waiver of our right at any time thereafter to require exact and strict compliance with the provisions thereof.

15.4 Survival of Covenants. The covenants contained in this Agreement which, by their terms, require performance by the parties after the expiration or termination of this Agreement or ancillary agreements, shall be enforceable notwithstanding said expiration or other termination of this Agreement for any reason whatsoever.

15.5 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the legal representatives, successors and assigns of us and Regional Developer.

15.6 Joint and Several Liability. If either party consists of more than one person or entity, or a combination thereof, the obligations and liabilities of each such person or entity to the other under this Agreement are joint and several.

15.7 Governing Law. Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 et seq.), this Agreement and the Regional Developer franchise will be governed by the internal laws of the State of Arizona (without reference to its choice of law and conflict of law rules), except that the provisions of any Arizona law relating to the offer and sale of business opportunities or franchises or governing the relationship of a franchisor and its franchisees will not apply unless their jurisdictional requirements are met independently without reference to this Paragraph. You agree that we may institute any action against you arising out of or relating to this Agreement (which is not required to be mediated hereunder or as to which mediation is waived) in any state or federal court of general jurisdiction in Maricopa County, Arizona, and you irrevocably submit to the jurisdiction of such courts and waive any objection you may have to either the jurisdiction or venue of such court.

15.8 Consent to Jurisdiction. Subject to Section 14 and the provisions below, Regional Developer and its owners agree that all actions arising under this Agreement or otherwise as a result of the relationship between Regional Developer and us must be commenced in the State of Arizona, and in the state or federal court of general jurisdiction closest to where our principal business address then is located, and Regional Developer (and its Owners) irrevocably submits to the jurisdiction of those courts and waives any objection Regional Developer (or its owners) might have with either the jurisdiction of or venue in those courts. Nonetheless, Regional Developer and any of its Owners agree that we may enforce this Agreement and any arbitration orders and awards in the courts of the state or states in which Regional Developer or its Owners are domiciled.

15.9 Waiver of Punitive Damages and Jury Trial. Except for Regional Developer's obligation to indemnify us under Section 15.2 above and except where authorized by federal statute, we and Regional Developer and its Owners waive to the fullest extent permitted by law any right to or claim for any punitive or exemplary damages against the other and agree that, in the event of a dispute between us and Regional Developer, the party making a claim will be limited to equitable relief and to recovery of any actual damages it sustains. We and Regional Developer irrevocably waive trial by jury in any action, proceeding or counterclaim, whether at law or in equity, brought by either party.

15.10 Limitation of Claims. Any and all claims arising out of or relating to this Agreement or our relationship with Regional Developer, except for claims for indemnification under Section 15.2 above, will be barred unless a judicial proceeding is commenced within one (1) year from the date on which the party asserting the claim knew or should have known of the facts giving rise to the claims.

15.11 Entire Agreement. This Agreement and the Exhibits incorporated in the Agreement contain all of the terms and conditions agreed upon by the parties to this Agreement with reference to the subject matter of this Agreement. No other agreements, and all prior agreements, understanding and representations are merged in this Agreement and superseded by this Agreement. Each party represents to the other that there are no contemporaneous agreements or understandings between the parties relating to the subject matter of this Agreement that are not contained in this Agreement. This Agreement cannot be modified or changed except by written instrument signed by all of the parties to this Agreement, provided that we may modify or amend the Manuals at any time without notice to, or approval of, Regional Developer or any other person. Nothing in this Agreement shall have the effect of disclaiming any of the information in the Franchise Disclosure Document or its attachments or addenda.

15.12 Title for Convenience. Article and Section titles used in this Agreement are for convenience only and shall not be deemed to affect the meaning or construction of any of the terms, provisions, covenants or conditions of this Agreement.

15.13 Gender. All terms used in any one number or gender shall extend to mean and include any other number and gender as the facts, context or sense of this Agreement or any section or paragraph hereof may require.

15.14 Severability. Except as expressly provided to the contrary in this Agreement, each Section, paragraph, term and provision of this Agreement in severable, and if, for any reason, any part thereof, to be invalid or contrary to or in conflict with any applicable present or future law and regulation in a final, unappealable ruling issued by any court, agency or tribunal with competent jurisdiction, that ruling will not impair the operation or, or otherwise affect, any other portions of this Agreement, which will continue to have full force and effect and bind the parties. If any covenant which restricts competitive activity is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited, and/or length of time, but would be enforceable if modified, we and Regional Developer agree that the covenant will be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction whose law determines the covenant's validity. If any applicable and binding law or rule of any jurisdiction requires more notice than this Agreement requires of this Agreement's termination or of our refusal to enter into a successor agreement, or if, under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement is invalid or unenforceable or unlawful, the notice and/or other action required by the law or rule will be substituted for the comparable provisions of this Agreement, and we may modify the invalid or unenforceable provisions to the extent required to be valid and enforceable or delete the unlawful provision in its entirety. Regional Developer agrees to be bound by any promise or covenant imposing the maximum duty the law permits which is subsumed within any provision of this Agreement, as though it were separately articulated in and made a part of this Agreement.

15.15 Fees and Expenses. Should any party to this Agreement commence any action or proceeding for the purpose of enforcing, or preventing the breach of, any provision of this Agreement, whether by arbitration, judicial or quasi-judicial action or otherwise, or for damages for any alleged breach of any provision of this Agreement, or for a declaration of such party's rights or obligations under this Agreement, then the prevailing party shall be reimbursed by the losing party for all costs and expenses incurred in connection therewith, including, but not limited to, reasonable attorneys' fees for the services rendered to such prevailing party.

15.16 Notices. Except as otherwise expressly provided herein, all written notices and reports permitted or required to be delivered by the parties pursuant to this Agreement shall be deemed so delivered at the time delivered by hand, one (1) business day after transmission by mail, via registered or certified mail, return receipt requested; or one (1) business day after placement with Federal Express, or other reputable air courier service, requesting delivery on the most expedited basis available, postage prepaid and addressed as follows:

If to company: THE JOINT CORP.
Attention: Eric Simon, VP of Franchise Sales and Development
16767 N. Perimeter Dr., Ste. 110
Scottsdale, AZ 85260
Email: eric.simon@thejoint.com

With a copy to: _____

If to Regional Developer: _____

With a copy to: _____

Or to such other addresses any such party may designate by ten (10) days' advance written notice to the other party.

15.17 Time of Essence. Time shall be of the essence for all purposes of this Agreement.

15.18 Lien and Security Interest. To secure your performance under this Agreement and indebtedness for all sums due us or our affiliates, we shall have a lien upon, and you hereby grant us a security interest in, the following collateral and any and all additions, accessions, and substitutions to or for it and the proceeds from all of the same: (a) all inventory now owned or after-acquired by you and the Regional Developer Business, including but

not limited to all inventory and supplies transferred to or acquired by you in connection with this Agreement; (b) all accounts of you and/or the Regional Developer Business now existing or subsequently arising, together with all interest in you and/or the Regional Developer Business, now existing or subsequently arising, together with all chattel paper, documents, and instruments relating to such accounts; (c) all contract rights of you and/or the Regional Developer Business, now existing or subsequently arising; and (d) all general intangibles of you and/or the Regional Developer Business, now owned or existing, or after-acquired or subsequently arising. You agree to execute such financing statements, instruments, and other documents, in a form satisfactory to us, that we deem necessary so that we may establish and maintain a valid security interest in and to these assets.

16. SUBMISSION OF AGREEMENT.

This Agreement shall not be binding upon us unless and until it shall have been submitted to and signed by our Chief Executive, and the date of said signing as set forth on the first page of this Agreement shall be the effective date of this Agreement.

17. ACKNOWLEDGMENTS.

To induce us to sign this Agreement and grant Regional Developer the rights hereunder, Regional Developer acknowledges:

- (a) That Regional Developer has independently investigated the Regional Developer Business franchise opportunity and recognizes that, like any other business, the nature of the Regional Developer Business may, and probably will, evolve and change over time.
- (b) That an investment in a Regional Developer Business involves business risks.
- (c) That Regional Developer's business abilities and efforts are vital to Regional Developer's success.
- (d) That performing Regional Developer's obligations will require a high level of customer service and strict adherence to the System.
- (e) That Regional Developer has not received or relied upon, and we expressly disclaim making any representation, warranty or guaranty, express or implied, as to the revenues, profits or success of a Regional Developer Business.
- (f) That any information Regional developer has acquired from Franchisees or other regional developers regarding their sales, profits or cash flows is not information obtained from us, and we make no representation about that information's accuracy.
- (g) That Regional Developer has no knowledge of any representations made about the Regional Developer franchise opportunity by us, our subsidiaries or affiliates or any of their respective officers, directors, shareholders or agents that are contrary to the statements made in our Franchise Disclosure Document or to the terms and conditions of this Agreement.
- (h) That in all of their dealing with Regional Developer, our officers, directors, employees and agents act only in a representative, and not in an individual capacity and that business dealings between Regional Developer and them as a result of this Agreement are only between Regional Developer and us.
- (i) That Regional Developer has represented to us, to induce us to enter into this Agreement, that all statements Regional Developer has made and all materials Regional Developer has given to us in acquiring the franchise are accurate and complete and that Regional Developer has made no misrepresentations or material omissions in obtaining the franchise.
- (j) That Regional Developer has read this Agreement and our Franchise Disclosure Document and understands and accepts that the terms and covenants in this Agreement are reasonably necessary for us to maintain our high standards of quality and service, as well as the uniformity of those standards at each Regional Developer Business and Location Franchise, and to protect and preserve the goodwill of the Marks.

IN WITNESS WHEREOF, the parties to this Agreement have caused this Agreement to be executed as of the first date set forth above.

COMPANY:

THE JOINT CORP.
a Delaware corporation

By: _____
Its: _____

REGIONAL DEVELOPER:

By: _____
Its: _____

EXHIBIT 1
DEVELOPMENT AREA

The Development Area referred to in Recital D of this Agreement shall be the following geographic area:

EXHIBIT 2

MINIMUM DEVELOPMENT OBLIGATION

DEVELOPMENT SCHEDULE

Your Minimum Development Obligation for the Development Area shall be as follows:

At the dates set forth below, you must have completed a Sale of a Location Franchise within the Development Area as defined within the Agreement for the following number of Location Franchises indicated (the "Minimum Development Schedule"):

Development Period	Date Development Period Begins	Date Development Period Ends	Minimum Sales during Development Period	Cumulative Location Franchises at End of Development Period
Year 1	Effective Date			
Year 2				
Year 3				
Year 4				
Year 5				
Year 6				
Year 7				
Year 8				
Year 9				
Year 10				

EXHIBIT 3

OWNERSHIP STRUCTURE

Owner Name and Address Number of Shares Percentage of
Ownership

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

TOTAL _____ 100%

EXHIBIT 4

OWNER'S GUARANTY AND ASSUMPTION OF OBLIGATIONS

In consideration of, and as an inducement to, the execution of the foregoing Regional Developer Agreement dated _____, 20____ ("Agreement") by THE JOINT CORP., a Delaware corporation ("us"), and _____ ("Regional Developer"), each of the undersigned owners of the Regional Developer ("Owner") and their respective spouses ("you", for purposes of this Guaranty only), hereby personally and unconditionally (1) guarantees to us and our successors and assigns that the Regional Developer will punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and (2) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement, including without limitation, monetary obligations, the obligations to take or refrain from taking certain actions and arbitration of disputes.

Each of you waives (1) protest and notice of default, demand for payment or nonperformance of any obligations guaranteed by this Guaranty; (2) any right you may have to require that an action be brought against Regional Developer or any other person as a condition of your liability; (3) all right to payment or reimbursement from, or subrogation against, the Regional Developer which you may have arising out of your guaranty of the Regional Developer's obligations; and (4) any and all other notices and legal or equitable defenses to which you may be entitled in your capacity as guarantor.

Each of you consents and agrees that (1) your direct and immediate liability under this Guaranty shall be joint and several; (2) you will make any payment or render any performance required under the Agreement on demand if Regional Developer fails or refuses to do so when required; (3) your liability will not be contingent or conditioned on our pursuit of any remedies against Regional Developer or any other person; (4) your liability will not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which we may from time to time grant to Regional Developer or to any other person, including without limitation, the acceptance of any partial payment or performance, or the compromise or release of any claims; and (5) this Guaranty will continue and be irrevocable during the term of the Agreement and afterward for so long as the Regional Developer has any obligations under the Agreement.

If we are required to enforce this Guaranty in a judicial or arbitration proceeding, and prevail in such proceeding, we will be entitled to reimbursement of our costs and expenses, including, but not limited to, reasonable accountants', attorneys', attorneys' assistants', arbitrators' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses, whether incurred prior to, in preparation for or in contemplation of the filing of any such proceeding. If we are required to engage legal counsel in connection with any failure by you to comply with this Guaranty, you agree to reimburse us for any of the above-listed costs and expenses incurred by us.

[Signature Page Follows]

This Guaranty is now executed as of the Agreement Date.

OWNER:

OWNER:

OWNER:

OWNER'S SPOUSE:

OWNER'S SPOUSE:

OWNER'S SPOUSE:

EXHIBIT 5
STATE-SPECIFIC ADDENDA
TO REGIONAL DEVELOPER AGREEMENT

CALIFORNIA ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

1. California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the Regional Developer Agreement contains a provision that is inconsistent with the law, the law will control.
2. The Regional Developer Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).
3. The Regional Developer Agreement contains a covenant not to compete, which extends beyond the termination of the franchise. This provision may not be enforceable under California law.
4. The Regional Developer Agreement requires mediation. The mediation will occur in Maricopa County, State of Arizona.

Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a Regional Developer Agreement restricting venue to a forum outside the State of California.

5. The Agreement requires the application of laws of Arizona. This requirement may be unenforceable under California law.
6. You must sign a general release if you renew or transfer your franchise. California Corporations Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this California Addendum to the Regional Developer Agreement on the same date as the Regional Developer Agreement was executed.

**THE JOINT CORP.
a Delaware corporation**

By: _____
Print Name: _____
Title: _____

REGIONAL DEVELOPER

By: _____
Print Name: _____
Title: _____

HAWAII ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

1. The Regional Developer Agreements contain a provision requiring a general release as a condition of renewal and transfer of the franchise. Such release will exclude claims arising under the Hawaii Franchise Investment Law.
2. Any provisions of the Regional Developer Agreement that relate to non-renewal, termination, and transfer are only applicable if they are not inconsistent with the Hawaii Franchise Investment Law. Otherwise, the Hawaii Franchise Investment Law will control.
3. The Regional Developer Agreement permits us to terminate the Agreement on the bankruptcy of you and/or your affiliates. This provision may not be enforceable under federal bankruptcy law. (11 U.S.C. § 101, *et seq.*).
4. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Hawaii Franchise Investment Law are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Hawaii Addendum to the Regional Developer Agreement on the same date as the Regional Developer Agreement was executed.

THE JOINT CORP.
a Delaware corporation

By: _____
Print Name: _____
Title: _____

REGIONAL DEVELOPER

By: _____
Print Name: _____
Title: _____

ILLINOIS ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

1. The Regional Developer Agreement contains a provision requiring a general release as a condition of renewal and transfer of the franchise. Such release will exclude claims arising under the Illinois Franchise Disclosure Act.
2. Your rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.
3. The Illinois Franchise Disclosure Act will govern the Agreement with respect to Illinois Franchisees. The provisions of the Agreement concerning governing law, jurisdiction, and venue will not constitute a waiver of any right conferred on you by the Illinois Franchise Disclosure Act. Consistent with the foregoing, any provision in the Agreement which designates jurisdiction and venue in a forum outside of Illinois is void with respect to any cause of action which is otherwise enforceable in Illinois.
4. In conformance with Section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.
5. Illinois law governs the Franchise Agreement(s).
6. Nothing in the Agreement will limit or prevent the enforcement of any cause of action otherwise enforceable in Illinois or arising under the Illinois Franchise Disclosure Act of 1987, as amended.
7. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Illinois law applicable to the provision are met independently without reference to this Addendum.
8. All fees referenced in the Franchise Agreement and Regional Developer Agreement are subject to deferral pursuant to order of the Illinois Attorney General's Office based upon their review of our financial condition as reflected in our financial statements. Accordingly, you will pay no fees to us until we have completed all of our material pre-opening responsibilities to you and you commence operating the first franchised business.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Illinois Addendum to the Regional Developer Agreement on the same date as the Regional Developer Agreement was executed.

**THE JOINT CORP.
a Delaware corporation**

By: _____
Print Name: _____
Title: _____

REGIONAL DEVELOPER

By: _____
Print Name: _____
Title: _____

INDIANA ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

1. Regional Developer Agreement contains a provision requiring a general release as a condition of renewal and transfer of the franchise. Such provision is inapplicable under the Indiana Deceptive Franchise Practices Law, IC 23-2-2.7 § 1(5).
2. Under the Regional Developer Agreement you will not be required to indemnify us for any liability imposed on us as a result of your reliance on or use of procedures or products which were required by us, if such procedures were utilized by you in the manner required by us.
3. The Regional Developer Agreement is amended to provide that mediation between you and us will be conducted at a mutually agreed-on location.
4. The Regional Developer Agreement is amended to provide that in the event of a conflict of law, the Indiana Franchise Disclosure Law, I.C. 23-2-2.5, and the Indiana Deceptive Franchise Practices Law, I.C. 23-2-2.7, will prevail.
5. Nothing in the Agreement will abrogate or reduce any rights you have under Indiana law.
6. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Indiana Franchise Disclosure Law, Indiana Code §§ 23-2-2.5-1 to 23-2-2.5-51, and the Indiana Deceptive Franchise Practices Act, Indiana Code §§ 23-2-2.7-1 to 23-2-2.7-10, are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Indiana Addendum to the Regional Developer Agreement on the same date as the Regional Developer Agreement was executed.

**THE JOINT CORP.
a Delaware corporation**

By: _____
Print Name: _____
Title: _____

REGIONAL DEVELOPER

By: _____
Print Name: _____
Title: _____

MARYLAND ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

1. Notwithstanding anything to the contrary set forth in the Agreement, the following provisions will supersede and apply to all franchises offered and sold in the State of Maryland:
2. Any provision in the Agreement that would require you, as part of the Agreement or as a condition of the sale, renewal or assignment of the franchise, to assent to a release which would relieve any person from liability imposed under the provisions of the Maryland Franchise Law is void if that the provision violates this law. The provision in the Regional Developer Agreement which provides for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 et seq.)
3. Any provision in the Agreement which operates to waive your right to file a lawsuit alleging a cause of action arising under the Maryland Franchise Law in any court of competent jurisdiction in the State of Maryland is void if that the provision violates this law. Claims arising under the Maryland Franchise Law may be brought in any court of competent jurisdiction in Maryland, within 3 years after the grant of the franchise.
4. Based upon the franchisor's financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by franchisees shall be deferred until the franchisor completes its pre-opening obligations under the Regional Developer Agreement.
5. The Regional Developer Questionnaire, which is attached to the Agreement as Exhibit 5, is amended as follows:

All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

**THE JOINT CORP.
a Delaware corporation**

By: _____
Print Name: _____
Title: _____

REGIONAL DEVELOPER

By: _____
Print Name: _____
Title: _____

MINNESOTA ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

1. The Regional Developer Agreement is amended to add the following:

“We will protect your right to use the Marks and/or indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the Marks.”

2. The Regional Developer Agreement contains a provision requiring a general release as a condition of renewal and transfer of the franchise. Such release will exclude claims arising under the Minnesota Franchise Law.

3. The Regional Developer Agreement is amended to add the following:

With respect to franchises governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C. 14, Subds, 3, 4 and 5, which require, except in certain specified cases, that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for nonrenewal of the Regional Developer Agreement.

4. The Regional Developer Agreement is amended as follows:

Pursuant to Minn. Stat. § 80C.17, Subd. 5, the parties agree that no civil action pertaining to a violation of a franchise rule or statute can be commenced more than three years after the cause of action accrues.

5. The Regional Developer Agreement is amended to add the following:

Minn. Stat. Sec. 80C.2 1 and Minn. Rule 2860.4400J prohibit us from requiring litigation or mediation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or Regional Developer Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum or remedies provided for by the laws of the jurisdiction.

6. The Regional Developer Agreement is amended to add the following:

Minn. Rule Part 2860.4400J prohibits us from requiring you to waive your rights to a jury trial or waive your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction, or consenting to liquidated damages, termination penalties or judgment notes.

7. Each provision of this Agreement will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Franchises Law or the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce are met independently without reference to this Addendum to the Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Minnesota Addendum to the Regional Developer Agreement on the same day as the Regional Developer Agreement was executed.

THE JOINT CORP.

a Delaware corporation

By: _____

Print Name: _____

Title: _____

REGIONAL DEVELOPER

By: _____

Print Name: _____

Title: _____

NEW YORK ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

THIS ADDENDUM (the "Addendum") is made and entered into as of this _____ day of _____, 20__ (the "Effective Date"), by and between The Joint Corp., a Delaware corporation, with its principal business address at 16767 N. Perimeter Dr., Suite 110, Scottsdale, Arizona 85260 ("we" or "us"), and _____, whose principal business address is _____ ("you").

RECITALS

WHEREAS, you and we are parties to that certain Regional Developer Agreement dated _____, 201__ (the "RDA") that has been signed concurrently with the signing of this Addendum;

WHEREAS, the New York Franchise laws and regulations (the "New York Franchise Law") apply to the franchise relationship between you and us because one or more of the following apply: (i) you are a resident of New York and the franchises that you will establish pursuant to the RDA will be located or operated in New York; or (ii) any of the offering or sales activity relating to the RDA originated in or was directed to New York;

WHEREAS, the New York Franchise Law imposes certain requirements and limitations on franchise agreements that are subject to the New York Franchise Law and these requirements and limitations are set forth in this Addendum; and

WHEREAS, you and we agree to amend the RDA to comply with the New York Franchise Law.

NOW, THEREFORE, you and we agree that the RDA shall be amended in accordance with the terms of this Addendum.

1. Amendments to RDA. The RDA is hereby amended to incorporate the following provisions:

- (a) We will not require that you prospectively assent to a release, assignment, novation, waiver, or estoppel that purports to relieve any person from liability imposed by the New York Franchise Law.
- (b) We will not place any condition, stipulation, or provision in the RDA that requires you to waive compliance with any provision of the New York Franchise Law.

(c) Any provision in the RDA that limits the time period in which you may assert a legal claim against us under the New York Franchise Law is amended to provide for a three (3) year statute of limitations for purposes of bringing a claim arising under the New York Franchise Law.

(d) Notwithstanding the transfer provision in the Franchise Agreement, we will not assign the Franchise Agreement except to an assignee who, in our good faith judgment, is willing and able to assume our obligations under the Franchise Agreement.

2. Miscellaneous.

(a) Modification. This Addendum and the RDA when executed constitute the entire agreement and understanding between the parties with respect to the subject matter contained herein and therein. Any and all prior agreements and understandings between the parties and relating to the subject matter contained in this Addendum and the RDA, whether written or verbal, other than as contained within the executed Addendum and RDA, are void and have no force and effect. In order to be binding between the parties, any subsequent modifications must be in writing signed by the parties.

(b) Effect on Agreement. Except as specifically modified or supplemented by this Addendum, all terms, conditions, covenants and agreements set forth in the RDA shall remain in full force and effect. This Addendum shall not apply unless the jurisdictional requirements of the New York Franchise Law are met independently and without reference to this Addendum.

(c) Inconsistency. In the event of any inconsistency between the executed RDA and this Addendum, this Addendum shall prevail.

(d) Counterparts. This Addendum may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same document.

IN WITNESS WHEREOF, the parties have executed and delivered this Addendum effective on the date stated on the first page above.

FRANCHISOR

The Joint Corp., a Delaware corporation

By: _____
Name: _____
Title: _____

[Date]

FRANCHISEE

[Signature]

[Print Name]

[Date]

NORTH DAKOTA ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

1. The Regional Developer Agreement contains a provision requiring a general release as a condition of renewal or transfer of the franchise. Such release is subject to and will exclude claims arising under the North Dakota Franchise Investment Law.
2. The Regional Developer Agreement will be amended to state that mediation involving a franchise purchased in North Dakota must be held in a location mutually agreed on prior to the mediation, or if the parties cannot agree on a location, at a location to be determined by the mediator.
3. The Regional Developer Agreement is amended to add that covenants not to compete on termination or expiration of a Regional Developer Agreement are generally not enforceable in the State of North Dakota except in limited circumstances provided by North Dakota law.
4. The Regional Developer Agreement is amended to add that any claim or right arising under the North Dakota Franchise Investment Law may be brought in the appropriate state or federal court in North Dakota, subject to the mediation provision of the Agreement.
5. The Regional Developer Agreement is amended to state that, in the event of a conflict of law, to the extent required by the North Dakota Franchise Investment Law, North Dakota law will prevail.
6. The Regional Developer Agreement requires the franchisee to waive a trial by jury, as well as exemplary and punitive damages. These requirements are not enforceable in North Dakota pursuant to Section 51-19-09 of the North Dakota Franchise Investment Law, and are therefore not part of the Regional Developer Agreement.
7. The Regional Developer Agreement requirement that the franchise consent to a limitation of claims period of one year is not consistent with North Dakota law. The limitation of claims period under the Regional Developer Agreement shall therefore be governed by North Dakota law.
8. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the North Dakota Franchise Investment Law, N.D. Cent. Code §§ 51-19-01 through 51-19-17, are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this North Dakota Addendum to the Regional Developer Agreement on the same day as the Regional Developer Agreement was executed.

**THE JOINT CORP.
a Delaware corporation**

By: _____
Print Name: _____
Title: _____

REGIONAL DEVELOPER

By: _____
Print Name: _____
Title: _____

RHODE ISLAND ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

1. The Regional Developer Agreement contains a provision requiring a general release as a condition of renewal and transfer of the franchise. Such release will exclude claims arising under the Rhode Island Franchise Investment Act.
2. This Agreement requires that it be governed by Arizona law. To the extent that such law conflicts with Rhode Island Franchise Investment Act, it is void under Sec. 19-28.1-14.
3. The Regional Developer Agreement is amended by the addition of the following, which will be considered an integral part of this Agreement:

"§ 19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in an Regional Developer Agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act."

4. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of Rhode Island Franchise Investment Act, §§ 19- 28-1.1 through 19-28.1-34, are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Rhode Island Addendum to the Regional Developer Agreement on the same date as the Regional Developer Agreement was executed.

**THE JOINT CORP.
a Delaware corporation**

By: _____
Print Name: _____
Title: _____

REGIONAL DEVELOPER

By: _____
Print Name: _____
Title: _____

VIRGINIA ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

No addendum is required in Virginia at this time.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Virginia Addendum to the Regional Developer Agreement on the same date as the Regional Developer Agreement was executed.

**THE JOINT CORP.
a Delaware corporation**

By: _____
Print Name: _____
Title: _____

REGIONAL DEVELOPER

By: _____
Print Name: _____
Title: _____

WASHINGTON ADDENDUM TO REGIONAL DEVELOPER AGREEMENT

1. The state of Washington has a statute, RCW 19.100.180 which may supersede the Regional Developer Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Regional Developer Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.
2. In any mediation involving a franchise purchased in Washington, the mediation site shall be either in the state of Washington, or in a place mutually agreed upon at the time of the mediation , or as determined by the mediator.
3. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.
4. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.
5. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Washington Addendum to the Regional Developer Agreement on the same date as the Regional Developer Agreement was executed.

**THE JOINT CORP.
a Delaware corporation**

By: _____
Print Name: _____
Title: _____

REGIONAL DEVELOPER

By: _____
Print Name: _____
Title: _____

EXHIBIT 6

AREA DEVELOPER COMPLIANCE QUESTIONNAIRE

The Joint Corp. (the "Franchisor") and you are preparing to enter into a Regional Developer Agreement. The purpose of this Questionnaire is to determine whether any statements or promises were made to you that the Franchisor has not authorized and that may be untrue, inaccurate or misleading. Please understand that your responses to these questions are important to us and that we will rely on them. Please review each of the following questions and statements carefully and provide honest and complete responses to each. By signing this Questionnaire, you are representing that you have responded truthfully to the following questions.

1. I received and personally reviewed the Franchisor's Franchise Disclosure Document ("FDD") that was provided to me.
Yes _____ No _____
2. Did you sign a receipt or acknowledge through electronic means a receipt for the FDD indicating the date you received it?
Yes _____ No _____
3. Do you understand all of the information in the FDD and any state-specific Addendum to the FDD?
Yes _____ No _____

If no, what parts of the FDD and/or Addendum do you not understand? (Attach additional pages, if necessary.)

4. Have you received and personally reviewed the Regional Developer Agreement and each Addendum and related agreement attached to it?
Yes _____ No _____
5. Do you understand all of the information in the Regional Developer Agreement, each Addendum and related agreement provided to you?
Yes _____ No _____

If no, what parts of the Regional Developer Agreement, Addendum, and/or related agreement do you not understand? (Attach additional pages, if necessary.)

6. Have you entered into any binding agreement with the Franchisor for the purchase of this Regional Developer Business before being provided a copy of the FDD for fourteen (14) calendar days?
Yes _____ No _____

7. Have you paid any money to the Franchisor for the purchase of this Regional Developer Business before being provided a copy of the FDD for fourteen (14) calendar days?
Yes _____ No _____

8. Have you discussed the benefits and risks of establishing and operating a Regional Developer Business with your counsel or advisor?
Yes _____ No _____

If no, do you wish to have more time to do so?

Yes _____ No _____

9. Do you understand that the success or failure of your Regional Developer Business depends in large part on your skills and abilities, competition from other businesses, interest rates, inflation labor and supply costs, lease terms and other economic and business factors?

Yes _____ No _____

Except as disclosed in Item 19 of its Franchise Disclosure Document, the Franchisor does not make information available to prospective Regional Developers concerning actual, average, projected or forecasted sales, profits or earnings for a Regional Developer Business. The Franchisor does not furnish, or authorize its salespersons to furnish, any oral or written information concerning the actual, average, projected, forecasted sales, costs, income or profits of a Regional Developer Business. Franchisor specifically instructs its sales personnel, agents, employees and other officers that they are not permitted to make any claims or statements as to the earnings, sales, or profits, or prospects, or chances of success, nor are they authorized to represent or estimate dollar figures as to a Regional Developer's Business' operations. Actual results vary and are dependent on a variety of internal and external factors, some of which neither Regional Developer, nor Franchisor can estimate. To ensure that Franchisor's policies have been followed, please answer the following questions:

10. Has any employee, or other person speaking for the Franchisor, made any statement or promise to you regarding the total revenues a Regional Developer Business will generate that is contrary to the information in the FDD?
Yes _____ No _____

11. Has any employee, or other person speaking for the Franchisor, made any statement or promise of the amount of money or profit you may earn in operating a Regional Developer Business that is contrary to the information in the FDD?

Yes _____ No _____

12. Has any employee, or other person speaking for the Franchisor, promised you that you will be successful in operating a Regional Developer Business?

Yes _____ No _____

13. Has any employee, or other person speaking for the Franchisor, made any statement, promise or verbal agreement of about advertising, marketing, training, support service or other assistance that the Franchisor will furnish to you that is contrary to, or different from, the information in the FDD?

Yes _____ No _____

14. If you have answered "Yes" to any one of questions 10-13, please provide a full explanation of each "yes" answer. (Attach additional pages, if necessary, and refer to them below.) If you have answered "no" to each of questions 11-14, please leave the following lines blank.

I certify that my answers to the foregoing questions are true, correct and complete. These acknowledgments are not intended to act, nor shall they act, as a release, estoppel or waiver of any liability incurred under any applicable state's franchise registration or disclosure law.

REGIONAL DEVELOPER ("you")

By: _____

Print Name: _____

Title: _____

Date Received: _____

Date Signed: _____



THE JOINT CORP.
FRANCHISE AGREEMENT

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 - Exhibit 3 - Addendum to Lease Agreement
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 - Exhibit 5 - Franchisee Compliance Questionnaire
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-

THE JOINT CORP.
FRANCHISE AGREEMENT

This Franchise Agreement (this or the “Agreement”) is being entered into effective as of the ____ day of _____, 20__ (the “Agreement Date”). The parties to this Agreement are The Joint Corp., a Delaware corporation (“we,” “us,” the “Company,” or “The Joint®”); _____, (“you” or “Franchisee”), and, if you are a partnership, corporation, or limited liability company, your “Owners” (defined below).

1. INTRODUCTION.

This Agreement has been written in an informal style in order to make it more easily readable and to be sure that you become thoroughly familiar with all of the important rights and obligations the Agreement covers before you sign it. This Agreement includes several exhibits, all of which are legally binding and are an integral part of the complete Franchise Agreement. If you are a corporation, partnership or limited liability company, you will notice certain provisions that are applicable to those principal shareholders, partners or members on whose business skill, financial capability and personal character we are relying in entering into this Agreement. Those individuals will be referred to in this Agreement as “Owners.”

Through the expenditure of considerable time, effort and money, we and our affiliates have devised a system for the establishment and operation of a The Joint® franchise business model, at chiropractic location that specializes in affordable, convenient, and accessible chiropractic care. It is our mission “to improve the quality of life through affordable, routine Chiropractic care.” The clinic environment is intended to be inviting, approachable and the atmosphere intended to be welcoming and where no appointments are necessary (all of these characteristics, amongst others, are referred to in this Agreement as the “System”). This business model includes a location model that offers all of our franchised services and products (individually, a “Location Franchise” and collectively, “Location Franchises”). We refer to the owner(s) of Location Franchise(s) generally as a “franchisee(s)”. We are a private pay model and currently do not accept insurance. We identify the System by the use of certain trademarks, service marks and other commercial symbols, including the marks “The Joint ®”, “The Joint...the chiropractic place®” “The Joint Chiropractic®” and certain associated designs, artwork and logos, which we may change or add to from time to time (the “Marks”).

From time to time we grant to persons who meet our qualifications, franchises to own and operate a Location Franchise business that will operate and/or manage clinics (as allowed by applicable law) that specialize in providing chiropractic services and products to the general public through licensed chiropractic professionals (referred to as “Clinic(s)”). This Agreement is being presented to you because of the desire you have expressed to obtain the right to develop, own, and be franchised to operate a Location Franchise (we will refer to your Location Franchise as the “Franchise” or the “Franchised Business”). You may purchase and operate your Franchise as a new, start-up (a “Start-up Location Franchise”), or may convert an existing chiropractic practice (a “Conversion

Location Franchise“). In signing this Agreement, you acknowledge that you have conducted an independent investigation of The Joint’s franchise business model, and recognize and acknowledge that, like any other business, the nature of it may evolve and change over time, AND that an investment in a The Joint® franchise involves business risks, and that the success of this business venture is primarily dependent on YOUR business abilities and efforts.

We expressly disclaim making, and you acknowledge that you have not received nor have you relied on, nor consider any of the information supplied to be any guarantee, express or implied, as to your potential revenues, profits, performance or likelihood of success of The Joint® franchise business venture contemplated by this Agreement. You acknowledge that there have been no representations by us or our affiliates or our or their respective officers, directors, members, employees, or agents that are inconsistent with the statements made in our current Franchise Disclosure Document concerning the Franchised Business, or the provisions of this Agreement. You further represent to us, that as an inducement of our entering into this Agreement with you, there have been no misrepresentations to us in your application for the rights granted by this Agreement, or in the financial information provided by you and your Owners.

2. GRANT OF FRANCHISE.

2.1 Term: Reference to Exhibit 1.

You have applied for a franchise to own and operate a Location Franchise, and we have approved your application in reliance on all of the representations you made in that application. As a result, and subject to the provisions of this Agreement, we grant to you a Franchise to operate a Location Franchise that offers the products, services, and proprietary programs of ours, all to be used in accordance with all elements, rules and regulations of the System, that we may require for Location Franchises and in accordance with all manner of law and applicable regulations as relate to the chiropractic profession.

You must operate the Franchise at a mutually agreeable site (the “Premises”) that is approved by the Company and which is to be identified and secured by you after the signing of this Agreement, and to thereafter use the System and the Marks in the operation of that Franchise, for a term of 10 years (the “Initial Term”) in strict accordance with its terms. The Initial Term will begin on the Agreement Date. (For convenience, the expiration date of the Initial Term is listed on Exhibit 1.) Termination or expiration of this Agreement will constitute a termination or expiration of your Franchise. (All references to the “term” of this Agreement refer to the period from the Agreement Date to the date on which this Agreement actually terminates or expires.)

2.2 Full Term Performance.

You specifically agree to be obligated to operate the Franchise, perform the obligations of this Agreement, and continuously exert your best efforts to promote and enhance the business of the Franchise for the full term of this Agreement.

2.3 Management Agreement with Professional Corporation – Non-Licensed Franchisees.

If you are not a licensed chiropractor, prior to commencing operations of the Franchised Business, you must enter into a management agreement (“Management Agreement”) with a duly formed and licensed chiropractic professional corporation (or a professional limited liability company, if permitted in the state in which the Clinic is located), (a “P.C.”), whereby you will provide to the P.C., non-chiropractic directive management and administrative services and support, consistent with the System and the lawful operation of a P.C., all of which shall at all times be in compliance with all applicable laws and regulations as relates to the practice of chiropractic medicine. A form of Management Agreement, is included as an Exhibit to our Disclosure Document, which must be reviewed and revised by your local attorney to ensure compliance with all local and state legal specifications.

The P.C. shall employ and control the chiropractors and other chiropractic personnel that will provide the actual chiropractic services required to be delivered at and through the Clinic. You shall not provide any actual chiropractic services, nor shall you, direct, control or suggest to the P.C. or its chiropractors or employees the manner in which the P.C. provides or may provide actual chiropractic services to its patients or market to the public that anyone other than the P.C. is the owner/operator of the chiropractic practice to whom you provide management and business services.

Due to various federal and state laws regarding the practice of chiropractic medicine, and the ownership and operation of chiropractic practices and health care businesses that provide chiropractic services, you understand and acknowledge that you, as a non-chiropractor Franchisee, shall not engage in any practice that is, or may appear to be, the practice of chiropractic medicine. You acknowledge that the P.C. must offer all chiropractic services in accordance with all manner of law and regulation and that the Management Agreement and your relationship with the P.C. shall also be in accordance with all law and regulation and the System. It is your sole responsibility to operate in compliance with all applicable state and federal laws in relation to privacy and security of individually identifiable information.

It is your responsibility to, promptly and timely, source a duly formed and licensed P.C. for your Franchise location and enter into an approved Management Agreement with that P.C. Failure to do so will result in your inability to open your Franchise location. You must submit the duly formed P.C. and the credentials of the chiropractor or other authorized professionals of the licensed P.C. for our review and approval. You must enter into a management agreement with the P.C. for your Franchise location using our standard form of Management Agreement. While you must use our standard form of Management Agreement with the P.C., you may negotiate the monetary terms, and with our written consent, certain other terms of the agreement with the P.C. We will not unreasonably withhold our approval to request changes in the Management Agreement if such changes are consistent with applicable law and regulation and the System. You must obtain our written approval of the final Management Agreement prior to your execution. You shall ensure that the P.C. offers all chiropractic services in accordance with the Management Agreement and the System and is compliant with all manner of law and regulation. You must have a Management Agreement in effect with a P.C. at all times during the operation of the Franchised Business and during the Initial Term of this Agreement.

If you are a licensed chiropractor, or part of a P.C. owned by licensed chiropractors, you do not need to execute a Management Agreement. However, you are still responsible for compliance with all manner of law and regulation applicable to the operation of a chiropractic Clinic and your Location Franchise.

2.4 Waiver of Management Agreement.

In certain states, it may be permissible under existing law applicable to chiropractic professionals and/or practices or chiropractic clinics, for a non-chiropractor to both own and operate a Clinic and a Location Franchise. Certain of those laws may also allow a non-chiropractor or non-P.C. to hire chiropractic and other professional personnel to provide chiropractic services to patients at the Clinic in accordance with chiropractic regulation. If you determine that the laws that would apply to a Clinic in your state would permit you to do so, you may request that we waive certain of the requirements of the Franchise Agreement related to the separating of the ownership and/or operation of the chiropractic aspects of the Clinic from the general business management aspects. In particular, you, under those circumstances (i) would not enter into a Management Agreement with a P.C. that, as a separate entity, would otherwise operate the Clinic and provide all chiropractic services, and (ii) you would not be restricted from hiring and supervising chiropractic professionals in accordance with that state's regulation. Please be advised that any waiver, or modification of any of the other referenced requirements, will remain subject to compliance with all applicable laws and regulations. In such an event, and if we agree that such a waiver is appropriate, you must enter into an Amendment to Waive Management Agreement ("Waiver Agreement"), a copy of which is attached as an exhibit to our Disclosure Document. Under the Waiver Agreement, you will agree that, in lieu of entering into the Management Agreement with a P.C., you will (a) cause the Clinic to operate in accordance with all manner of law and regulation as relates to the practice of chiropractic and the standards for operating a chiropractic clinic, and (b) manage the Clinic as required in this Agreement, the System, and by performing all the responsibilities and obligations of the "Company" under the Management Agreement.

You are responsible for operating in full and complete compliance with all laws that apply to operating/managing a chiropractic Clinic in the state of your Franchise location. You must conduct your own diligence and make your own determination as to the required regulatory standards to be legally compliant to own or manage or operate a chiropractic clinic at your location. Please be advised, the laws applicable to your Clinic may change. If there are any chiropractic regulations or other laws that would render your operation of the Clinic through a single entity (or otherwise) in violation of any applicable medical or chiropractic regulation, you must immediately advise us of such change and of your proposed corrective action to comply with current chiropractic or applicable medical regulation, including (if applicable), but not limited to, entering into a Management Agreement with a P.C. Similarly, if we discover a change in any such law or regulation applicable to your Clinic, upon providing you notice of such law or regulation,, you agree to immediately make such changes as are necessary to comply with the applicable medical or chiropractic regulation, including (if applicable), but not limited to, entering into a Management Agreement with a P.C..

2.5 Selection of Premises; Protected Territory; Reservation of Rights.

You and we will mutually select the location of the Premises upon or after the signing of this Agreement. You acknowledge that the Franchise granted by this Agreement gives you the right to operate your Franchise only at the Premises. We will grant you a protected territory (“the Protected Territory”). We will define the Protected Territory in an addendum to this Agreement after you select and we approve the site for your Location Franchise. Typically, the Protected Territory will include between 10,000 to 30,000 households as defined by the natural traffic and trade patterns of your approved site. We will describe the Protected Territory using either longitude and latitude coordinates or a map that will show in general terms the fixed geographical boundaries (such as rivers, streets or highways). The geographic size of the Protected Territory will vary based upon population density and a variety of demographic factors. In dense urban areas, the Protected Territory may encompass a city block or less, and at Non-Traditional Sites, we might limit your Protected Territory to the site of your Location Franchise. In less dense suburban areas, the Protected Territory could include an entire municipality. For purposes of this Agreement, a “Non-Traditional Site” means any site or channel that generates customer traffic flow that is independent from the general customer traffic flow of the surrounding area, including on or within the confines or premises of military bases, shopping malls or centers, airports, stadiums, major industrial or office complexes, parking lots or structures, mobile vehicles, airports, hotels, resorts, school campuses, train stations, travel plazas, toll roads, casinos, hospitals, theme parks, and sports or entertainment venues. We would expect to grant franchises for Non-Traditional Sites in self-contained locations such as college or university campuses, airports, hospitals, or sports arenas.

We will not modify your Protected Territory during the franchise term. If you intend to renew or transfer the franchise, and your Protected Territory is larger than our then-current standard size for territories or the then-current demographics of your Protected Territory have changed, then we may reduce the size of your Protected Territory on renewal or require your transferee to operate the Location Franchise in a smaller territory. If we reduce the Protected Territory, we will give you or your transferee the option (as applicable) to develop the remaining territory.

If you are in full compliance with the Franchise Agreement, then during the Franchise Agreement term, neither we nor our affiliates will operate or grant a franchise for the operation of another Location Franchise or a Company-owned outlet located within your Protected Territory (except for Location Franchises at Non-Traditional Sites) that offers the same or similar goods or services under the same or similar trademarks. Because we retain the ability to operate or grant others the right to operate Location Franchises at Non-Traditional Sites in your Protected Territory, you will not receive an exclusive territory. You may face competition from other Franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

We and our affiliates reserve the right to engage in any activities we deem appropriate that your Franchise Agreement does not expressly prohibit, whenever and wherever we desire, including the right to (1) own, acquire, site build, or operate, for our own account, or grant to others the right to operate Location Franchises on terms and conditions and at locations we deem appropriate outside of your Protected Territory; (2) to grant Regional

Developer franchises which may encompass the area where your site is located; (3) provide or grant other persons the right to provide goods and services that are similar to and/or competitive with those provided by Location Franchises through any distribution channel, including, but not limited to, sales via mail order, catalog, toll-free telephone numbers, and electronic means, including the Internet under the Marks or trademarks and services marks other than the Marks; (4) acquire the assets or ownership interest of businesses providing products and services similar to those provided at Location Franchises, and franchising, licensing, or creating similar arrangements with respect to those acquired businesses, wherever those businesses or their Franchisees or licensees are located; and (5) being acquired (regardless of the form of transaction) by a business providing products and services similar to those provided at Location Franchises or another business.

2.6 Renewal of Franchise.

(a) Franchisee's Right to Renew. Subject to the provisions of subparagraph 2.6(b) below, and provided you are not in default of any material terms of this Agreement or any other agreement(s) you may have with us, and if you have substantially complied with all provisions of this Agreement and all other agreements between us, then upon the expiration of the Initial Term, you will have the right to renew the Franchise for one (1) additional term of ten (10) years (the "Renewal Term"). Notwithstanding the foregoing, such right of renewal is expressly conditioned upon your having refreshed and refurbished the Premises, including the replacement of fixtures, furnishings, wall decor, furniture, equipment, and signs and otherwise modify the Franchise to be in compliance with current specifications and standards then applicable for Location Franchises within thirty (30) days prior to the commencement of the Renewal Term. In addition, we have the right, in our sole discretion, to withhold our consent in the event you have received any email or letter from us notifying you of a breach of this Agreement, the Operations Manual or any other agreement with us (or similar reporting email or letter communications) and have failed to timely or satisfactorily cure the applicable breach in accordance with our instructions.

(b) Notice of Deficiencies and Other Requirements. At least one (1) year before the expiration of the Initial Term, we agree to give you written notice of any deficiencies in your operation or in the historical performance, marketing and revenue generation of the Franchise that could cause us not to renew the Franchise. Such notice will state what actions, if any, you must take to correct the deficiencies in your operation of the Franchise or of the Premises, and will specify the time period in which those deficiencies must be corrected or other requirements satisfied so that we may grant a renewal. Renewal of the Franchise will be conditioned upon your correction of the cited deficiencies and on your compliance with all the terms and conditions of this Agreement up to the date of expiration. If you are in default of any provisions of the Agreement or related agreements, you will not be granted a right to renew your Franchise. If we send a notice of non-renewal, it will state the reasons for our refusal to renew.

(c) Renewal Agreement. Should you choose to seek to renew the Franchise, you must provide us with written notice of that intent no earlier than two (2) years and no later than one (1) year before the expiration of the Initial Term. **Should you be granted a right to renew the Franchise as set forth above, the Company, you and**

your Owners must execute the then current form of Franchise Agreement and any ancillary agreements with appropriate modification memorializing that a renewal fee will be due and payable and not the current, initial franchise fee. Said renewal fee shall equal 25% of the then-current initial franchise fee for a Location Franchise.

2.7 Personal Guaranty by Owners: Reference to Exhibit 2.

Each of the Owners and their spouses (where applicable), will be required to execute a personal guaranty (the "Guaranty"), guaranteeing the Franchise's liabilities and obligations to the Company. A copy of the Guaranty and Assumption of Obligations is incorporated herein as **Exhibit 2**.

3. DEVELOPMENT AND OPENING OF THE FRANCHISE

3.1 Site Approval; Lease or Purchase of Premises; Opening Timeline; Reference to Exhibit 3.

(a) You must locate and select a proposed site for the Premises that is acceptable and approved by us as suitable for the operation of a Location Franchise. Your proposed site must be submitted with the required documentation in accordance with our policies and procedures, and must be reviewed and approved by us. Acceptance of a proposed site shall be at our sole and absolute discretion and shall not constitute, nor be deemed, a judgment as to the likelihood of success of a Location Franchise at such location, or a judgment as to the relative desirability of such location in comparison to other locations. We will accept or reject a proposed site within fifteen business (15) days of receipt of a completed site submission package, as same may be defined and modified by us from time to time in our sole and absolute discretion. **Your failure to submit a completed site approval package with the required information, and/or failure to secure an acceptance from us for a proposed Site for the Premises in a timely manner shall NOT be reason for extending the Opening Deadline set forth in this Franchise Agreement.**

(b) Following our acceptance of your site submittal package, you must obtain lawful possession of the Premises by executing a lease for the Premises ("the Lease"). Prior to your executing the Lease, and as a condition of our acceptance, be advised that the Lease for the Premises MUST include the form of Addendum to Lease, attached as Exhibit 3 to the Franchise Agreement, and which provides us amongst other things, requisite notice from the Landlord to the Franchisor for any defaults under your lease, and expressly permits us to take possession of the Premises under certain conditions and/or if this Agreement is terminated or if you violate the terms of the Lease. Before executing a lease, you must submit it to us for review. You agree that you will not execute a lease without our advance written approval of the lease terms which must specifically include the designated form of Franchisor rider or additional required lease language.

(c) Unless we agree otherwise, you must open your franchise for business no later than the Opening Deadline set forth in Exhibit 1 to this Agreement. If no Opening Deadline is set forth in Exhibit 1, then the Opening Deadline shall be deemed to be two-hundred and forty (240) days from the Agreement Date. If you are

delayed from opening your Location Franchise by the Opening Deadline, you must immediately provide us with a written request to extend the deadline, which we may grant or withhold in our sole discretion. The request must state: (1) that a delay is anticipated; (2) the reasons which caused the delay; (3) the efforts that you are making to proceed with the opening; and (4) an anticipated opening date. In considering the request, we will not unreasonably withhold our consent to a delay if you have been diligently pursuing the opening.

Unless we agree to extend the Opening Deadline, if you do not open your Franchise for business by the Opening Deadline, you will be considered in default of your Franchise Agreement. Upon receipt of written notice from us of such default, you must cure such default by opening your Franchise for business no more than one ninety (90) days after receipt of such notice, or one hundred and eighty (180) days after the Opening Deadline, whichever occurs first. If you fail to cure your default, we have the right to immediately terminate your Franchise.

Regardless of whether you open your Franchise for business by the Opening Deadline, you are obligated to pay us the minimum Royalty Fee of \$700 due under Section 6.2 of this Agreement, thirty (30) days after the Opening Deadline. If you open your Franchise for business earlier than the Opening Deadline, you are obligated to pay us the minimum Royalty Fee of \$700 due under Section 6.2 of this Agreement on the first day of the month following the partial month you opened your Franchise for business. **If you fail to pay the minimum Royalty Fee due during the time you are in default of this Section 3.1(c), and do not cure such default after receipt of ten (10) days written notice from us of such default, we may immediately terminate your Franchise.**

3.2 Prototype and Construction Plans and Specifications.

Upon receipt from you of completed pre-construction forms and as-built drawings of the Location, we shall provide to Franchisee a Clinic floor plan design for the Location containing floor plan, demising and interior wall locations, flooring specification, ceiling specification, furnishing, fixture, and equipment location and specification (hereby known as "Clinic Schematic"). The Franchisee will receive the Joint's design requirements, including building specifications (locations of walls, counters, retail displays, fixtures, and equipment) (the "Clinic Design"). We do not represent or warrant design compliance with Applicable Laws, including the Americans with Disabilities Act ("ADA"). Franchisee shall, at its sole cost and expense, ensure that the Clinic Design complies with all Applicable Laws (including the ADA), and Franchisee shall obtain any required architectural seals, engineering seals and other required approvals. The cost of any leasehold improvements, equipment, fixtures and displays, and of any architectural and engineering drawings, are Franchisee's sole responsibility. Franchisee must utilize The Joint's design department to prepare and complete all construction drawings for new Centers, remodels, relocations, Kiosks and upgrades, which services shall be subject to The Joint's then-current fees, as described in the Manuals.

In order to address and adapt to ever-changing economic and marketplace conditions and consumer expectations and demands, we may throughout the Term consider and test, and in its sole judgment implement, modifications to the design, appearance, branding, and/or layout of The Joint Clinics. Franchisee therefore

acknowledges that, after construction and development of its Clinics, we might choose to implement modifications to the design, appearance, branding, and/or layout of The Joint Clinics, as a result of which Franchisee's Clinic Design may no longer be the latest design specification for The Joint Clinics. Whether or not Franchisee is required or chooses to modify its Clinic Design during the Term to the new design, as provided elsewhere in this Agreement, nothing in this Agreement prevents The Joint at any time from implementing modifications to the design, appearance, branding, and/or layout of The Joint's Clinics in its sole judgment, and Franchisee agrees it will have no claim against The Joint or any Affiliate of The Joint if Franchisee's Clinic Design is not then the latest design for The Joint Chiropractic Clinic.

3.3 Development of the Franchise.

You agree at your own expense to do the following by the Opening Deadline defined in Exhibit 1: (1) secure all financing required operating and development capital to fully develop, fund and operate the Franchise in accordance with this Agreement and the System; (2) obtain all required building, utility, sign, health, sanitation and business permits and licenses and any other required permits and licenses necessary to operate a Clinic at the location; (3) construct the Franchise location according to the approved construction plans and specifications; (4) decorate the Franchise location in compliance with the approved plans and specifications; (5) purchase and install all required equipment, furniture, furnishings and signs; (6) cause the training requirements of Section 4 to be completed; (7) purchase an opening inventory of products and other supplies and materials; (8) provide proof, in a form satisfactory to us, that your operation of the Franchise at the Franchise location does not violate any applicable state or local zoning or land use laws, ordinances, or regulations, or any restrictive covenants that apply to such location; (9) provide proof, in a form satisfactory to us, that you (and/or your General Manager, as defined in Section 4.1, if any) are legally authorized and have all licenses necessary to perform all of the services to be offered by your Franchise, and that your organizational structure is consistent with all legal requirements, including but not limited to any required affiliation with a P.C. and/or management company; (10) provide proof, in a format satisfactory to us, that you have obtained all required insurance policies, and have named us, as an additional insurance under all such policies; (11) submit to us a completed copy of the grand opening checklist we provide to you; (12) do any other acts necessary to open the Franchise for business; (13) obtain our approval to open the Franchise for business; and (14) open the Franchise for business.

3.4 Computer System.

(a) General Requirements. You agree to exclusively use in the development and operation of the Franchise the computer terminals/billing systems and operating software ("Computer System") that we specify from time to time. You acknowledge that we may modify such specifications and the components of the Computer System from time to time. As part of the Computer System, we may require you to obtain specified computer hardware and/or software, including without limitation a license to use proprietary software developed by us or others. Our modification of such specifications for the components of the Computer System may require you to incur costs to purchase, lease and/or obtain by license new or modified computer hardware and/or software, and to

obtain service and support for the Computer System during the term of this Agreement. You acknowledge that we cannot estimate the future costs of the Computer System (or additions or modifications thereto), and that the cost to you of obtaining the Computer System (or additions or modifications thereto), including software, may not be fully amortizable over the remaining term of this Agreement. Nonetheless, you agree to incur such costs in connection with obtaining the computer hardware and software comprising the Computer System (or additions or modifications thereto). Within sixty (60) days after you receive notice from us, you agree to obtain the components of the Computer System that we designate and require. You further acknowledge and agree that we and our affiliates have the right to charge a reasonable systems fee for software or systems installation services; modifications and enhancements specifically made for us or our affiliates that are licensed to you; and other maintenance and support Computer System-related services that we or our affiliates furnish to you. You will have sole responsibility for: (1) the acquisition, operation, maintenance, and upgrading of your Computer System; (2) the manner in which your Computer System interfaces with our computer system and those of third parties; and (3) any and all consequences that may arise if your Computer System is not properly operated, maintained, and upgraded.

(b) Software. As a Franchisee of The Joint®, we will provide to you our proprietary office management software (the “Joint Software”), which you will be required to install onto the Computer System and use in the daily operation of the Franchise. In addition, we may, at any time and from time to time, contract with one or more software providers, business service providers, or other third parties (individually, a “Service Provider”) to develop, license, or otherwise provide to or for the use and benefit of you and other Location Franchises, certain software, software applications, and software maintenance and support services related to the Computer System that you must or may use in accordance with our instructions with respect to your Computer System.

3.5 Equipment, Furniture, Fixtures, Furnishings and Signs.

You agree to use in the development and operation of the Franchise only those brands, types, and/or models of equipment, furniture, fixtures, furnishings, and signs we have approved.

3.6 Franchise Opening.

You agree not to open the Franchise for business until: (1) all of your obligations under Paragraphs 3.1 through 3.4 of this Section have been fulfilled; (2) we determine that the Franchise has been constructed, decorated, furnished, equipped, and stocked with materials and supplies in accordance with plans and specifications we have provided or approved; (3) you and any of your Franchise’s employees whom we require complete our pre-opening Initial Training (as defined herein) to our satisfaction; (4) the Initial Franchise Fee (as defined herein) and all other amounts due to us have been paid; (5) you have furnished us with copies of all insurance policies required by Paragraph 10.8 of this Agreement, or have provided us with appropriate alternative evidence of insurance coverage and payment of premiums as we have requested; (6) You have, if required, entered into a management agreement relationship with a duly formed and licensed P.C. and (7) we have approved any marketing, advertising, and promotional materials you desire to use, as provided in Paragraph 11.2 of this Agreement.

The Company will provide, at our expense, an opening supervisor to be on site at your Location Franchise to assist you with your operational efficiency, staff training, Location Franchise setup and grand opening. The opening supervisor will be on site one (1) day before the opening of your first Location Franchise and for one (1) day after the opening of your first Location Franchise.

4. TRAINING.

4.1 General Manager.

At your request, we may, but are not obligated to, agree for you to employ a general manager to operate the Franchise (“General Manager”). The term “General Manager” means an individual with primary day-to-day responsibility for the Franchise’s operations, and may or may not be you (if you are an individual) or an Owner, officer, director, or employee of yours (if you are other than an individual). We may or may not require that the General Manager have an equity interest in the Franchise. The General Manager will be obligated to devote his or her full time, best efforts, and constant personal attention to the Franchise’s operations, and must have full authority from you to implement the System at the Franchise. You must not hire any General Manager or successor General Manager without first receiving our written approval of such General Manager’s qualifications. Each General Manager and successor General Manager must attend and complete our Initial Training (as defined herein). No General Manager may have any interest in or business relationship with any business competitor of your franchise. Each General Manager must sign a written agreement, in a form approved by us, to maintain confidential our Confidential Information described in Paragraph 9.1, and to abide by the covenants not to compete described in Paragraph 9.3. You must forward to us a copy of each such signed agreement. If we determine, in our sole discretion, during or following completion of the Initial Training program, that your General Manager (if any) is not qualified to act as General Manager of the Franchise, then we have the right to require you to choose (and obtain our approval of) a new individual for that position.

4.2 Training.

You acknowledge that it is very important to the operation of the Franchise that you and your employees receive appropriate training. To that end, you agree as follows:

(a) No later than thirty (30) days before the Franchise opens for business, you must attend our initial training program for your Franchise (the “Initial Training”) at the time and place we designate. You (if you are an individual) or at least one of your Owners (if you are a legal entity) must complete the Initial Training to our satisfaction. If you employ a General Manager other than yourself or one of your Owners, that General Manager must also complete the Initial Training to our satisfaction. Other employees may complete the Initial Training at your sole discretion and expense, provided you first obtain our approval and subject to availability of facilities and materials. The Initial Training may include classroom instruction and Location Franchise operation training, and will be furnished at our training facility in Scottsdale, Arizona, your Franchise Location, and/or at another certified training location we designate. Our Initial Training programs may be different for each employee depending on their responsibilities at the Franchise. There will be no tuition charge for the persons whom we require to attend

any Initial Training program or for any additional personnel of your choosing. All persons who attend our Initial Training must attend and complete the Initial Training to our satisfaction. If we, in our sole discretion, determine that any General Manager or employee who attends any Initial Training program is unable to satisfactorily complete such program, then you must not allow that person to work at your Location Franchise, and must identify a substitute General Manager or employee who must enroll in the Initial Training program within fifteen (15) days thereafter, and complete the Initial Training to our satisfaction.

(b) You agree to attend, and have your General Manager (if applicable and desired) and/or other employees who you have had attend our Initial Training, complete such additional training programs at places and times as we may request from time to time during the term of this Agreement.

(c) In addition to providing the Initial Training described above, we reserve the right to offer and hold such additional ongoing training programs (and Franchisee meetings regarding such topics and at such times and locations as we may deem necessary or appropriate. We also reserve the right to make any of these training programs mandatory for you and/or designated owners, and/or representatives of yours, including your General Manager (if any). We reserve the right to charge you a daily attendance fee in an amount to be set by us for each attendee of yours who attends any mandatory or optional training program or owners meeting. If we offer any such mandatory training programs, then you or your designated personnel must attend.

(d) You agree to pay all wages and compensation owed to, and travel, lodging, meal, transportation, and personal expenses incurred by, all of your personnel who attend our Initial Training and/or any mandatory or optional training we provide.

(e) We may require your employees to periodically and on an ongoing basis take and pass an online computer training course and/or exam. While there is no cost to take such training, we may require all employees and staff to pass such training to our satisfaction before they may begin working at your Franchise location.

(f) The Franchisee's General Manager (if any) and other employees shall obtain all certifications and licenses required by law in order to perform their responsibilities and duties for the Franchise.

5. GUIDANCE; OPERATIONS MANUAL.

5.1 Guidance and Assistance.

During the term of this Agreement, we may from time to time furnish you guidance and assistance with respect to: (1) specifications, standards, and operating procedures used by Location Franchises; (2) purchasing approved equipment, furniture, furnishings, signs, materials and supplies; (3) development and implementation of local advertising and promotional programs; (4) general operating and management procedures; (5) establishing and conducting employee training programs for your Franchise; and (6) changes in any of the above that occur from time to time. This guidance and assistance may, in our discretion, be furnished in the form of bulletins, written reports and recommendations, operations manuals and other written materials (the "Operations Manual"), and/or

telephone consultations and/or personal consultations at our offices or your Franchise. If you request—and if we agree to provide—any additional, special on-premises training of your personnel or other assistance in operating your Franchise, then you agree to pay a daily training fee in an amount to be set by us, and all expenses we incur in providing such training or assistance, including any wages or compensation owed to, and travel, lodging, transportation, and living expenses incurred by, our Company personnel.

5.2 Operations Manual.

The Operations Manual we lend to you will contain mandatory and suggested specifications, standards, and operating procedures that we prescribe from time to time for your Franchise, as well as information relative to other obligations you have in the operation of the Franchise. The Operations Manual may be composed of or include audio recordings, video recordings, computer disks, compact disks, and/or other written or intangible materials. We may make all or part of the Manual available to you through various means, including the Internet. A previously delivered Operations Manual may be superseded from time to time with replacement materials to reflect changes in the specifications, standards, operating procedures and other obligations in operating the Franchise, you must keep your copy of the Operations Manual current. If you and we have a dispute over the contents of the Manual, then our master copy of the Manual will control. You agree that you will not at any time copy any part of the Operations Manual, permit it to be copied, disclose it to anyone not having a need to know its contents for purposes of operating your Franchise, or remove it from the Franchise location without our permission.

5.3 Modifications to System.

We will continually be reviewing and analyzing developments in the healthcare, and chiropractic industries, as well as developments in fields related to small-business management, and based upon our evaluation of this information, may make changes in the System, including but not limited to, adding new components to services offered and equipment used by Location Franchises. Moreover, changes in laws regulating the services offered by Location Franchises may (a) require us to restructure our franchise program, (b) require your General Manager (if any) and employees to obtain additional licenses or certifications, (c) require you to retain or establish relationships with additional professionals and specialists in the chiropractic and/or healthcare industries, and/or (d) require you to modify your ownership or organizational structure. You agree, at our request, to modify the operation of the Franchise to comply with all such changes, and to be solely responsible for all related costs.

5.4 Advisory Councils.

You agree to participate in, and, if required, become a member of any advisory councils or similar organizations we form or organize for Location Franchises. We may, in our sole discretion, change or dissolve any advisory councils or similar organization we have formed or organized.

6. FEES AND COSTS.

6.1 Initial Franchise Fee.

You agree to pay us the initial franchise fee of Thirty-Nine Thousand and Nine Hundred Dollars (\$39,900.00) (the “Initial Franchise Fee”) when you sign this Agreement. In recognition of the expenses we incur in furnishing assistance and services to you, you agree that we will have fully earned the Initial Franchise Fee, and that is due and non-refundable when you sign this Agreement.

6.2 Royalty Fee.

You agree to pay us a continuing franchise royalty fee (“Royalty Fee”) in the amount of seven percent (7%) of the gross revenues of the Franchise for all periods, with a minimum monthly amount of Seven Hundred and No/100 Dollars (\$700.00). This fee will be payable on the 1st and 16th of each month based on the Franchise’s gross revenues. If the 1st or 16th of the month fall on a weekend or holiday, then the fee is payable on the next business day. If, at the end of any calendar month, the total Royalty Fee collected for the preceding month is less than \$700.00, the difference between the amount collected and \$700.00 shall be due on the tenth (10th) day of the following month. You are obligated to pay us the minimum Royalty Fee of \$700.00 due under this Section, thirty (30) days after you open your Franchise for business, or thirty (30) days after your Opening Deadline, whichever occurs first. If you open your Franchise for business prior to the Opening Deadline you are obligated to pay us the minimum Royalty Fee on the first day of the month following the partial month in which you opened your Franchise for business. If you fail to open your Franchise for business by the Opening Deadline, you will be obligated to pay us the minimum Royalty Fee thirty (30) days after your Opening Deadline. The terms “gross revenues” shall, for purposes of this Agreement, mean the total of all revenue and receipts derived from the operation of the Franchise, including all amounts received at or away from the site of the Franchise, or through the business the Franchise conducts (such as fees for chiropractic care, fees for the sale of any service or product, gift certificate sales, and revenue derived from products sales, whether in cash or by check, credit card, debit card, barter or exchange, or other credit transactions); and excludes only sales taxes collected from customers and paid to the appropriate taxing authority, and all customer refunds and credits the Franchise actually makes. For the avoidance of doubt, you specifically acknowledge that “gross revenues” includes the gross revenues of any P.C. or any of P.C.’s clinics that are managed by you pursuant to a Management Agreement, even if those revenues are not recognized on your books, and that you are responsible for determining those revenues and paying the Royalty Fee as if those revenues were recognized on your books. You and we acknowledge and agree that the Royalty Fee represents compensation paid by you to us for the guidance and assistance we provide and for the use of our Marks, Confidential Information (as defined herein), know-how, and other intellectual property we allow you to use under the terms of this Agreement. The Royalty Fee does not represent payment for the referral of customers to you, and you acknowledge and agree that the services we offer to you and our other The Joint® franchisees do not include the referral of customers.

6.3 Regional and National Advertising Fee.

Recognizing the value of advertising to the goodwill and public image of Location Franchises, we may, in our sole discretion, establish, maintain and administer one or more regional and/or national advertising funds (the "Ad Fund(s)") for such advertising, as we may deem necessary or appropriate in our sole discretion. However, we may choose to use only one Ad Fund to meet the needs of regional, multi-regional, and national advertising and promotional programs. You agree to contribute to the Ad Fund a percentage of gross revenues of the Franchise in an amount we designate, up to a maximum of two percent (2%) of the gross revenues of the Franchise. As of the date of this Agreement, the current required contribution to the Ad Fund is two percent (2%) of the gross revenues of the Franchise. These advertising fees ("Advertising Fees") will be payable with and at the same time as your Royalty Fees payable under Paragraph 6.2 above. A further description of the Ad Fund and your obligations with respect to advertising and promoting the Franchise is found in Section 11 of this Agreement.

6.4 Local Advertising.

(a) By Franchisee. In addition to the Advertising Fees set forth in Paragraph 6.3, which will be used by us to promote The Joint® on a regional and national level, you agree to spend a certain amount on advertising in your local market area. **This amount must equal the greater of (a) Three Thousand and No/100 Dollars (\$3,000.00) or (b) five percent (5%) of the Franchise's gross revenues for each month during the term of this Agreement (the "Minimum Local Advertising Requirement").** We may require you to use one or more required suppliers or vendors for your local advertising. All proposed local advertising must be submitted to and approved by us before you enter into any advertising agreements. You must provide us (in a form we approve or designate) evidence of your required local advertising, marketing and promotional expenditures by the thirtieth (30th) day of each month, for the preceding calendar month, along with a year-to-date report of the total amount spent on local advertising. We may require, at our absolute and sole discretion, that you submit an annual marketing plan with details on planned expenditures of local advertising dollars.

(b) Local and Regional Advertising Cooperative. In the event that more than one Location Franchise is located in a Designated Market Area ("DMA"), we reserve the right to form, or require you and the other The Joint® franchisees in the DMA to form, a local or regional advertising cooperative (the "Ad Co-op"). A DMA is a geographic area around a county in which the radio and television stations based in that county account for a greater proportion of the listening/viewing public than those based in the neighboring cities. We may require you to join any Ad Co-op and contribute to its funding. The amount you pay to your Ad Co-op is determined by the Co-op members. Amounts contributed to any Ad Co-op may be applied towards your Minimum Local Advertising Requirement set forth in Paragraphs 6.4(a) and 11.2.

6.5 Grand Opening Costs.

During the one hundred and twenty days (120) day period that begins thirty (30) days prior to the opening of your Franchise, and ends ninety (90) days after the opening of your Franchise (the "Grand Opening Period"),

you will be required to expend at least Fourteen Thousand and No/100 Dollars (\$14,000.00) in verifiable marketing costs to publicize the grand opening of your Franchise. These costs may include, but are not limited to, temporary signage, local advertising, flyers, promotions, digital advertising, giveaways and other promotions. You must submit for approval a plan for spending your Grand Opening advertising dollars, in advance of the Grand Opening Period. Upon conclusion of the Grand Opening Period, you must send to us a report detailing the amounts spent and that allocated to the particular medium to publicize the grand opening of your franchise during the Grand Opening Period. All proposed grand opening advertising must be submitted to and approved by us. At our request, you must provide us with any documentation we request showing that you have met the required spend for your Grand Opening.

6.6 Software and Programing Fees.

You are responsible for all costs associated with the purchase and installation of our proprietary software (“The Joint® Software”). **For each month during the term of this Agreement, the on-going license fee for the Joint Software is Five Hundred and Ninety-Nine Dollars (\$599.00)**, which will be debited from the Account on the fifth (5th) day of each month for the preceding month. **We reserve the right to increase the license fee for The Joint® Software to \$699.00 a month.** We will give you thirty (30) days prior written notice prior to increasing the cost of The Joint® Software fee, after which time, the new amount will be automatically debited from your account.

You are responsible for the cost to purchase and maintain any other software licenses or programs that we may require you to use in connection with your franchise.

6.7 Relocation Fee.

If you must relocate the Premises of your Location Franchise for any reason, you must pay to us a Franchise Relocation Fee (the “Relocation Fee”) of Two Thousand Five Hundred and No/100 Dollars (\$2,500.00). The Relocation Fee will help the Company defray the costs of approving a new location, reviewing and approving plans for the new location, and updating Company records and marketing materials to reflect the new location.

6.8 Late Payments.

All Royalty Fees, Advertising Fees, amounts due from you for purchases from us or our affiliates, and other amounts which you owe us or our affiliates (unless otherwise provided for in a separate agreement between us or our affiliates) will begin to accrue interest after their respective due dates at the lesser of (i) the highest commercial contract interest rate permitted by state law, and (ii) the rate of eighteen percent (18%) per annum. Payments due us or our affiliates will not be deemed received until such time as funds from the deposit of any check by us or our affiliates is collected from your account. You acknowledge that the inclusion of this Paragraph in this Agreement does not mean we agree to accept or condone late payments, nor does it indicate that we have any intention to extend credit to, or otherwise finance your operation of the Franchise. We have the right to require that any

payments due us or our affiliates be made by certified or cashier's check in the event that any payment by check is not honored by the bank upon which the check is drawn. **We also reserve the right to charge you a fee of Thirty-Five and No/100 Dollars (\$35.00) for any payment by check that is not honored by the bank upon which it is drawn or the maximum as permitted by law.**

6.9 Electronic Funds Transfer.

We have the right to require you to participate in an electronic funds transfer program under which Royalty Fees, Advertising Fees, and any other amounts payable or owed to us or our affiliates, including any administrative fees, are deducted or paid electronically from your bank account (the "Account"). In the event you are required to authorize us to initiate debit entries, you agree to make the funds available in the Account for withdrawal by electronic transfer no later than the payment due date. The amount actually transferred from the Account to pay Royalty Fees and Advertising Fees will be based on the Franchise's gross revenues as reported in the Franchise's practice management software. **If you have not properly input the Franchise's gross revenues for any reporting period, then we will be authorized to debit the Account in an amount equal to one hundred twenty percent (120%) of the Royalty Fee, Advertising Fee, and other amounts transferred from the Account for the last reporting period for which a report of the Franchise's gross revenues was provided to us. If at any time we determine that you have under-reported the Franchise's gross revenues or underpaid any Royalty Fee or Advertising Fee due us under this Agreement, then we will be authorized to initiate immediately a debit to the Account in the appropriate amount, plus applicable interest, in accordance with the foregoing procedure.** Any overpayment will be credited, without interest, against the Royalty Fee, Advertising Fee, and other amounts we otherwise would debit from your account during the following reporting period. Our use of electronic funds transfers as a method of collecting Royalty Fees and Advertising Fees due us does not constitute a waiver of any of your obligations to provide us with weekly reports as provided in Section 12, nor shall it be deemed a waiver of any of the rights and remedies available to us under this Agreement.

6.10 Application of Payments.

When we receive a payment from you, we have the right in our sole discretion to apply it as we see fit to any past due indebtedness of yours due to us or our affiliates, whether for Royalty Fees, Advertising Fees, purchases, interest, or for any other reason, regardless of how you may designate a particular payment should be applied.

6.11 Modification of Payments.

If, by operation of law or otherwise, any fees contemplated by this Agreement cannot be based upon gross revenues, then you and we agree to negotiate in good faith an alternative fee arrangement. If you and we are unable to reach an agreement on an alternative fee arrangement, then the Company reserves the right to terminate this Agreement upon notice to you, in which case all of the post-termination obligations set forth in Section 16 shall apply.

7. MARKS.

7.1 Ownership and Goodwill of Marks.

You acknowledge that your right to use the Marks is derived solely from this Agreement, and is limited to your operation of the Franchise pursuant to and in compliance with this Agreement and all applicable standards, specifications, and operating procedures we prescribe from time to time during the term of the Franchise. You understand and acknowledge that our right to regulate the use of the Marks includes, without limitation, any use of the Marks in any form of electronic media, such as Websites (as defined herein) or web pages, or as a domain name or electronic media identifier. If you make any unauthorized use of the Marks, it will constitute a breach of this Agreement and an infringement of our rights in and to the Marks. You acknowledge and agree that all your usage of the Marks and any goodwill established by your use will inure exclusively to our benefit and the benefit of our affiliates, and that this Agreement does not confer any goodwill or other interests in the Marks on you (other than the right to operate the Franchise in compliance with this Agreement). All provisions of this Agreement applicable to the Marks will apply to any additional trademarks, service marks, commercial symbols, designs, artwork, or logos we may authorize and/or license you to use during the term of this Agreement.

7.2 Limitations on Franchisee's Use of Marks.

You agree to use the Marks as the sole trade identification of the Franchise, except that you will display at the Franchise location a notice, in the form we prescribe, stating that you are the independent owner of the Franchise pursuant to a Franchise Agreement with us. You agree not to use any Mark as part of any corporate or trade name or with any prefix, suffix, or other modifying words, terms, designs, or symbols (other than logos and additional trade and service marks licensed to you under this Agreement), or in any modified form. You also shall not use any Mark or any commercial symbol similar to the Marks in connection with the performance or sale of any unauthorized services or products, or in any other manner we have not expressly authorized in writing. You agree to display the Marks in the manner we prescribe at the Franchise and in connection with advertising and marketing materials, and to use, along with the Marks, any notices of trade and service mark registrations we specify. You further agree to obtain any fictitious or assumed name registrations as may be required under applicable law.

7.3 Notification of Infringements and Claims.

You agree to immediately notify us in writing of any apparent infringement of or challenge to your use of any Mark, or claim by any person of any rights in any Mark or similar trade name, trademark, or service mark of which you become aware. You agree not to communicate with anyone except us and our counsel in connection with any such infringement, challenge, or claim. We have the right to exclusively control any litigation or other proceeding arising out of any actual or alleged infringement, challenge, or claim relating to any Mark. You agree to sign any documents, render any assistance, and do any acts that our attorneys say is necessary or advisable in order to protect and maintain our interests in any litigation or proceeding related to the Marks, or to otherwise protect and maintain our interests in the Marks.

7.4 Discontinuance of Use of Marks.

If it becomes advisable at any time in our sole judgment for the Franchise to modify or discontinue the use of any Mark, or use one or more additional or substitute trade or service marks, including the Marks used as the name of the Franchise, then you agree, at your sole expense, to comply with our directions to modify or otherwise discontinue the use of the Mark, or use one or more additional or substitute trade or service marks, within a reasonable time after our notice to you.

7.5 Indemnification of Franchisee.

We agree to indemnify you against, and reimburse you for, all damages for which you are held liable in any trademark infringement proceeding arising out of your use of any Mark pursuant to and in compliance with this Agreement, and for all costs you reasonably incur in the defense of any such claim in which you are named as a party, so long as you have timely notified us of the claim, and have otherwise complied with this Agreement.

8. RELATIONSHIP OF THE PARTIES: INDEMNIFICATION.

8.1 Independent Contractor: No Fiduciary Relationship.

This Agreement does not create a fiduciary relationship between you and us. You and we are independent contractors, and nothing in this Agreement is intended to make either party a general or special agent, joint venture, partner, or employee of the other for any purpose whatsoever. You agree to conspicuously identify yourself in all your dealings with customers, suppliers, public officials, Franchise personnel, and others as the owner of the Franchise pursuant to a Franchise Agreement with us, and to place any other notices of independent ownership on your forms, business cards, stationery, advertising, and other materials as we may require from time to time.

8.2 No Liability, No Warranties.

We have not authorized or empowered you to use the Marks except as provided by this Agreement, and you agree not to employ any of the Marks in signing any contract, check, purchase agreement, negotiable instrument or legal obligation, application for any license or permit, or in a manner that may result in liability to us for any indebtedness or obligation of yours. Except as expressly authorized by this Agreement, neither you nor we will make any express or implied agreements, warranties, guarantees or representations, or incur any debt, in the name of or on behalf of the other, or represent that your and our relationship is other than that of franchisor and Franchisee.

8.3 Indemnification.

We will not assume any liability or be deemed liable for any agreements, representations, or warranties you make that are not expressly authorized under this Agreement, nor will we be obligated for any damages to you or any person or property directly or indirectly arising out of the operation of the business you conduct pursuant to this Agreement, whether or not caused by your negligent or willful action or failure to act. We will have no liability for any sales, use, excise, income, gross receipts, property, or other taxes levied against you or your assets, or on us, in

connection with the business you conduct, or any payments you make to us pursuant to this Agreement (except for our own income taxes). We will not assume any liability or be deemed liable for any agreements you enter with any third parties, whether or not they are an approved or required vendor. You agree to indemnify, defend, and hold us, our affiliates and our and their respective owners, directors, officers, employees, agents, successors, and assigns (individually, an "Indemnified Party," and collectively, the "Indemnified Parties"), harmless against, and to reimburse such Indemnified Parties for, all such obligations, damages, and taxes for which any Indemnified Party may be held liable, and for all costs the Indemnified Party reasonably may incur in the defense of any such claim brought against the Indemnified Party, or in any such action in which the Indemnified Party may be named as a party, including without limitation actual and consequential damages; reasonable attorneys', accountants', and/or expert witness fees; cost of investigation and proof of facts; court costs; other litigation expenses; and travel and living expenses. Each Indemnified Party has the right to defend any such claim against the Indemnified Party. You further agree to hold us harmless and indemnify and defend us for all costs, expenses, and/or losses we incur in enforcing the provisions of this Agreement, defending our actions taken relating to this Agreement, or resulting from your breach of this Agreement, including without limitation reasonable attorneys' fees (including those for appeal), unless, after legal proceedings are completed, you are found to have fulfilled and complied with all of the terms of this Agreement. Your indemnification obligations described above will continue in full force and effect after, and notwithstanding, the expiration or termination of this Agreement.

9. CONFIDENTIAL INFORMATION; NON-COMPETITION.

9.1 Types of Confidential Information.

We possess certain unique confidential and proprietary information and trade secrets consisting of the following categories of information, methods, techniques, products, and knowledge developed by us, including but not limited to: (1) services and products offered and sold at Location Franchises; (2) knowledge of sales and profit performance of any one or more Location Franchises; (3) knowledge of sources of products sold at Location Franchises, advertising and promotional programs, and image and decor; (4) the Joint Software; (5) methods, techniques, formats, specifications, procedures, information, systems, and knowledge of, and experience in, the development, operation, and franchising of Location Franchises; (6) customer lists, records, membership agreements and/or contracts; and (7) the selection and methods of training employees. We will disclose much of the above-described information to you in advising you about site selection, providing our Initial Training, the Operations Manual, the Joint Software, and providing guidance and assistance to you under this Agreement.

If you, your employees, or Owners develop any new concept, process or improvement in the operation or promotion of a The Joint® Franchise (an "Improvement"), you agree to promptly notify us and provide us with all necessary related information, without compensation. Any such Improvement shall become our sole property and we shall be the sole owner of all related patents, patent applications, and other intellectual property rights. Such Improvements shall be deemed "Confidential Information". You and your Owners hereby assign to us any rights you or they may have or acquire in the Improvements, including the right to modify the Improvement, and waive

and/or release all rights of restraint and moral rights therein and thereto. You and your Owners agree to assist us in obtaining and enforcing the intellectual property rights to any such Improvement in any and all countries and further agree to execute and provide us with all necessary documentation for obtaining and enforcing such rights. You and your Owners hereby irrevocably designate and appoint us as your and their agent and attorney-in-fact to execute and file any such documentation and to do all other lawful acts to further the prosecution and issuance of patents or other intellectual property right related to any such Improvement. In the event that the foregoing provisions of this section are found to be invalid or otherwise unenforceable, you and your Owners hereby grant to us a worldwide, perpetual, non-exclusive, fully-paid license to use and sublicense the use of the Improvement to the extent such use or sublicense would, absent this Agreement, directly or indirectly infringe your or their rights therein.

9.2 Non-Disclosure Agreement.

You agree that your relationship with us does not vest in you any interest in the Confidential Information, other than the right to use it in the development and operation of the Franchise, and that the use or duplication of the Confidential Information in any other business would constitute an unfair method of competition. You acknowledge and agree that the Confidential Information belongs to us, may contain trade secrets belonging to us, and is disclosed to you or authorized for your use solely on the condition that you agree, and you therefore do agree, that you (1) will not use the Confidential Information in any other business or capacity; (2) will maintain the absolute confidentiality of the Confidential Information during and after the term of this Agreement; (3) will not make unauthorized copies of any portion of the Confidential Information disclosed in written form or another form that may be copied or duplicated; and (4) will adopt and implement all reasonable procedures we may prescribe from time to time to prevent unauthorized use or disclosure of the Confidential Information, including without limitation restrictions on disclosure to your employees, and the use of non-disclosure and non-competition agreements we may prescribe or approve for your shareholders, partners, members, officers, directors, employees, independent contractors, or agents who may have access to the Confidential Information.

9.3 Non-Competition Agreement.

You agree that we would be unable to protect the Confidential Information against unauthorized use or disclosure, and would be unable to encourage a free exchange of ideas and information among Location Franchises, if The Joint® franchisees were permitted to hold interests in any competitive businesses (as described below). Therefore, during the term of this Agreement, neither you, nor any Owner, nor any member of your immediate family or of the immediate family of any Owner, shall perform services for, or have any direct or indirect interest as a disclosed or beneficial owner, investor, partner, director, officer, employee, manager, consultant, representative, or agent in, any business that offers products or services the same as or similar to those offered or sold at Location Franchises. For chiropractic services, this is specific to a non-chain, non-franchised, independent chiropractic clinic where service fees are based on a non-insurance/membership model. The ownership of one percent (1%) or less of a publicly traded company will not be deemed to be prohibited by this

Paragraph. Upon expiration or termination of this Agreement for any reason, you agree not to engage in a competitive business for a period of two (2) years after the termination or expiration and within twenty-five (25) miles of your Franchise Premises or any other Location Franchise.

10. THE JOINT CORP. FRANCHISE OPERATING STANDARDS.

10.1 Condition and Appearance of the Franchise.

You agree that:

- (a) neither the Franchise nor the Premises will be used for any purpose other than the operation of the Franchise in compliance with this Agreement;
 - (b) you will maintain the condition and appearance of the Franchise; its equipment, furniture, furnishings, and signs; and the Premises in accordance with our standards and consistent with the image of a Location Franchise as an efficiently operated business offering high quality services, and observing the highest standards of cleanliness, sanitation, efficient, courteous service and pleasant ambiance, and in that connection will take, without limitation, the following actions during the term of this Agreement: (1) thorough cleaning, repainting and redecorating of the interior and exterior of the Premises at reasonable intervals; (2) interior and exterior repair of the Premises; and (3) repair or replacement of damaged, worn out or obsolete equipment, furniture, furnishings and signs;
 - (c) you will not make any material alterations to the Premises or the appearance of the Franchise, as originally developed, without our advance written approval. If you do so, we have the right, at our option and at your expense, to rectify alterations we have not previously approved;
 - (d) you will promptly replace or add new equipment when we reasonably specify in order to meet changing standards or new methods of service;
 - (e) **you will expend at least Twenty Thousand and No/100 Dollars (\$20,000.00) every four (4) years in remodeling, expansion, redecorating and/or refurbishing of the Premises and the Franchise, if deemed necessary by us (any changes to the decoration or furnishing of the Premises must be approved by us);**
 - (f) on notice from us, you will engage in remodeling, expansion, redecorating and/or refurbishing of the Premises and the Franchise to reflect changes in the operations of Location Franchises that we prescribe and require of new The Joint® franchisees, provided that (1) no material changes will be required unless there are at least two (2) years remaining on the Initial Term of the Franchise (any changes to the decoration or furnishing of the Premises must be approved by us); and (2) we have required the proposed change in at least twenty-five percent (25%) of all similarly situated Company and affiliate-owned Location Franchises, and have undertaken a plan to make the proposed change in the balance of such Company and affiliate-owned Location Franchises (any expenditures incurred pursuant to this Paragraph 10.1(f) shall apply to the requirement in Paragraph 10.1(e));
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(g) you will place or display at the Premises (interior and exterior) only those signs, emblems, designs, artwork, lettering, logos, and display and advertising materials that we from time to time approve; and

(h) if at any time in our reasonable judgment, the general state of repair, appearance, or cleanliness of the premises of the Franchise or its fixtures, equipment, furniture, or signs do not meet our standards, then we shall have the right to notify you specifying the action you must take to correct the deficiency. If you do not initiate action to correct such deficiencies within (ten) 10 days after receipt of our notice, and then continue in good faith and with due diligence, a bona fide program to complete any required maintenance or refurbishing, then we shall have the right, in addition to all other remedies available to us at law or under this Agreement, to enter the Premises or the Franchise and perform any required maintenance or refurbishing on your behalf, and you agree to reimburse us on demand.

10.2 Franchise Services and Products.

You agree that (a) the Franchise will offer for sale all services and products that we from time to time specify for Location Franchises, (b) the Franchise will offer and sell approved services and products only in the manner we have prescribed; (c) you will not offer for sale or sell at the Franchise, the Premises, or any other location any services or products we have not approved; (d) all products will be offered at retail prices, and you will not offer or sell any products at wholesale prices; (e) you will not use the Premises for any purpose other than the operation of the Franchise; and (f) you will discontinue selling and offering for sale any services or products that we at any time decide (in our sole discretion) to disapprove in writing. **In the event that you use, sell or distribute unauthorized products or services or fail to report the sale of any unauthorized products or services, we may, in addition to any other rights we may have, you will be responsible to pay us an administrative fee of \$100 per day, any royalty due to us, and any amounts we incur due to or as a result of your sale of unapproved services or products if you do not cure such default within ten (10) days of receipt of notice from us of your violation. You understand and agree that we may debit such amounts directly from your bank account via EFT. However, we reserve the right to terminate your Location Franchise and this Agreement if you use, sell, distribute or give away unauthorized services or products on three or more occasions within any consecutive (12) month period, after being provided written notice to cease such activities.** You agree to maintain an inventory of approved products sufficient in quantity and variety to realize the full potential of the Franchise. We may, from time to time, conduct market research and testing to determine consumer trends and the saleability of new services and products. You agree to cooperate by participating in our market research programs, test marketing new services and products in the Franchise, and providing us with timely reports and other relevant information regarding such market research. In connection with any such test marketing, you agree to offer a reasonable quantity of the products or services being tested, and effectively promote and make a reasonable effort to sell them.

10.3 Approved Products, Distributors and Suppliers.

We have developed or may develop various unique products or services that may be prepared according to our formulations. We have approved, and will continue to periodically approve, specifications for suppliers and distributors (which may include us and/or our affiliates) for products or services required to be purchased by, or offered and sold at, Location franchises, that meet our standards and requirements, including without limitation standards and requirements relating to product quality, prices, consistency, reliability, and customer relations. You understand and acknowledge we will not be liable to you or anyone else for any damages or claims arising out of or resulting from the acts or omissions any supplier and distributor of products or services, whether or not such supplier or distributor is an approved or required supplier or distributor of products or services. You agree that the Franchise will: (1) purchase any required products or services in such quantities as we designate; (2) utilize such formats, formulae, and packaging for products or services as we prescribe; and (3) purchase all designated products and services only from distributors and other suppliers we have approved. In the event we designate a required supplier or distributor during the term of this Agreement, or any subsequent franchise agreement, you must begin to use such required supplier or distributor with thirty (30) days of the date we notify you that you must use such supplier or distributor, unless we designate a longer period for you to switch or convert over to such supplier or distributor. Your failure or refusal to do so shall constitute a breach of this Agreement.

We may approve a single distributor or other supplier (collectively "supplier") for any product, and may approve a supplier only as to certain products. We may concentrate purchases with one or more suppliers to obtain lower prices or the best advertising support or services for any group of Location Franchises or The Joint® outlets operated by us or our affiliates. Approval of a supplier may be conditioned on requirements relating to the frequency of delivery, concentration of purchases, standards of service (including prompt attention to complaints), or other criteria, and may be temporary, pending our continued evaluation of the supplier from time to time.

If you would like to purchase any items from any unapproved supplier, then you must submit to us a written request for approval of the proposed supplier. We have the right to inspect the proposed supplier's facilities, and require that product samples from the proposed supplier be delivered, at our option, either directly to us, or to any independent, certified laboratory that we may designate, for testing. We may charge you a supplier evaluation fee (not to exceed the reasonable cost of the inspection and the actual cost of the test) to make the evaluation. We reserve the right to periodically re-inspect the facilities and products of any approved supplier, and revoke our approval if the supplier does not continue to meet any of our criteria.

We and/or our affiliates may be an approved supplier of certain products or services to be purchased by you for use and/or sale by the Franchise. We and our affiliates reserve the right to charge any licensed manufacturer engaged by us or our affiliates a royalty to manufacture products for us or our affiliates, or to receive commissions or rebates from vendors that supply goods or services to you. We or our affiliates may also derive income from our sale of products or services to you, and may sell these items at prices exceeding our or their costs in order to make a profit on the sale.

10.4 Hours of Operation.

You agree to keep the Franchise open for business at such times and during such hours as we may prescribe from time to time.

10.5 Specifications, Standards and Procedures.

You agree to comply with all mandatory specifications, standards, and operating procedures relating to the appearance, function, cleanliness, sanitation and operation of the Franchise. Any mandatory specifications, standards, and operating procedures that we prescribe from time to time in the Operations Manual, or otherwise communicate to you in writing, will constitute provisions of this Agreement as if fully set forth in this Agreement. All references to “this Agreement” include all such mandatory specifications, standards, and operating procedures.

10.6 Compliance with Laws and Good Business Practices.

You agree to secure and maintain in force in your name all required licenses, permits and certificates relating to the operation of the Franchise. You also agree to operate the Franchise in full compliance with all applicable laws, ordinances, and regulations, including without limitation all government regulations relating to worker’s compensation insurance, Medicare, HIPAA, unemployment insurance, and withholding and payment of federal and state income taxes, social security taxes, and sales taxes. You agree that at all time during the term of this Agreement, that you will maintain sufficient working capital to fulfill your obligations under this Agreement. You agree to execute any and all documents, including documents with us, our agents, affiliates, etc., or others, that we may require from time to time, to ensure compliance with any applicable laws, whether such laws are applicable now or in the future.

All advertising you employ must be completely factual, in good taste (in our judgment), and conform to the highest standards of ethical advertising and all legal requirements. You acknowledge that chiropractic is a regulated profession and that certain marketing requirements need to be engaged in a manner that conforms to state and/or local regulation or code. You shall be required to inform yourself of those requirements and strictly comply with their protocols. You agree that in all dealings with us and any of our affiliates, other franchisees, your customers, your suppliers, and public officials, you will adhere to all manner of code, regulation and law and the highest standards of honesty, integrity, fair dealing and ethical conduct. You further agree to refrain from any business or advertising practice that may be legally non-compliant or harmful to the business of the Company, the Franchise, and/or the goodwill associated with the Marks and other Location Franchises.

You must notify us in writing within 5 days of any of the following: (1) the commencement of any action, investigation, suit, or proceeding, and/or of the issuance of any order, writ, injunction, award, or decree of any court, agency, or other governmental unit of the Franchise or any Owner, that may adversely affect the Franchise’s operations, financial condition, or reputation; or the reputation of the Company and/or the goodwill associated with the Marks; (2) your receipt or knowledge any notice of violation of any law, ordinance, or regulation relating to any health, safety, medical, healthcare, or chiropractic rules or laws, as well as any inquires that may lead to a notice of

violation of any such rules or laws; (3) any activity or action, involving your Franchise, the Franchisee, or any Owner, which may the operations of the Franchise, the reputation of the Franchise or the Company, or the goodwill associated with the Marks; or (4) whether you or any of your Owners are indicted for, convicted of, or plead no contest to a felony, or are indicted for, convicted or plead no contest to any crime or offense, which may adversely affect the reputation of the Company, the Franchise, and/or the goodwill associated with the Marks.

You agree that Company shall have the right to conduct periodic background and/or credit checks on you or any of your Owners. You agree to cooperate by providing any necessary information or authorizations necessary to conduct such background or credit checks. You understand and acknowledge that the purpose of such background and credit checks is verify compliance with your duty to report adverse legal or financial changes that may adversely affect the operation of the Franchise, the reputation of the Franchise or the Company, and/or the goodwill associated with the Marks or the validity of the Agreement.

You agree that any third party you retain (or you as applicable), to engage in or assist you in the payment and/or processing of credit card transactions during the operation of your Franchise, shall comply with the Payment Card Industry Data Security Standards ("PCI DSS") and any amendments or restatements of the PCI DSS during the term of your Franchise Agreement. You further agree, subject to availability by providers of Internet access at your Franchise business, to use a high speed, private, password-protected and encoded Internet network for Internet access at your Franchise business.

10.7 Management and Personnel of the Franchise.

Unless we approve your employment of a General Manager to operate the Franchise as provided in Paragraph 4.1, you must actively participate in the actual, on-site, day-to-day operation of the Franchise, and devote as much of your time as is reasonably necessary for the efficient operation of the Franchise. If you are other than an individual, then at least one (1) Owner, director, officer, or other employee of you whom we approve must comply with the this requirement. If we agree that you may employ a General Manager, then the General Manager must fulfill this requirement. Any General Manager shall each obtain all licenses and certifications required by law before assuming his or her responsibilities at the Franchise. You will ensure that your employees and independent contractors of the Franchise have any licenses as may be required by law, and hold or are pursuing any licenses, certifications, and/or degrees required by law or by us in the Operations Manual, as updated from time to time. You will be exclusively responsible for the terms of your employees' and independent contractors' employment and compensation, and for the proper training of your employees and independent contractors in the operation of the Franchise. You must establish any training programs for your employees and/or independent contractors that we may prescribe in writing from time to time. In order to protect and maintain the goodwill of the Marks and the system, you must require all employees and independent contractors to maintain a neat and clean appearance, and conform to the standards of dress that we specify in the Operations Manual, as updated from time to time. Each of your employees and independent contractors must sign a written agreement, in a form approved by us, to maintain confidential our Confidential Information, proprietary information, and trade secrets as described in Paragraph 9.1,

and to abide by the covenants not to compete described in Paragraph 9.3. You must forward to us a copy of each such signed agreement. In order to protect and maintain the goodwill of the Marks and the system, all of your employees and independent contractors must render prompt, efficient and courteous service to all customers of the Franchise.

Notwithstanding the foregoing, you understand that we will not have any duty or obligation to operate your Franchised Business, to direct or supervise your employees, or to oversee your employment policies or practices, and that you shall be solely responsible for such activities, as well as all other day-to-day activities and operations relating to your Franchised Business.

10.8 Insurance.

Before you open the Franchise and during any Term of this Agreement, you must maintain in force, under policies of insurance written on an occurrence basis issued by carriers with an A.M. Best rating of A-VIII or better approved by us, and in such amounts as we may determine from time to time: (1) comprehensive public, professional, product, sexual harassment, medical malpractice and motor vehicle liability insurance against claims for bodily and personal injury, death and property damage caused by or occurring in conjunction with the operation of the Franchise or otherwise in conjunction with your conduct of the Franchise Business pursuant to this Agreement, under one or more policies of insurance containing minimum liability coverage amounts as set forth in the Operations Manual; (2) general casualty insurance, including theft, cash theft, fire and extended coverage, vandalism and malicious mischief insurance, for the replacement value of the Franchise and its contents, and any other assets of the Franchise; (3) worker's compensation and employer's liability insurance as required by law, with limits equal to or in excess of those required by statute; (4) business interruption insurance for a period adequate to reestablish normal business operations, but in any event not less than six (6) months; (5) any other insurance required by applicable law, rule, regulation, ordinance or licensing requirements; and (6) umbrella liability coverage with limits of not less than \$1,000,000/\$3,000,000 or such other amounts that we may establish in the Operations Manual. You must purchase such insurance coverage(s) only from our approved or designated supplier(s). (7) Medical Malpractice occurrence based coverage with limits of not less than \$1,000,000/\$3,000,000 obtained from our required and approved vendors as established in the Operations Manual. We may periodically increase or decrease the amounts of coverage required under these insurance policies, and/or require different or additional kinds of insurance, including excess liability insurance, to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards, or other relevant changes in circumstances.

Each insurance policy must name us (and, if we so request, our members, directors, employees, agents, and affiliates) as additional insureds, and must provide us with thirty (30) days' advance written notice of any material modification, cancellation, or expiration of the policy. Deductibles must be in reasonable amounts, and are subject to review and written approval by us. You must provide us with copies of policies evidencing the existence of such insurance concurrently with execution of this Agreement and prior to each subsequent renewal date of each insurance policy, along with certificates evidencing such insurance. You are responsible for any and all claims,

losses or damages, including to third persons, originating from, in connection with, or caused by your failure to name us as an additional insured on each insurance policy. You agree to defend, indemnify and hold us harmless of, from, and with respect to any such claims, loss or damage arising out of your failure to name us as additional insured, which indemnity shall survive the termination or expiration and non-renewal of this Agreement.

Prior to the expiration of the term of each insurance policy, you must furnish us with a copy of a renewal or replacement insurance policy and appropriate certificates of insurance. If you at any time fail or refuse to maintain any insurance coverage required by us, or to furnish satisfactory evidence thereof, or to name us as an additional insured under any such policies, then we, at our option and in addition to our other rights and remedies under this Agreement, may, but need not, obtain such insurance coverage on your behalf. **You shall immediately reimburse us on demand for any costs or premiums paid or incurred by us, and pay an administrative fee of \$500 plus any others fees, including attorneys' fees, which we may incur. If you fail to pay us within ten (10) days of our demand for reimbursement, we reserve the right to debit your account the amounts owed to us for any premiums paid on your behalf for such insurance coverage along with any other administrative fees, costs, surcharges expenses and fees we incur to obtain such coverage on your behalf or on behalf of your franchise.** We reserve the right to require you to provide us with an application for insurance (in a form acceptable to our required supplier for insurance) for any medical professional that has been offered a position to work in a Franchise location so that we may, if you fail to do so, procure any necessary insurance coverage for such medical professional. **Nothing in this Section 10.8 or elsewhere in this Agreement shall negate or otherwise effect our right to terminate this Agreement for failure to meet all applicable insurance requirements pertaining to your Franchise.**

Notwithstanding the existence of such insurance, you are and will be responsible for all loss or damage and contractual liability to third persons originating from or in connection with the operation of the Franchise, and for all claims or demands for damages to property or for injury, illness or death of persons directly or indirectly resulting therefrom; and you agree to defend, indemnify and hold us harmless of, from, and with respect to any such claims, loss or damage, which indemnity shall survive the termination or expiration and non-renewal of this Agreement. In addition to the requirements of the foregoing paragraphs of this Paragraph 10.8, you must maintain any and all insurance coverage in such amounts and under such terms and conditions as may be required in connection with your lease or purchase of the Premises.

Your obligation to maintain insurance coverage as described in this Agreement will not be reduced in any manner by reason of any separate insurance we maintain on our own behalf, nor will our maintenance of that insurance relieve you of any obligations under Section 7 of this Agreement.

10.9 Credit Cards and Other Methods of Payment.

You must at all times have arrangements in existence with Visa, Master Card, American Express, Discover and any other credit and debit card issuers or sponsors, check verification services, and electronic fund transfer systems that we designate from time to time, in order that the Franchise may accept customers' credit and debit

cards, checks, and other methods of payment. We may require you to obtain such services through us or our affiliates.

10.10 Pricing.

To the extent permitted by applicable law, we may periodically establish maximum and/or minimum prices for services and products that the Franchise location offers, including without limitation, prices for promotions in which all or certain Location Franchises participate. If we establish such prices for any services or products, you agree not to exceed or reduce that price, but will charge the price for the service or product that we establish. You hereby agree to apply any pricing matrix or schedule established by us. If you wish to offer an alternate pricing matrix, you must obtain our prior written approval, which approval we may withhold in our sole and absolute discretion. In states where you must enter a Management Agreement (Section 2.3), this provision shall be modified, to the extent legally permissible, and/or legally construed to conform to the laws of the state where your Franchise location will be located.

11. ADVERTISING.

11.1 By Company.

As stated in Paragraph 6.3, due to the value of advertising and the importance of promoting the public image of Location Franchises (both franchisee- and Company-owned outlets), we will establish, maintain, and administer one or more Ad Funds to support and pay for national, regional, and/or local marketing programs that we deem necessary, desirable, or appropriate to promote the goodwill and image of all Location Franchises. You will contribute to the Ad Fund the Advertising Fee set forth in Section 6.3. We agree that any The Joint® outlets owned by us or our affiliates will contribute to the Ad Fund on at least the same basis as you do.

We will be entitled to direct all advertising programs financed by the Ad Fund, with sole discretion over the creative concepts, materials, and endorsements used in them, and the geographic, market, and media placement and allocation of the programs. We will have the sole discretion to use the Ad Fund to pay the costs of preparing and producing video, audio, and written advertising materials; administering regional, multi-regional and/or national advertising programs; including purchasing direct mail and other media advertising; employing advertising agencies and supporting public relations, market research, and other advertising and marketing firms; and paying for advertising and marketing activities that we deem appropriate, including the costs of participating in any national or regional trade shows, and providing advertising and marketing materials to Location Franchises. We may in our discretion use the Ad Fund to engage in advertising and promotional programs that benefit only one or several regionals, and not necessarily all Location Franchises. The Ad Fund will furnish you with approved advertising materials at its direct cost of producing those advertising materials. The amounts you contribute to the Ad Fund will not be used for collective media placement of advertising in television, radio, newspaper or other media for the benefit of franchisees in a local or regional market. Rather, any collective media placement for the

benefit of franchisees in a local or regional market will be conducted through the local and regional advertising cooperatives described in Section 11.3.

The Ad Fund will be accounted for separately from other funds of the Company, and will not be used to defray any of our general operating expenses, except for any reasonable salaries, administrative costs, and overhead we may incur in activities reasonably related to the administration of the Ad Fund and its advertising programs (including without limitation conducting market research, preparing advertising and marketing materials, and collecting and accounting for contributions to the Ad Fund). We may spend in any fiscal year an amount greater or less than the total contributions to the Ad Fund in that year. We may cause the Ad Fund to borrow from us or other lenders to cover deficits of the Ad Fund, or to invest any surplus for future use by the Ad Fund. You authorize us to collect for remission to the Ad Fund any advertising monies or credits offered by any supplier to you based upon purchases you make. We will prepare an annual statement of monies collected and costs incurred by the Ad Fund and will make it available to you on written request.

You understand and acknowledge that the Ad Fund will be intended to maximize recognition of the Marks and patronage of Location Franchises (both franchisee-owned and Company-owned outlets) that are using the Marks. Although we will endeavor to use the Ad Fund to develop advertising and marketing materials, and to place advertising in a manner that will benefit Location Franchises that are using the Marks, we undertake no obligation to ensure that expenditures by the Ad Fund in or affecting any geographic area are proportionate or equivalent to contributions to the Ad Fund by Location Franchises operating in that geographic area, or that any Location Franchise will benefit directly or in proportion to its contribution to the Ad Fund from the development of advertising and marketing materials or the placement of advertising. Except as expressly provided in this Paragraph, we assume no direct or indirect liability or obligation to you with respect to the maintenance, direction, or administration of the Ad Fund.

We will have the right to terminate the Ad Fund by giving you thirty (30) days' advance written notice. All unspent monies on date of termination will be divided between the Company and the contributing franchisees in proportion to our and their respective contributions. At any time thereafter, we will have the right to reinstate the Ad Fund under the same terms and conditions as described in this Section (including the rights to terminate and reinstate the Ad Fund) by giving you thirty (30) days' advance written notice of reinstatement.

11.2 By Franchisee.

You must spend, in addition to any contributions to the Ad Fund, a minimum of the greater of (a) Three Thousand and No/100 Dollars (\$3,000.00); or (b) five percent (5%) of the Franchise's gross revenues for each month during the term of this Agreement, as outlined in Paragraph 6.4, for local advertising, promotion and marketing. We may require you to use one or more required suppliers or vendors for your local advertising. You must provide us (in a form we approve or designate) evidence of your required local advertising, marketing and promotional expenditures allocated by medium spend, by the thirtieth (30th) day of each month, for the preceding calendar month, along with a year-to-date report of the total amount spent on local advertising. We

may require, at our sole discretion, that you submit an annual marketing plan with details on planned expenditures of local advertising dollars.

You agree to list and advertise the Franchise within your market area, in those business classifications as we prescribe from time to time, using any standard form of advertisement we may provide.

On each occasion before you use them, samples of all local advertising and promotional materials not prepared or previously approved by us must be submitted to us for approval. If you do not receive our written disapproval within fifteen (15) days from the date we receive the materials, the materials will be deemed to have been approved. You agree not to use any advertising or promotional materials that we have disapproved. You will be solely responsible and liable to ensure that all advertising, marketing, and promotional materials and activities you prepare comply with applicable federal, state, and local law, and the conditions of any agreements or orders to which you may be subject.

11.3 Local and Regional Advertising Cooperatives.

You are required to join and participate in any Ad Co-ops (as defined in Section 6.4) covering your Location Franchise. One function of the Co-op is to establish a local or regional advertising pool, of which the funds must be used for local or regional advertising purposes, and for the mutual benefit of each Co-op member. All Ad Co-ops must operate according to their bylaws. We have the right to specify the manner in which any Ad Co-ops are organized and governed, and may require any and all Ad Co-ops to be legal entities of the state where they are located. You must contribute to the Ad Co-op according to the Ad Co-op's rules and regulations, and bylaws, as determined by the Co-op members. Amounts contributed to any Ad Co-op may be applied towards your Minimum Local Advertising Requirement set forth in Paragraphs 6.4(a) and 11.2

11.4 Websites and Other Forms of Advertising Media.

You acknowledge and agree that any Website or Other Forms of Advertising Media (as defined below) will be deemed "advertising" under this Agreement, and will be subject to, among other things, the need to obtain our prior written approval in accordance with Paragraphs 7.2 and 11.2. As used in this Agreement, the term or reference to "Website or Other Forms of Advertising Media" means any interactive system, including but not limited to all types of online communications, virtual applications, social media, or the like, including but not limited to Groupon, Living Social, Facebook, Twitter, etc., that you operate or use, or authorize others to operate or use, and that refer to the Franchise, the Marks, us, and/or the System. The term or reference Website or Other Forms of Advertising Media includes, but is not limited to, Internet and World Wide Web home pages. In connection with any Website or Other Forms of Advertising Media, you agree to the following:

(a) Before establishing any Website or Other Form of Advertising Media, you will submit to us a sample of such Website or Other Form of Advertising Media format and information in the form and manner we may require.

(b) You will not establish or use any Website or Other Forms of Advertising Media without our prior written approval.

(c) In addition to any other applicable requirements, you must comply with our standards and specifications for Website or Other Forms of Advertising Media as we prescribe in the Operations Manual or otherwise in writing, including any specifications relating to the use of organic and paid search engine optimization, keyword and landing page management. If we require, you will establish a website as part of our corporate website and/or establish electronic links to our corporate website.

(d) If you propose any material revision to Website or Other Forms of Advertising Media or any of the information contained therein, you will submit each such revision to us for our prior written approval.

12. ACCOUNTING, REPORTS AND FINANCIAL STATEMENTS.

You agree to maintain, at your own expense, the Joint Software and other accounting software, to act as a bookkeeping, accounting, and record keeping system for the Franchise. The Joint® Software includes the capability of being polled by our central computer system, which you agree to permit. **With respect to the operation and financial condition of the Franchise, we will pull from the Joint Software (if available), or require you to provide from your accounting software (in a form we designate) or in accordance with General Acceptably Accounting Principles (“GAAP”), as the case may be, the following:** (1) by Tuesday of each week, an electronic report of the Franchise’s gross revenues for the preceding week ending on, and including, Sunday, and any other data, information, and supporting records that we may require; (2) by the thirtieth (30th) day of each month, a profit and loss statement for the preceding calendar month, and a year-to-date profit and loss statement and balance sheet; (3) within ninety (90) days after the end of your fiscal year, a fiscal year-end balance sheet, and an annual profit and loss statement for that fiscal year, reflecting all year-end adjustments; and (4) such other reports as we require from time to time (collectively, all of the above are referred to as “Reports”). You agree to input all Franchise transactions into the Joint Software and your accounting software in a timely manner to ensure that all Reports are accurate. You agree to maintain and furnish upon our request complete copies of federal and state income tax returns you file with the Internal Revenue Service and state tax departments, reflecting revenues and income of the Franchise or the corporation, partnership, or limited liability company that holds the Franchise. You agree to retain hard copies of all records for a minimum of four (4) years.

13. INSPECTIONS AND AUDITS.

13.1 Company’s Right to Inspect the Franchise.

To determine whether you and the Franchise are complying with this Agreement and the specifications, standards, and operating procedures we prescribe for the operation of the Franchise, we or our agents have the right, at any reasonable time and without advance notice to you, to: (1) inspect the Premises; (2) observe the operations of the Franchise for such consecutive or intermittent periods as we deem necessary; (3) interview personnel of the Franchise; (4) interview customers of the Franchise; and (5) inspect and copy any books, records and documents relating to the operation of the Franchise. You agree to fully cooperate with us in connection with any of those

inspections, observations and interviews. You agree to present to your customers any evaluation forms we periodically prescribe, and agree to participate in, and/or request that your customers participate in, any surveys performed by or on our behalf. Based on the results of any such inspections and audits and your other reports, we may provide to you such guidance and assistance in operating your Franchise as we deem appropriate.

13.2 Company's Right to Audit.

We have the right at any time during business hours, and without advance notice to you, to inspect and audit, or cause to be inspected and audited, the business records, bookkeeping and accounting records, sales and income tax records and returns and other records of the Franchise, and the books and records of any corporation, limited liability company, or partnership that holds the Franchise. You agree to fully cooperate with our representatives and any independent accountants we may hire to conduct any inspection or audit. **If the inspection or audit is necessary because of your failure to furnish any reports, supporting records, other information or financial statements as required by this Agreement, or to furnish such reports, records, information, or financial statements on a timely basis, or if an understatement of gross revenues for any period is determined by an audit or inspection to be greater than two percent (2%), then you agree to pay us all monies owed, plus interest of one and one-half percent (1.5%) per month, and reimburse us for the cost of such inspection or audit, including without limitation any attorneys' fees and/or accountants' fees we may incur, and the travel expenses, room and board, and applicable per diem charges for our employees or contractors.** The above remedies are in addition to all our other remedies and rights under this Agreement or under applicable law.

14. TRANSFER REQUIREMENTS.

14.1 Transfer by Us. We may sell, assign, transfer, convey, give away, pledge, hypothecate, mortgage or otherwise encumber ("transfer") all or any part of our rights, interests or obligations in this Agreement to any person or entity, who expressly assumes our obligations under this Agreement. After our transfer of this Agreement to a third party who expressly assumes the obligations under this Agreement, we no longer have any performance or other obligations under this Agreement.

14.2 Transfer by Franchisee.

(a) Your rights and obligations under this Agreement are personal to you, and we have granted the Location Franchise in reliance on your and/or your principal owners' skills, financial capacity, personal character, and reputation for honesty, integrity and fair dealing. Accordingly, you and your successors, assigns, shareholders, partners and members, may not transfer any interest in you, in this Agreement or any related agreement, in the Location Franchise, without our prior written consent. Any purported transfer not having our prior written consent will be void.

(b) We will not unreasonably withhold our consent to a transfer of any interest in you, this Agreement, any related agreement, or the Location Franchise, but if a transfer, alone or together with other previous, simultaneous or proposed transfers, has the effect of transferring either a controlling interest in
or

operating control of you, this Agreement, any related agreement, or the Location Franchise, we may, in our sole discretion, require as conditions to our consent that, except in the event of a Permitted Transfer (defined below) these do not apply:

(i) You are in substantial compliance with the terms of this Agreement;

(ii) The transferee (including any person with a beneficial interest in the transferee if it is a legal entity) has demonstrated to our satisfaction that it meets the then-current standards which we would normally apply to any prospective franchisee; including, but not limited to, meeting our educational, personal, managerial and Location Franchise standards; possesses a good moral character and a good business reputation; has the aptitude and ability to operate the Location Franchise (as may be shown by prior related experience); has adequate financial resources and capital to operate the Location Franchise; is financially responsible and has a good credit rating; will be likely in our sole and absolute judgment to comply with the terms of the then-current standard franchise agreement and Operations Manual; and has no direct or indirect connection with any actual or potential competitor of us or any of our franchisees;

(iii) Your debts to us and others relating to the Location Franchise have been satisfied;

(iv) You and the transferor have signed a general release, in a form we prescribe or that is satisfactory to us, of any claims against us and our partners, shareholders, officers, directors, employees and agents, in their corporate and individual capacities;

(v) The transferee (including any person with a beneficial interest in the transferee if it is a legal entity) has entered into a written consent to transfer agreement, in a form satisfactory to us;

(vi) The transferee (including any person with a beneficial interest in the transferee if it is a legal entity) executes our then-current standard franchise agreement for a term equal to the remaining portion of the term on the transferor's franchise agreement and signs all related agreements (including any guaranty agreements). The then-current franchise agreement may contain terms substantially different from those in this Agreement, including different fees (all then-current fees, except as stated herein must be paid by transferee), advertising contributions, training requirements and territory. Transferee will not pay the Grand Opening fee. Depending on the then-current demographics of the Territory, and on our then-current standards for territories, if the Territory is larger than our then-current standard territory, we may require the transferee to accept a transfer territory smaller than the Territory.

(vii) The transferee and its general manager, if any, have agreed to successfully complete (at the transferee's expense and to our satisfaction) any then-current initial training programs;

(viii) You or the transferor has paid us a transfer fee equal to \$15,000. You must reimburse us for reasonable expenses incurred by us in investigating and processing any proposed new transferee where the transfer is not consummated for any reason, including but not limited to any attorneys' fees we incur (not to exceed \$5,000) plus costs and expenses. If you are in default of this Agreement, or any other agreement with us, in

addition to the transfer fee, we may require you to pay any amounts we deem necessary, in our sole discretion, to cure the default, provided that the default is curable;

(ix) We have decided not to exercise our right of first refusal, if any, under Section 14.4;

(x) You have updated your equipment and Premises to our then-current specifications in the Operations Manual;

(xi) We have determined that the material terms of the transfer, including the price and terms of payment, will not be so burdensome as to adversely affect the operation of the Location Franchise by the transferee; and

(xii) If any part of the sale price of any transferred interest is to be financed, the transferor will have agreed that all obligations of the transferee under any promissory notes, agreements or security interests reserved by the transferor in the assets of the Location Franchise will be subordinate to the obligations of the transferee to pay marketing and consulting fees, advertising contributions, and other amounts due to us and our affiliates, and to comply with the franchise agreement signed by the transferee.

(c) No transfer in the nature of a grant of a security interest in you, this Agreement, any related agreement, the Location Franchise or the Premises will be permitted without our prior written consent, which we may grant or withhold in our sole discretion. If we consent to a transfer in the nature of a grant of a security interest, and if the holder of the security interest later seeks to exercise your right or assume the interest of you in the Location Franchise, this Agreement, any related agreement, you or the Premises due to a default under any documents related to the security interest, we will have the option to purchase the rights of the secured party by paying all sums then due to the secured party, and the secured party will sign an agreement to that effect before any transfer takes place.

(d) A "Permitted Transfer," under Section 14.2 is defined as either (i) a transfer of an ownership interest in you or your entity of less than five percent (5%), or (ii) a transfer of any ownership interest in you or your entity to a spouse, child, sibling, or parent, or a trust or similar entity created for the benefit of any of the foregoing persons, provided that neither (i) nor (ii) may result in the creation of a controlling ownership stake in the transferee, whether through one or an aggregated series of such transfers. You must provide us written notice of any Permitted Transfer in you or your entity. Any individual who becomes an owner in you due to a Permitted Transfer must (if they have not already) sign a personal guaranty agreement ("Guaranty") in the form found in Exhibit 2 to this Agreement. You and any owners who previously signed a Guaranty will not be released from a signed Guaranty upon a Permitted Transfer, unless otherwise agreed to by us in writing. You and we will amend Exhibit 4 of this Agreement if a Permitted Transfer occurs. You must pay an administrative fee of \$2,500 for any Permitted Transfer.

14.3 Transfer to Franchisee's Legal Entity. If a proposed transfer is to a legal entity you control, our consent to the transfer may, in our sole discretion, be conditioned on the following requirements:

- (a) The legal entity's activities will be confined exclusively to operating the Location Franchise;
- (b) You will own a majority stock interest, partnership or membership interest in the legal entity, and will act as its principal operating officer, partner or member;
- (c) Each stock certificate or certificate of interest in the legal entity will have conspicuously endorsed on its face a statement in a form satisfactory to us that it is held subject to, and that further transfer is subject to, all restrictions on transfers in this Agreement;
- (d) All shareholders, partners, or members will jointly and severally guarantee the legal entity's performance and will bind themselves to the terms of this Agreement and any related agreements
- (e) You will maintain a then-current list of all partners, members or shareholders and beneficial owners of any class of stock, and furnish the list to us on request; and
- (f) Copies of the transferee's Certificate and Articles of Incorporation, Certificate and Articles of Organization, Certificate and Agreement of Partnership, By-Laws, resolution authorizing entry into this Agreement and any other significant governing documents, promptly will be furnished to us.

14.4 Our Right of First Refusal.

(a) If you or any other person or entity at any time determines to sell an interest in you, the Location Franchise or the Premises, you agree to immediately submit to us a true and complete copy of the offer (and any proposed ancillary agreements). The offer must apply only to an interest in you, the Location Franchise or the Premises. It must not include the purchase of any of your other property or rights (or those of your shareholder, partner, or member), but if the offeror proposes to buy any other of your property or rights (or those of a shareholder, partner or member) under a separate, contemporaneous offer, the price and terms of purchase offered to you (or to your shareholder, partner or member) for the interest in you, the Franchise or the Premises will reflect the bona fide price offered and will not reflect any value for any other property or rights. To be a valid, bona fide offer, the proposed purchase price must be in a dollar amount and the proposed buyer must submit with its offer an earnest money deposit equal to five percent (5%) or more of the offering price. We will have the right, exercisable by written notice delivered to you, or the person or entity involved, within thirty (30) days after receipt of the copy of the offer, to purchase the interest for the price and on the terms in the offer, but we may substitute cash, a cash equivalent or marketable securities of equal value for any form of payment proposed in the offer. Our credit will be deemed equal to the credit of any proposed purchaser, and we will have not less than sixty (60) days to prepare for closing. We will be entitled to purchase the interest subject to all customary representations and warranties given by the seller of the assets of a business or voting stock of an incorporated business, as applicable, including representations and warranties as to ownership, condition and title to stock and/or assets, liens and encumbrances relating to the stock and/or assets, validity of contracts, and liabilities, contingent or otherwise, of any corporation whose stock is purchased. If we do not exercise our right of first refusal, you or the person or entity involved may complete the sale to the purchaser under the terms of the offer subject to our consent to the

transfer under Section 14.2(b), but if the sale to the purchaser is not completed within one hundred twenty (120) days after receipt of the offer by us, or if there is a material change in the terms of the sale, we will have an additional right of first refusal for thirty (30) days on the same terms as were applicable to the initial right of first refusal.

(b) If the transfer is a Franchise Agreement modification, we will not have any right of first refusal as provided in Section 14.4(a), unless the proposed transferee has a direct or indirect connection with any actual or potential competitor of us or any of our franchisees. However, written notification of this type of transfer must be provided to us by the transferor at least thirty (30) days before consummation of that transfer.

14.5 Transfer On Death, Permanent Incapacity or Dissolution. On the death or permanent incapacity of any person with an interest in you, this Agreement, any related agreement, the Franchise or the Premises, or on your dissolution if you are a legal entity, the executor, administrator, personal representative or trustee (“personal representative”) of that person or entity will transfer his, her or its interest to a third party reasonably acceptable to us within one hundred eighty (180) days after assuming that capacity. Any transfer of this type, including a transfer by devise or inheritance, will be subject to the same requirements as other transfers under this Agreement, but if the transfer is to a spouse, child or parent, the fee required under Section 14.2(b) (viii) will not be required. If the personal representative has, in good faith, proposed a transferee and we, in good faith, do not approve the proposed transferee, the personal representative will be given additional time, not to exceed one hundred eighty (180) days, to propose another transferee for our approval. If the personal representative is unable to meet these conditions, the personal representative of that deceased person will have an additional sixty (60) days to dispose of the interest, which disposition will be subject to the requirements for transfers in this Agreement, including the requirements of this Section 14. If the interest is not disposed of within the additional sixty (60) days (or such additional time as we otherwise agree), we may terminate this Agreement.

14.6 Interim Operation of Location Franchise on Death or Permanent Disability. Pending transfer on your death or permanent incapacity (or your principal operating officer, partner or member, if you are a legal entity), we will have the option to operate the Location Franchise on your behalf until an approved transferee is able to assume the operation of the Location Franchise, for a period of up to twelve (12) months without the consent of you, your personal representative or your successor in interest. All funds from the operation of the Location Franchise during the period of operation by us will be kept in a separate fund, and all expenses we incur, including compensation, other costs and travel and living expenses (the “Management Expenses”), will be charged to the fund. As compensation for services provided, we will charge the fund the full amount of the Management Expenses incurred during the period of our operation. We will only have a duty to utilize reasonable efforts in operating the Location Franchise, and will not be liable to you or your principals for any debts, losses or obligations incurred by the Location Franchise, or to any creditor for any equipment, inventory, products, supplies or services purchased for the Location Franchise during any period in which it is operated by us.

14.7 Non-Waiver of Claims. Our consent to a transfer of any interest in you, this Agreement, any related agreement, the Franchise or the Premises will not be a waiver of any claims we may have against the transferring party, nor will it be a waiver of our right to demand the transferee's compliance with the terms of this Agreement.

14.8 Effect of Consent to Transfer.

Our consent to a proposed Transfer pursuant to this Section 14 will not constitute a waiver of any claims we may have against you or any Owner, nor will it be deemed a waiver of our right to demand exact compliance with any of the terms or conditions of this Agreement by the Proposed New Owner.

14.9 Consent Not Unreasonably Delayed.

If all the conditions are met to transfer the FA or any interest therein, we will not unreasonably delay granting our consent to the transfer.

15. TERMINATION OF THE FRANCHISE.

We have the right to terminate this Agreement effective immediately upon delivery of notice of termination to you, if:

- (a) you fail to open your Franchise for business by the Opening Deadline, subject to the extension set forth in Section 3.1(c); or
 - (b) you abandon, surrender, transfer control of, lose the right to occupy the Premises of, or do not actively operate, the Franchise, or your lease for or purchase of the location of the Franchise is terminated for any reason; or
 - (c) you or your Principal Owners assign or Transfer this Agreement, any Interest, the Franchise, or assets of the Franchise without complying with the provisions of Section 14; or
 - (d) You make an assignment for the benefit of creditors or admit in writing your insolvency or inability to pay your debt generally as they become due; your consent to the appointment of a receiver, trustee or liquidator of all or the substantial part of your property; your Location Franchise is attached, seized, subjected to a writ of distress, warrant, or levied upon, unless the attachment seizure, writ, warrant or levy is vacated within thirty (30) days, or any order appointing a receiver, trustee or liquidator of you or your Location Franchise is not vacated within thirty (30) days following the order and entry;
 - (e) you use, sell, distribute or give away any unauthorized services or products on three or more occasions within any consecutive (12) month period; or
 - (f) you fail to maintain any licenses or permits necessary for the operation of the Franchise and/or fail to comply with any state and federal regulations which is reasonably likely to adversely affect the reputation of the Company, the Franchise, and/or the goodwill associated with the Marks; or
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- (g) you or any of your Principal Owners are convicted of or plead no contest to a felony or are convicted or plead no contest to any crime or offense, which is reasonably likely to adversely affect the reputation of the Company, the Franchise, and/or the goodwill associated with the Marks; or
 - (h) you are involved in any action or activity, including but not limited to dishonest, unethical, or illegal actions or activities, which is reasonably likely to adversely affect the reputation of the Company, the Franchise, and/or the goodwill associated with the Marks; or
 - (i) You (or any of your owners) have made or knowingly make a material false or incomplete statement in any report submitted to us;
 - (j) We discover that you knowingly made a material false or incomplete statement to us to obtain the Franchise;
 - (k) You (or any of your owners) participate in in-term competition contrary to Section 9.3;
 - (l) you fail to timely notify of any event, action or other action identified in Section 10.6, which is reasonably likely to adversely affect the reputation of the Company, the Franchise, and/or the goodwill associated with the Marks; or
 - (m) you or any of your employees violate any health or safety law, ordinance or regulation, or operate the Franchise in a manner that presents a health or safety threat, hazard or danger to your customers or the public, which hazard, threat or danger you acknowledge is determined by our commercial business judgment; or
 - (n) you fail to maintain a valid license to practice and/or fail to comply with any with state and federal regulations, other than those covered by subsection (f), and do not cure the failure within twenty (20) days after written notice is given to you; or
 - (o) you do not pay when due any monies owed to us or our affiliates, and do not make payment within ten (10) days after written notice is given to you; or
 - (p) you fail to procure or maintain any and all insurance coverage that we require, or otherwise fail to name us as an additional insured on any required insurance policies and failure to do so within ten (10) days after written notice is given to you; or
 - (q) you or any of your Principal Owners receive three (3) or more written notices of default from us, within any period of twelve (12) consecutive months, concerning any material breach by you. Whether or not such breaches shall have been cured, such repeated course of conduct shall itself be grounds for termination of this Agreement without further notice or opportunity to cure; or
 - (r) you or any of your Principal Owners fail to comply with any other provision of this Agreement or any mandatory specification, requirement, standard, or operating procedure, including those in our Operations Manual, and you fail to make the required changes or to comply with such provision, specification, requirement, standard or operating procedure, within thirty (30) days after written notice of your failure to comply is given to you.
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In addition, if, in the opinion of our legal counsel, any provision of this Agreement is contrary to law, then you and we agree to negotiate in good faith an amendment that would make this Agreement conform to the applicable legal requirements. If you and we are unable to reach an agreement on the applicable legal requirements, or if fundamental changes to this Agreement are required to make it conform to the legal requirements, then we reserve the right to terminate this Agreement upon notice to you, in which case all of the post-termination obligations set forth in Section 16 shall apply.

In the event that we terminate this Agreement under this Section or other applicable provisions of this Agreement, we shall be entitled, in those states in which termination fees are enforceable, to receive from you a termination fee in the amount equal to one-half (1/2) of our then-current initial franchise fee for new Location Franchises (the "Termination Fee"). The Termination Fee shall be payable by you in addition to any damages payable to us, including loss of future revenues, resulting from your improper or wrongful breach or other termination of this Agreement. We shall be entitled to recover all costs, including attorneys' fees, incurred in connection with the termination and collection of the Termination Fee.

16. RIGHTS AND OBLIGATIONS OF COMPANY AND FRANCHISEE
UPON TERMINATION OR EXPIRATION OF THE FRANCHISE.

16.1 Payment of Amounts Owed to Company.

You agree to pay us within five (5) days after the effective date of termination or expiration of the Franchise, or any later date that the amounts due to us are determined, all amounts owed to us or our affiliates which are then unpaid.

16.2 Marks and Other Information.

You agree that after the termination or expiration of the Franchise you will:

- (a) not directly or indirectly at any time identify any business with which you are associated as a current or former Location Franchise or The Joint® franchisee;
 - (b) not use any Mark or any colorable imitation of any Mark in any manner or for any purpose, or use for any purpose any trademark or other commercial symbol that suggests or indicates an association with us;
 - (c) return to us all customer lists, records, membership agreements and/or contracts, forms and materials containing any Mark or otherwise relating to a Location Franchise or our network of Location Franchises;
 - (d) remove all Marks affixed to uniforms or, at our direction, cease to use those uniforms; and
 - (e) take any action that may be required to cancel all fictitious or assumed name or equivalent registrations relating to your use of any Mark.
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16.3 De-Identification.

Following termination, if you lawfully retain possession of the Premises, you agree to completely remove or modify, at your sole expense, any part of the interior and exterior decor that we deem necessary to fully disassociate the Premises with the image of a Location Franchise, including any signage bearing the Marks. If you do not take the actions we request within thirty (30) days after notice from us, we have the right to enter the Premises and make the required changes at your expense, and you agree to reimburse us for those expenses on demand.

16.4 Confidential Information.

You agree that on termination or expiration of the Franchise you will immediately cease to use any of the Confidential Information, and agree not to use it in any business or for any other purpose. You further agree to immediately return to us all copies of the Operations Manual and any written Confidential Information or other confidential materials that we have loaned or provided to you.

16.5 Joint Software.

You agree that on termination or expiration of the Franchise, you will immediately cease to use the Joint Software and will uninstall it from all computer systems owned by the Franchise.

16.6 Company's Option to Purchase Franchise Assets and Assumption of Lease.

(a) Upon the expiration of the Franchise, we have the option, but not the obligation, exercisable for ten (10) days upon written notice to you, to purchase at fair market value, as same may be depreciated any or all of the furniture, inventory, or equipment used in or associated with the Franchise, as well as any and all supplies, materials, and other items imprinted with any of our Marks. If we cannot agree on a fair market value for the furniture or equipment or other items, within a reasonable time, we will designate an independent appraiser to determine the fair market items of these items. The appraiser's determination of value shall be binding upon the parties. For purposes of this Section 16.6(a), the fair market of any purchased items shall not include any value attributable to any of the following: 1) the Franchise or any rights granted under this Agreement or the Lease; 2) goodwill attributable to the Marks; or 3) our brand image and other intellectual property; and 3) any patient lists. In no event shall we be obligated or required to assume any liabilities, debts or obligations of the Franchise in connection with our purchase of any items pursuant to this Section 16.6(a), and you will indemnify us from any and all claims made against us arising out of the sale of these items.

(b) Upon the termination or expiration of the Franchise, we shall have the option, but not the obligation, exercisable for thirty (30) days upon written notice, to take an assignment of the lease for the Premises and any other lease agreement necessary for the operation of the Franchise.

(c) In the event we elect, upon termination of the Franchise, to assume the lease pursuant to Section 16.6(b), unless otherwise required or prohibited by law, we shall have the right to retain possession of any and all

furniture, fixtures, inventory, and equipment associated with the Franchise. If we are required by law to purchase from you any equipment, supplies, signs, advertising materials or items bearing our name or Marks, and/or any inventory associated with the Franchise, we will pay you the fair market value of these items (less the amount of any outstanding liens or encumbrances). If we cannot agree on a fair market value for the items to be purchased within a reasonable time, we will designate an independent appraiser to determine the fair market items of these items. The appraiser's determination of value shall be binding upon the parties. For purposes of this Section 16.6(c), the fair market of any purchased items shall not include any value attributable to any of the following: 1) the Franchise or any rights granted under this Agreement or the Lease; 2) goodwill attributable to the Marks; or 3) our brand image and other intellectual property.

16.7 Continuing Obligations.

All obligations of this Agreement (whether yours or ours) that expressly or by their nature survive the expiration or termination of this Agreement will continue in full force and effect after and notwithstanding its expiration or termination until they are satisfied in full or by their nature expire.

16.8 Management of the Franchise.

In the event that we are entitled to terminate this Agreement in accordance with Section 15 above, or any other provision of this Agreement, and in addition to any other rights or remedies available to us in the event of termination, we may, but need not, assume the management of the Franchise. In the event we assume the management of the Franchise, we may charge you (in addition to the Royalty Fee and Advertising Fee contributions due under this Agreement), all expenses we incur, including compensation, other costs and travel and living expenses, along with a reasonable management fee in an amount that we may specify, equal to up to ten percent (10%) of the Franchise's gross revenues during the period we are managing the Franchise, plus our direct out-of-pocket costs and expenses, as compensation for our management services. We have a duty to utilize only our reasonable efforts in managing the Franchise, and will not be liable to you for any debts, losses, or obligations the Franchise incurs, or to any of your creditors for any products or services the Franchise purchases, while we manage it pursuant to this Paragraph.

17. ENFORCEMENT.

17.1 Invalid Provisions; Substitution of Valid Provisions.

To the extent that the non-competition provisions of Sections 9.3 and 14.5 are deemed unenforceable because of their scope in terms of area, business activity prohibited, or length of time, you agree that the invalid provisions will be deemed modified or limited to the extent or manner necessary to make that particular provisions valid and enforceable to the greatest extent possible in light of the intent of the parties expressed in that such provisions under the laws applied in the forum in that we are seeking to enforce such provisions.

If any lawful requirement or court order of any jurisdiction (1) requires a greater advance notice of the termination or non-renewal of this Agreement than is required under this Agreement, or the taking of some other

action which is not required by this Agreement, or (2) makes any provision of this Agreement or any specification, standard, or operating procedure we prescribed invalid or unenforceable, then the advance notice and/or other action required or revision of the specification, standard, or operating procedure will be substituted for the comparable provisions of this Agreement in order to make the modified provisions enforceable to the greatest extent possible. You agree to be bound by the modification to the greatest extent lawfully permitted.

17.2 Unilateral Waiver of Obligations.

Either you or we may, by written notice, unilaterally waive or reduce any obligation or restriction of the other under this Agreement. The waiver or reduction may be revoked at any time for any reason on ten (10) days' written notice.

17.3 Written Consents from Company.

Whenever this Agreement requires our advance approval or consent, you agree to make a timely written request for it. Our approval or consent will not be valid unless it is in writing.

17.4 Lien.

To secure your performance under this Agreement and indebtedness for all sums due us or our affiliates, we shall have a lien upon, and you hereby grant us a security interest in, the following collateral and any and all additions, accessions, and substitutions to or for it and the proceeds from all of the same: (a) all inventory now owned or after-acquired by you and the Franchise, including but not limited to all inventory and supplies transferred to or acquired by you in connection with this Agreement; (b) all accounts of you and/or the Franchise now existing or subsequently arising, together with all interest in you and/or the Franchise, now existing or subsequently arising, together with all chattel paper, documents, and instruments relating to such accounts; (c) all contract rights of you and/or the Franchise, now existing or subsequently arising; and (d) all general intangibles of you and/or the Franchise, now owned or existing, or after-acquired or subsequently arising. You agree to execute such financing statements, instruments, and other documents, in a form satisfactory to us, that we deem necessary so that we may establish and maintain a valid security interest in and to these assets.

17.5 No Guarantees.

If in connection with this Agreement we provide to you any waiver, approval, consent, or suggestion, or if we neglect or delay our response or deny any request for any of those, then we will not be deemed to have made any warranties or guarantees upon which you may rely, and will not assume any liability or obligation to you.

17.6 No Waiver.

If at any time we do not exercise a right or power available to us under this Agreement or do not insist on your strict compliance with the terms of the Agreement, or if there develops a custom or practice that is at variance with the terms of this Agreement, then we will NOT be deemed to have waived our right to demand or exact compliance with any of the terms of this Agreement at a later time. Similarly, any failure to act as to any particular

breach or series of breaches under this Agreement by us, or of any similar term in any other agreement between us and any other The Joint® franchisee will not affect our rights with respect to any later breach or to assert our rights as to that or any subsequent or ongoing breach. It will also not be deemed to be a waiver of any breach of this Agreement for us to accept payments that are past due to us under this Agreement.

The parties to this Agreement will not be considered to be in default of any obligations hereunder, other than the obligation of a party to make payment of amounts due to the other party, if the failure of performance is due to a force majeure, including drought, flood, earthquake, storm, fire, lightening, epidemic, war, riot, civil disturbance, sabotage, theft, vandalism, strike or labor difficulty, or casualty to equipment. If any party is affected by a force majeure event, such party will give written notice within fourteen (14) days to the other party stating the nature of the event, its anticipated duration and any action being taken to avoid or minimize its effect. The suspension of performance will be of no greater scope and no longer duration than is required, and the non-performing party will use its best efforts to remedy its inability to perform. The obligation to pay any amount in a timely manner is absolute and will not be subject to these force majeure provisions, except to the extent prohibited by governmental rule or regulation.

17.7 Cumulative Remedies.

The rights and remedies specifically granted to either you or us by this Agreement will not be deemed to prohibit either you or us from exercising any other right or remedy provided under this Agreement, or permitted by law or equity.

17.8 Specific Performance; Injunctive Relief.

Provided we give you the appropriate notice, we will be entitled, without being required to post a bond, to the entry of temporary and permanent injunctions and orders of specific performance to (1) enforce the provisions of this Agreement relating to your use of the Marks and non-disclosure and non-competition obligations under this Agreement; (2) prohibit any act or omission by you or your employees that constitutes a violation of any applicable law, ordinance, or regulation; constitutes a danger to the public; or may impair the goodwill associated with the Marks or Location Franchises or outlets operating under or using the Marks; or (3) prevent any other irreparable harm to our interests. If we obtain an injunction or order of specific performance, then you shall pay us an amount equal to the total of our costs of obtaining it, including without limitation reasonable attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses, and any damages we incur as a result of the breach of any such provision. You further agree to waive any claims for damage in the event there is a later determination that an injunction or specific performance order was issued improperly.

17.9 MEDIATION AND LITIGATION.

(a) **MEDIATION. DURING THE TERM OF THIS AGREEMENT CERTAIN DISPUTES MAY ARISE THAT YOU AND WE ARE UNABLE TO RESOLVE, BUT THAT MAY BE RESOLVABLE**

THROUGH MEDIATION. TO FACILITATE SUCH RESOLUTION, YOU AND WE AGREE TO SUBMIT ANY CLAIM, CONTROVERSY OR DISPUTE BETWEEN US OR ANY OF OUR AFFILIATES (AND THEIR RESPECTIVE OWNERS, OFFICERS, DIRECTORS, AGENTS, REPRESENTATIVES AND/OR EMPLOYEES) AND YOU (AND YOUR OWNERS, AGENTS, OFFICERS, DIRECTORS, REPRESENTATIVES AND/OR EMPLOYEES) ARISING OUT OF OR RELATED TO (a) THIS AGREEMENT OR ANY OTHER AGREEMENT BETWEEN US AND YOU, (b) OUR RELATIONSHIP WITH YOU, OR (c) THE VALIDITY OF THIS AGREEMENT OR ANY OTHER AGREEMENT BETWEEN US AND YOU, TO MEDIATION BEFORE EITHER OF US MAY BRING ANY SUCH CLAIM, CONTROVERSY OR DISPUTE IN COURT.

(1) THE MEDIATION SHALL BE CONDUCTED BY A MEDIATOR THAT YOU AND WE MUTUALLY SELECT FROM THE THEN CURRENT PANEL APPROVED BY THE AMERICAN ARBITRATION ASSOCIATION (“AAA”) FOR PHOENIX, ARIZONA OR AS WE AND YOU OTHERWISE AGREE. IN THE EVENT WE ARE UNABLE TO REACH AGREEMENT ON A MEDIATOR WITHIN FIFTEEN (15) DAYS AFTER EITHER PARTY HAS NOTIFIED THE OTHER OF ITS DESIRE TO SEEK MEDIATION, YOU AND WE AGREE THAT THE MEDIATOR MAY BE SELECTED BY THE AAA BASED ON SELECTION CRITERIA THAT YOU OR WE SUPPLY TO THE AAA. THE COSTS AND EXPENSES OF THE MEDIATION, INCLUDING THE MEDIATOR’S COMPENSATION AND EXPENSES (BUT EXCLUDING ATTORNEYS’ FEES INCURRED BY EITHER PARTY), SHALL BE BORNE BY THE PARTIES EQUALLY.

(2) NOTWITHSTANDING THE FOREGOING PROVISIONS OF THIS SECTION 17.9(a), YOUR AND OUR AGREEMENT TO MEDIATE SHALL NOT APPLY TO ANY CONTROVERSIES, DISPUTES OR CLAIMS RELATED TO OR BASED ON THE MARKS OR THE CONFIDENTIAL INFORMATION. MOREOVER, REGARDLESS OF YOUR AND OUR AGREEMENT TO MEDIATE, YOU AND WE EACH HAVE THE RIGHT TO SEEK TEMPORARY RESTRAINING ORDERS AND TEMPORARY OR PRELIMINARY INJUNCTIVE RELIEF IF WARRANTED BY THE CIRCUMSTANCES OF THE DISPUTE.

(b) JURISDICTION AND FORUM SELECTION. WITH RESPECT TO ANY CONTROVERSIES, DISPUTES OR CLAIMS THAT ARE NOT FULLY RESOLVED THROUGH MEDIATION AS PROVIDED IN SECTION 17.9(a) ABOVE, THE PARTIES IRREVOCABLY AGREE TO SUBMIT THEMSELVES TO THE JURISDICTION OF THE SUPERIOR COURT OF MARICOPA COUNTY, ARIZONA OR THE U.S. DISTRICT COURT FOR THE DISTRICT OF ARIZONA AND HEREBY WAIVE ANY AND ALL OBJECTIONS TO PERSONAL OR SUBJECT MATTER JURISDICTION IN THESE COURTS. YOU AND WE FURTHER AGREE THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE THE COURTS OF MARICOPA COUNTY, ARIZONA.

17.10 Waiver of Punitive Damages and Jury Trial: Limitations of Actions.

Except with respect to your obligations to indemnify us and claims that we may bring under Sections 7, 9, 15, or 16 of this Agreement, and except for claims arising from your non-payment or underpayment of any amounts owed to us or our affiliates, (1) any and all claims arising out of or related to this Agreement or the relationship between you and us shall be barred, by express agreement of the parties, unless an action or proceeding is commenced within two (2) years from the date the cause of action accrues; and (2) you and we hereby waive to the fullest extent permitted by law, any right to or claim for any punitive or exemplary damages against the other, and agree that, except to the extent provided to the contrary in this Agreement, in the event of a dispute between you and us, each party will be limited to the recovery of any actual damages sustained by it. You and we irrevocably waive trial by jury in any action, proceeding or counterclaim, whether at law or in equity, brought by either you or us.

17.11 Governing Law/Consent To Jurisdiction.

Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 et seq.), this Agreement and the Franchise will be governed by the internal laws of the State of Arizona (without reference to its choice of law and conflict of law rules), except that the provisions of any Arizona law relating to the offer and sale of business opportunities or franchises or governing the relationship of a franchisor and its franchisees will not apply unless their jurisdictional requirements are met independently without reference to this Paragraph. You agree that we may institute any action against you arising out of or relating to this Agreement (which is not required to be mediated hereunder or as to which mediation is waived) in any state or federal court of general jurisdiction in Maricopa County, Arizona, and you irrevocably submit to the jurisdiction of such courts and waive any objection you may have to either the jurisdiction or venue of such court.

17.12 Binding Effect.

This Agreement is binding on and will inure to the benefit of our successors and assigns and, subject to the Transfers provisions contained in this Agreement, will be binding on and inure to the benefit of your successors and assigns, and if you are an individual, on and to your heirs, executors, and administrators.

17.13 No Liability to Others; No Other Beneficiaries.

We will not, because of this Agreement or by virtue of any approvals, advice or services provided to you, be liable to any person or legal entity that is not a party to this Agreement, and no other party shall have any rights because of this Agreement.

17.14 Construction.

All headings of the various Sections and Paragraphs of this Agreement are for convenience only, and do not affect the meaning or construction of any provision. All references in this Agreement to masculine, neuter or singular usage will be construed to include the masculine, feminine, neuter or plural, wherever applicable. Except

where this Agreement expressly obligates us to reasonably approve or not unreasonably withhold our approval of any of your actions or requests, we have the absolute right to refuse any request by you or to withhold our approval of any action or omission by you. The term “affiliate” as used in this Agreement is applicable to any company directly or indirectly owned or controlled by you or your Owners, or any company directly or indirectly owned or controlled by us that sells products or otherwise transacts business with you.

17.15 Joint and Several Liability.

If two (2) or more persons are the Franchisee under this Agreement, their obligation and liability to us shall be joint and several.

17.16 Multiple Originals.

This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other parties hereto. This Agreement, once executed by a party, may be delivered to the other parties hereto by facsimile transmission or other electronic means of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

17.17 Timing Is Important.

Time is of the essence of this Agreement. “Time is of the essence” is a legal term that emphasizes the strictness of time limits. In this case, it means it will be a material breach of this Agreement to fail to perform any obligation within the time required or permitted by this Agreement.

17.18 Independent Provisions.

The provisions of this Agreement are deemed to be severable. In other words, the parties agree that each provision of this Agreement will be construed as independent of any other provision of this Agreement.

17.19 Cross-Default.

Any default by Franchisee under any other agreement between Franchisor or its affiliates as one party, and Franchisee or any of Franchisee's owners or affiliates as the other party, shall be deemed to be a default of this Agreement, and Franchisor shall have the right, at its option, to terminate this Agreement and/or any other agreement between the Franchisee and the Franchisor or its affiliates, without affording Franchisee an opportunity to cure, effective immediately upon notice to Franchisee.

17.20 Conflicts with Applicable Laws and Regulations.

The Parties acknowledge that if there is a conflict between the terms and conditions of this Agreement, our Operations Manual, or any other specifications, standards, or operating procedure we require in connection with the operation of your franchise, and any applicable federal or state laws or regulations which you, or any licensed professionals working for or with the Franchise must observe or follow, including those relating to the practice of chiropractic, such laws or regulations shall control.

18. NOTICES AND PAYMENTS.

All written notices, reports and payments permitted or required under this Agreement or by the Operations Manual will be deemed delivered: (a) at the time delivered by hand; (b) one (1) business day after transmission by telecopy, facsimile or other electronic system; (c) one (1) business day after being placed in the hands of a reputable commercial courier service for next business day delivery; or (d) three (3) business days after placed in the U.S. mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid; and addressed to the party to be notified or paid at its most current principal business address of which the notifying party has been advised, or to any other place designated by either party. Any required notice, payment or report which we do not actually receive during regular business hours on the date due (or postmarked by postal authorities at least two (2) days before it is due) will be deemed delinquent.

19. INDEPENDENT PROFESSIONAL JUDGMENT OF YOU AND YOUR GENERAL MANAGER.

You and we acknowledge and agree that the specifications, standards and operating procedures related to the services offered by the Franchise are not intended to limit or replace your or your General Manager's (if any) professional judgment in supervising and performing the services offered by your Franchise. The specifications, standards, and operating procedures represent only the minimum standards, and you and your General Manager (if any) are solely responsible for ensuring that the Franchise performs services in accordance with all applicable requirements and standards of care. Nothing in this Agreement shall obligate you or your General Manager (if any) to perform any act that is contrary to your or your General Manager's (if any) professional judgment; provided, however, that you must notify us immediately upon your determination that any specification, standard or operating procedure is contrary to your or your General Manager's (if any) professional judgment.

20. ENTIRE AGREEMENT.

This Agreement, together with the introduction and exhibits to it, constitutes the entire agreement between us, and there are no other oral or written understandings or agreements between us concerning the subject matter of this Agreement. This Agreement may be modified only by written agreement signed by both you and us, except that we may modify the Operations Manual at any time as provided herein. However, nothing in this Agreement or any addendum shall have the effect of disclaiming any of the representations made in the Franchise Disclosure Document or any of its exhibits.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the Agreement Date.

“Company”
The Joint Corp.,
a Delaware corporation

“Franchisee”
_____,
a _____

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

EXHIBIT 1 TO FRANCHISE AGREEMENT

FRANCHISING OPENING DEADLINE AND EXPIRATION DATE

You must open the Franchise to which this Agreement corresponds by the deadline set forth below (the **“Opening Deadline”**), subject to the requirements of Paragraphs 3.3 and 3.6, and any other applicable provision of the Agreement: _____

If no Opening Deadline is set forth above, then the Opening Deadline shall be deemed to be two-hundred and forty (240) days from the Agreement Date.

The Expiration Date of this Agreement is: _____.

Franchisee's Initials

EXHIBIT 2

TO THE JOINT CORP. FRANCHISE AGREEMENT

OWNER'S GUARANTY AND ASSUMPTION OF OBLIGATIONS

In consideration of, and as an inducement to, the execution of the Franchise Agreement, dated as of this ____ day of _____, 20__ (the "Agreement"), by and between The Joint Corp., a Delaware corporation ("us") and _____(the "Franchisee"), each of the undersigned owners of the Franchisee and their respective spouses ("you," for purposes of this Guaranty only), hereby personally and unconditionally agree to perform and keep during the terms of the Agreement, each and every covenant, obligation, payment, agreement, and undertaking on the part of Franchisee contained and set forth in the Agreement. Each of you agree that all provisions of the Agreement relating to the obligations of Franchisees, including, without limitation, the covenants of confidentiality and non-competition and other covenants set forth in the Agreement, shall be binding on you.

Each of you waives (1) protest and notice of default, demand for payment or nonperformance of any obligations guaranteed by this Guaranty; (2) any right you may have to require that an action be brought against Franchisee or any other person as a condition of your liability; (3) all right to payment or reimbursement from, or subrogation against, the Franchisee which you may have arising out of your guaranty of the Franchisee's obligations; and (4) any and all other notices and legal or equitable defenses to which you may be entitled in your capacity as guarantor.

Each of you consents and agrees that (1) your direct and immediate liability under this Guaranty shall be joint and several; (2) you will make any payment or render any performance required under the Agreement on demand if Franchisee fails or refuses to do so when required; (3) your liability will not be contingent or conditioned on our pursuit of any remedies against Franchisee or any other person; (4) your liability will not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which we may from time to time grant to Franchisee or to any other person, including without limitation, the acceptance of any partial payment or performance, or the compromise or release of any claims; and (5) this Guaranty will continue and be irrevocable during the term of the Agreement and afterward for so long as the Franchisee has any obligations under the Agreement.

If we are required to enforce this Guaranty in a judicial proceeding, and prevail in such proceeding, we will be entitled to reimbursement of our costs and expenses, including, but not limited to, reasonable accountants', attorneys', attorneys' assistants', mediation, arbitrators' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses, whether incurred prior to, in preparation for or in contemplation of the filing of any such proceeding. If we are required to engage legal counsel in connection with any failure by you to comply with this Guaranty, you agree to reimburse us for any of the above-listed costs and expenses incurred by us.

This Guaranty is now executed as of the Agreement Date.

OWNER:	OWNER'S SPOUSE:
_____	_____
Name: _____	Name: _____
OWNER:	OWNER'S SPOUSE:
_____	_____
Name: _____	Name: _____
OWNER:	OWNER'S SPOUSE:
_____	_____
Name: _____	Name: _____

EXHIBIT 3 TO FRANCHISE AGREEMENT

ADDENDUM TO LEASE AGREEMENT

This Addendum to Lease Agreement (this "Addendum"), is entered into effective on this _____ day of _____, 20____, (the "Effective Date") by and between _____, a _____ (the "Lessor"), and _____, a _____ (the "Lessee") (each a "Party" and collectively, the "Parties").

RECITALS

WHEREAS, the Parties hereto have entered into a certain Lease Agreement, dated on the _____ day of _____, 20____ (the "Agreement"), and pertaining to the premises located at _____ (the "Premises");

WHEREAS, Lessor acknowledges that Lessee intends to operate The Joint franchise from the Premises pursuant to a Franchise Agreement (the "Franchise Agreement") with The Joint Corp. ("Franchisor") under the name The Joint or other name designated by Franchisor ("Franchised Business"); and

WHEREAS, the Parties now desire to amend the Lease Agreement in accordance with the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein set forth and each act done and to be done pursuant hereto, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, do hereby represent, warrant, covenant and agree as follows:

1 . Remodeling and Decor. The above recitals are hereby incorporated by reference. Lessor agrees that Lessee shall have the right to remodel, equip, paint and decorate the interior of the Premises and to display the proprietary marks ("Marks") and signs on the interior and exterior of the Premises as Lessee is reasonably required to do pursuant to the Franchise Agreement and any successor Franchise Agreement under which Lessee may operate a Franchised Business on the Premises.

2 . Assignment. Lessee shall have the right to assign all of its right, title and interest in and to the Lease Agreement to Franchisor or its parent, subsidiary, or affiliate, (including another franchisee) at any time during the term of the Lease, including any extensions or renewals thereof, without first obtaining Lessor's consent, pursuant to the terms of the Collateral Assignment of Lease attached hereto as **Exhibit A**. However, no assignment shall be effective until such time as Franchisor or its designated affiliate gives Lessor written notice of its acceptance of the assignment, and nothing contained herein or in any other document shall constitute Franchisor or its designated subsidiary or affiliate a party to the Lease Agreement, or guarantor thereof, and shall not create any liability or obligation of Franchisor or its parent unless and until the Lease Agreement is assigned to, and accepted in writing by, Franchisor or its parent, subsidiary or affiliate. In the event of any assignment, Lessee shall remain

liable under the terms of the Lease. Franchisor shall have the right to reassign the Lease to another franchisee without the Landlord's consent in accordance with Section 4(a).

3. Default and Notice.

(a) In the event there is a default or violation by Lessee under the terms of the Lease Agreement, Lessor shall give Lessee and Franchisor written notice of the default or violation within ten (10) days after Lessor receives knowledge of its occurrence. If Lessor gives Lessee a default notice, Lessor shall contemporaneously give Franchisor a copy of the notice. Franchisor shall have the right, but not the obligation, to cure the default. Franchisor will notify Lessor whether it intends to cure the default and take an automatic assignment of Lessee's interest as provided in Paragraph 4(a). Franchisor will have an additional fifteen (15) days from the expiration of Lessee's cure period in which it may exercise the option to cure, but is not obligated to cure the default or violation.

(b) All notices to Franchisor shall be sent by registered or certified mail, postage prepaid, to the following address:

The Joint Corp.
Attention: Eric Simon, VP of Franchise Sales and Development
16767 N. Perimeter Dr., Suite 240
Scottsdale, AZ 85260
Attention: Property Management
E-mail: eric.simon@thejoint.com

Franchisor may change its address for receiving notices by giving Lessor written notice of the new address. Lessor agrees that it will notify both Lessee and Franchisor of any change in Lessor's mailing address to which notices should be sent.

(c) Following Franchisor's approval of the Lease Agreement, Lessee agrees not to terminate, or in any way alter or amend the same during the Initial Term of the Franchise Agreement or any Interim Period thereof without Franchisor's prior written consent, and any attempted termination, alteration or amendment shall be null and void and have no effect as to Franchisor's interests thereunder; and a clause to the effect shall be included in the Lease.

4. Termination or Expiration.

(a) Upon Lessee's default and failure to cure the default within the applicable cure period, if any, under either the Lease Agreement or the Franchise Agreement, Franchisor will, at its option, have the right, but not the obligation, to take an automatic assignment of Lessee's interest in the Lease Agreement and at any time thereafter to re-assign the Lease Agreement to a new franchisee without Lessor's consent and to be fully released from any and all liability to Lessor upon the reassignment, provided the franchisee agrees to assume Lessee's obligations and the Lease Agreement. Upon notice from Franchisor to Lessor requesting an automatic assignment, Lessor will, at the cost of Franchisor, take appropriate actions to

secure the leased premises including but not limited changing the locks and granting Franchisor sole rights to the Premises.

(b) Upon the expiration or termination of either the Lease Agreement or the Franchise Agreement (attached), Lessor will cooperate with and assist Franchisor in securing possession of the Premises and if Franchisor does not elect to take an assignment of the Lessee's interest, Lessor will allow Franchisor to enter the Premises, without being guilty of trespass and without incurring any liability to Lessor, to remove all signs, awnings, and all other items identifying the Premises as a Franchised Business and to make other modifications (such as repainting) as are reasonably necessary to protect The Joint marks and system, and to distinguish the Premises from a Franchised Business. In the event Franchisor exercises its option to purchase assets of Lessee or has rights to those through the terms and conditions any agreement between Lessee and Franchisor, Lessor shall permit Franchisor to remove all the assets being purchased by Franchisor.

5. Consideration; No Liability.

(a) Lessor hereby acknowledges that the provisions of this Addendum are required pursuant to the Franchise Agreement under which Lessee plans to operate its business and Lessee would not lease the Premises without this Addendum. Lessor also hereby consents to the Collateral Assignment of Lease from Lessee to Franchisor as evidenced by **Exhibit A**.

(b) Lessor further acknowledges that Lessee is not an agent or employee of Franchisor and Lessee has no authority or power to act for, or to create any liability on behalf of, or to in any way bind Franchisor or any affiliate of Franchisor, and that Lessor has entered into this Addendum with full understanding that it creates no duties, obligations or liabilities of or against Franchisor or any affiliate of Franchisor.

6. Sales Reports. If requested by Franchisor, Lessor will provide Franchisor with whatever information Lessor has regarding Lessee's sales from its Franchised Business.

7. Amendments. No amendment or variation of the terms of the Lease or this Addendum shall be valid unless made in writing and signed by the Parties hereto.

8. Reaffirmation of Lease. Except as amended or modified herein, all of the terms, conditions and covenants of the Lease Agreement shall remain in full force and effect and are incorporated herein by reference and made a part of this Addendum as though copied herein in full.

9. Beneficiary. Lessor and Lessee expressly agree that Franchisor is a third party beneficiary of this Addendum.

[Remainder of Page Left Intentionally Blank – Signature Page Follows]

IN WITNESS WHEREOF, the Parties have duly executed this Addendum as of the Effective Date.

LESSOR:

_____,
a _____

By: _____
Name: _____
Its: _____

LESSEE:

_____,
a _____

By: _____
Name: _____
Its: _____

EXHIBIT A

COLLATERAL ASSIGNMENT OF LEASE

This COLLATERAL ASSIGNMENT OF LEASE (this "Assignment") is entered into effective as of the ___ day of ___, 20___ (the "Effective Date"), the undersigned, _____, ("Assignor") hereby assigns, transfers and sets over unto The Joint Corp., a Delaware corporation ("Assignee") all of Assignor's right, title and interest as tenant, in, to and under that certain lease, a copy of which is attached hereto as **Exhibit 1** (the "Lease Agreement") with respect to the premises located at _____ (the "Premises"). This Assignment is for collateral purposes only and except as specified herein, Assignee shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment unless Assignee shall take possession of the Premises demised by the Lease Agreement pursuant to the terms hereof and shall assume the obligations of Assignor thereunder.

Assignor represents and warrants to Assignee that it has full power and authority to so assign the Lease Agreement and its interest therein and that Assignor has not previously, and is not obligated to, assign or transfer any of its interest in the Lease Agreement nor the Premises demised thereby.

Upon a default by Assignor under the Lease Agreement or under that certain franchise agreement for The Joint between Assignee and Assignor ("Franchise Agreement"), or in the event of a default by Assignor under any document or instrument securing the Franchise Agreement, Assignee shall have the right and is hereby empowered to take possession of the Premises, expel Assignor therefrom, and, in the event, Assignor shall have no further right, title or interest in the Lease Agreement.

Assignor agrees it will not suffer or permit any surrender, termination, amendment or modification of the Lease Agreement without the prior written consent of Assignee. Through the Initial Term of the Franchise Agreement and any Renewal Period thereof (as defined in the Franchise Agreement), Assignor agrees that it shall elect and exercise all options to extend the term of or renew the Lease Agreement not less than thirty (30) days before the last day that said option must be exercised, unless Assignee otherwise agrees in writing. Upon failure of Assignee to otherwise agree in writing, and upon failure of Assignor to so elect to extend or renew the Lease Agreement as stated herein, Assignor hereby irrevocably appoints Assignee as its true and lawful attorney-in-fact, which appointment is coupled with an interest, to exercise the extension or renewal options in the name, place and stead of Assignor for the sole purpose of effecting the extension or renewal.

IN WITNESS WHEREOF, Assignor and Assignee have duly executed this Collateral Assignment of Lease as of the Effective Date.

ASSIGNOR:

_____,
a _____

By: _____
Name: _____
Its: _____

ASSIGNEE:

THE JOINT CORP.,
a Delaware corporation

By: _____
Name: _____
Its: _____

EXHIBIT 4 TO FRANCHISE AGREEMENT

OWNERSHIP INTERESTS IN FRANCHISEE

1. **Form of Franchisee's Ownership.**

(a) **Individual Proprietorship.** Your owner(s) (is) (are) as follows:

(b) **Corporation, Limited Liability Company, or Partnership.** You were incorporated or formed on ____, under the laws of the State of _____. You have not conducted business under any name other than your corporate, limited liability company, or partnership name and _____. The following is a list of your directors, if applicable, and officers as of the effective date shown above:

Name of Each Director/Officer **Position(s) Held**

_____	_____
_____	_____
_____	_____
_____	_____

2. **Owners.** The following list includes the full name of each person who is one of your owners (as defined in the Franchise Agreement), or an owner of one of your owners, and fully describes the nature of each owner's interest (attach additional pages if necessary).

Owner's Name **Percentage/Description of Interest**

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

3. **Name and Address of Person to Receive Notice for Owners.**

- (a) Name: _____
- (b) Postal Address: _____
- (c) E-mail Address: _____

4. **Identification of Location Franchise General Manager.** Your Location Franchise's general manager as of the Effective Date is _____. You must notify us if this manager changes.

FRANCHISEE:

_____,
a _____

By: _____ Date: _____

Name: _____

Its: _____

THE JOINT CORP.,
a Delaware corporation

By: _____ Date: _____

Name: _____

Its: _____

EXHIBIT 5 TO FRANCHISE AGREEMENT
FRANCHISEE COMPLIANCE QUESTIONNAIRE

FRANCHISEE COMPLIANCE QUESTIONNAIRE

The Joint Corp. (the "Franchisor") and you are preparing to enter into a Franchise Agreement. The purpose of this Questionnaire is to determine whether any statements or promises were made to you that the Franchisor has not authorized and that may be untrue, inaccurate or misleading. Please understand that your responses to these questions are important to us and that we will rely on them. Please review each of the following questions and statements carefully and provide honest and complete responses to each. By signing this Questionnaire, you are representing that you have responded truthfully to the following questions.

1. I had my first face-to-face (or by phone or email communication) meeting with a representative of the Franchisor on _____.
2. I received and personally reviewed the Franchisor's Franchise Disclosure Document ("FDD") for The Joint Chiropractic® unit franchises that was provided to me. For purposes of this document, a The Joint Chiropractic® unit franchise shall be referred to as a "Franchise Business".

Yes _____ No _____

3. Did you sign a receipt or acknowledge through electronic means a receipt for the FDD indicating the date you received it?

Yes _____ No _____

4. Do you understand all of the information in the FDD and any state-specific Addendum to the FDD?

Yes _____ No _____

If no, what parts of the FDD and/or Addendum do you not understand? (Attach additional pages, if necessary.)

5. Have you received and personally reviewed the Franchise Agreement and each Addendum and related agreement attached to it?

Yes _____ No _____

6. Do you understand all of the information in the Franchise Agreement, each Addendum and related agreement provided to you?

Yes _____ No _____

If no, what parts of the Franchise Agreement, Addendum, and/or related agreement do you not understand? (Attach additional pages, if necessary.)

7. Have you entered into any binding agreement with the Franchisor for the purchase of this Franchise Business before being provided a copy of the FDD for fourteen (14) calendar days?

Yes _____ No _____

8. Have you paid any money to the Franchisor for the purchase of a Franchise Business before being provided a copy of the FDD for fourteen (14) calendar days?

Yes _____ No _____

9. Have you discussed the benefits and risks of establishing and operating a Franchise Business with your counsel or advisor?

Yes _____ No _____

If no, do you wish to have more time to do so?

Yes _____ No _____

10. Do you understand that the success or failure of your Franchise Business depends in large part on your skills and abilities, competition from other businesses, interest rates, inflation labor and supply costs, lease terms and other economic and business factors?

Yes _____ No _____

Except as disclosed in Item 19 of its FDD, the Franchisor does not make information available to prospective Franchisees concerning actual, average, projected or forecasted sales, profits or earnings for a Franchise Business. The Franchisor does not furnish, or authorize its salespersons to furnish, any oral or written information concerning the actual, average, projected, forecasted sales, costs, income or profits of a Franchise Business. Franchisor specifically instructs its sales personnel, agents, employees and other officers that they are not permitted to make any claims or statements as to the earnings, sales, or profits, or prospects, or chances of success, nor are they authorized to represent or estimate dollar figures as to a Franchise Business' operations. Actual results vary and are dependent on a variety of internal and external factors, some of which neither Franchisee, nor Franchisor can estimate. To ensure that Franchisor's policies have been followed, please answer the following questions:

11. Has any employee, or other person speaking for the Franchisor, made any statement or promise to you regarding the total revenues a Franchise Business will generate that is contrary to the information in the FDD?

Yes _____ No _____

12. Has any employee, or other person speaking for the Franchisor, made any statement or promise of the amount of money or profit you may earn in operating a Franchise Business that is contrary to the information in the FDD?

Yes _____ No _____

13. Has any employee, or other person speaking for the Franchisor, promised you that you will be successful in operating a Franchise Business?

Yes _____ No _____

14. Has any employee, or other person speaking for the Franchisor, made any statement, promise or verbal agreement of about advertising, marketing, training, support service or other assistance that the Franchisor will furnish to you that is contrary to, or different from, the information in the FDD?

Yes _____ No _____

15. If you have answered "Yes" to any one of questions 11-14, please provide a full explanation of each "yes" answer. (Attach additional pages, if necessary, and refer to them below.) If you have answered "no" to each of questions 11-14, please leave the following lines blank.

16. I signed the Franchise Agreement and Addendum (if any) on _____ and acknowledge that no Agreement or Addendum is effective until signed and dated by the Franchisor.

I certify that my answers to the foregoing questions are true, correct and complete. These acknowledgments are not intended to act, nor shall they act, as a release, estoppel or waiver of any liability incurred under any state's franchise registration and/or disclosure laws.

FRANCHISEE ("you")

—

By: __

Title: __

Date Received: _____

Date Signed: __

EXHIBIT 6 TO FRANCHISE AGREEMENT

EFT AUTHORIZATION FORM

[See Attached]

EFT AUTHORIZATION AGREEMENT FORM



CLINIC NAME: _____

EFT AUTHORIZATION AGREEMENT

Through this EFT Authorization Agreement, I hereby authorize The Joint Corp., d/b/a *The Joint Chiropractic* to initiate automatic electronic funds transfers, withdrawals or deposits to my account at the financial institution named below for the fees and expenses as required by the terms of my franchise agreement (including without limitation; software fees, late fees, royalty draws (which consists of corporate royalty and Ad Fund contributions) and settlement of net inter-clinic activity). Any banking fees incurred by The Joint Corp. due to insufficient funds or outdated banking information will be my responsibility.

This EFT Authorization Agreement will remain in effect until The Joint Corp. receives a written notice of cancellation from me, or until I submit a new form to The Joint Corp. Accounting Department.

ACCOUNT INFORMATION

Add Change

Name of Financial Institution: _____

Routing Number: _____

Account Number: _____ Checking

SIGNATURE

Authorized Signature: _____ Date: _____

Print Name: _____

Please attach a voided check and return this form to the Accounting Department
(accounting.services@thejoint.com)

EXHIBIT 7 TO FRANCHISE AGREEMENT

STATE-SPECIFIC ADDENDA



CALIFORNIA ADDENDUM TO FRANCHISE AGREEMENT

1. If any of the provisions of the Agreement concerning termination are inconsistent with either the California Franchise Relations Act or with the Federal Bankruptcy Code (concerning termination of the Agreement on certain bankruptcy-related events), then such laws will apply.

2. The Agreement requires that it be governed by Arizona law. This requirement may be unenforceable under California law.

3. You must sign a general release if you renew or transfer your franchise. California Corporations Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this California Addendum to the Franchise Agreement on the same date as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____

Print Name: _____

Title: _____

FRANCHISEE

By:

Title:

By:

Title:

HAWAII ADDENDUM TO FRANCHISE AGREEMENT

1. The Franchise Agreements contain a provision requiring a general release as a condition of renewal and transfer of the franchise. Such release will exclude claims arising under the Hawaii Franchise Investment Law.

2. Any provisions of the Franchise Agreement that relate to non-renewal, termination, and transfer are only applicable if they are not inconsistent with the Hawaii Franchise Investment Law. Otherwise, the Hawaii Franchise Investment Law will control.

3. The Franchise Agreement permits us to terminate the Agreement on the bankruptcy of you and/or your affiliates. This Article may not be enforceable under federal bankruptcy law. (11 U.S.C. § 101, *et seq.*)

4. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Hawaii Franchise Investment Law are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Hawaii Addendum to the Franchise Agreement on the same date as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____

Print Name: _____

Title: _____

FRANCHISEE

By:

Title:

By:

Title:

ILLINOIS ADDENDUM TO FRANCHISE AGREEMENT

1. Any provisions of the Agreement requiring a general release as a condition of renewal and transfer of the franchise shall be limited to exclude claims arising under the Illinois Franchise Disclosure Act.

2. If any of the provisions of Section 15 of the Agreement concerning termination are inconsistent with Section 705/19 of the Illinois Franchise Disclosure Act of 1987, the provisions of Section 705/19 shall apply.

3. The Illinois Franchise Disclosure Act will govern the Agreement with respect to Illinois Franchisees. The provisions of the Agreement concerning governing law, jurisdiction, and venue will not constitute a waiver of any right conferred on you by the Illinois Franchise Disclosure Act. Consistent with the foregoing, any provision in the Agreement which designates jurisdiction and venue in a forum outside of Illinois is void with respect to any cause of action which is otherwise enforceable in Illinois.

4. In conformance with Section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

5. Illinois law governs the Franchise Agreement(s).

6. Your rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

7. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Illinois law applicable to the provision are met independently without reference to this Addendum.

8. If any of the provisions of this Section 17.10 of the Agreement concerning waivers is inconsistent with Section 705/41 of the Illinois Franchise Disclosure Act of 1987, the provisions of Section 705/41 shall apply.

9. To the extent that Section 17.11 of the Agreement concerning periods of limitation is inconsistent with Section 705/27 of the Illinois Franchise Disclosure Act of 1987, the provisions of Section 705/27 shall apply.

10. All fees referenced in the Franchise Agreement are subject to deferral pursuant to order of the Illinois Attorney General's Office based upon their review of our financial condition as reflected in our financial statements. Accordingly, you will pay no fees to us until we have completed all of our material pre-opening responsibilities to you and you commence operating the franchised business.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Illinois Addendum to the Franchise Agreement on the same date as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____

Print Name: _____

Title: _____

FRANCHISEE

By: _____ By: _____

Title: _____ Title: _____

INDIANA ADDENDUM TO FRANCHISE AGREEMENT

1. Articles 2.6 and 14.5 each contain a provision requiring a general release as a condition of renewal and transfer of the franchise. Such provision is inapplicable under the Indiana Deceptive Franchise Practices Law, IC 23-2-2.7 § 1(5).

2. Under Article 8.3, you will not be required to indemnify us for any liability imposed on us as a result of your reliance on or use of procedures or products which were required by us, if such procedures were utilized by you in the manner required by us.

3. Article 17.9 is amended to provide that mediation between you and us will be conducted at a mutually agreed-on location.

4. Article 17.11 is amended to provide that in the event of a conflict of law, the Indiana Franchise Disclosure Law, I.C. 23-2-2.5, and the Indiana Deceptive Franchise Practices Law, I.C. 23-2-2.7, will prevail.

5. Nothing in the Agreement will abrogate or reduce any rights you have under Indiana law.

6. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Indiana Franchise Disclosure Law, Indiana Code §§ 23-2-2.5-1 to 23-2-2.5-51, and the Indiana Deceptive Franchise Practices Act, Indiana Code §§ 23-2-2.7-1 to 23-2-2.7-10, are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Indiana Addendum to the Franchise Agreement on the same date as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____

Print Name: _____

Title:

FRANCHISEE

By:

Title:

By:

Title:

MARYLAND ADDENDUM TO FRANCHISE AGREEMENT

a. Notwithstanding anything to the contrary set forth in the Agreement, the following provisions will supersede and apply to all franchises offered and sold in the State of Maryland:

b. The provision in the Franchise Agreement which provides for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 et seq.).

c. The general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

d. A franchisee may bring an action in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

e. Any limitation on the period of time litigation claims may be brought shall not act to reduce the 3 year statute of limitations afforded a franchisee for bringing a claim arising under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

f. The acknowledgements and representations of the franchisee made in the franchise agreement which disclaim the occurrence and/or acknowledge the non-occurrence of acts that would constitute a violation of the Franchise Law are not intended to nor shall they act to release, estoppel or waive any liability incurred under the Maryland Franchise Registration and Disclosure Law.

g. Based upon the franchisor's financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by franchisees shall be deferred until the franchisor completes its pre-opening obligations under the Franchise Agreement.

h. The Franchisee Compliance Questionnaire, which is attached to the Agreement as Exhibit 5, is amended as follows:

All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____

Print Name: _____

Title: _____

FRANCHISEE

By: _____

Title: _____

By: _____

Title: _____

MINNESOTA ADDENDUM TO FRANCHISE AGREEMENT

1. Article 8 is amended to add the following:

“We will protect your right to use the Marks and/or indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the Marks.”

2. Articles 2.6 and 14.5 each contain a provision requiring a general release as a condition of renewal and transfer of the franchise. Such release will exclude claims arising under the Minnesota Franchise Law.

3. Article 15 is amended to add the following:

With respect to franchises governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C. 14, Subds. 3, 4 and 5, which require, except in certain specified cases, that a franchisee be given 90 days’ notice in advance of termination (with 60 days to cure) and 180 days’ notice for nonrenewal of the Franchise Agreement.

4. Article 17.10 is amended as follows:

Pursuant to Minn. Stat. § 80C.17, Subd. 5, the parties agree that no civil action pertaining to a violation of a franchise rule or statute can be commenced more than three years after the cause of action accrues.

5. Articles 17.8, and 17.9 are each amended to add the following:

Minn. Stat. Sec. 80C.2 1 and Minn. Rule 2860.4400J prohibit us from requiring litigation or mediation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or Franchise Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum or remedies provided for by the laws of the jurisdiction. Under this statute and rule, franchisor cannot require you to consent to injunction relief; however, franchisor may seek injunctive relief from the Court.

6. Article 17.10 is amended to add the following:

Minn. Rule Part 2860.4400J prohibits us from requiring you to waive your rights to a jury trial or waive your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction, or consenting to liquidated damages, termination penalties or judgment notes.

7. Each provision of this Agreement will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Franchises Law or the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce are met independently without reference to this Addendum to the Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Minnesota Addendum to the Franchise Agreement on the same day as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____
Print Name: _____

Title: _____

FRANCHISEE

By: _____
Title: _____

NEW YORK ADDENDUM TO FRANCHISE AGREEMENT

1. Article 14.3 is amended to add the following:

However, we will not make any such transfer or assignment except to a person who, in our good faith judgment, is willing and able to assume our obligations under this Agreement, and all rights enjoyed by you and any causes of action arising in its favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder will remain in force, it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

2. Article 14.5 is amended to add the following:

However, all rights enjoyed by you and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder will remain in force, it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

3. Article 8.3 is amended to add the following:

However, you will not be required to hold harmless or indemnify us for any claim arising out of a breach of this Agreement by us or any other civil wrong of us.

4. Article 20 is amended to add the following:

No amendment or modification of any provision of this Agreement, however, will impose any new or different requirement which unreasonably increases your obligations or places an excessive economic burden on your operations.

5. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the General Business Law of the State of New York are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this New York Addendum to the Franchise Agreement on the same date as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____
Print Name: _____

Title: _____

FRANCHISEE

By: _____
Title: _____

NORTH DAKOTA ADDENDUM TO FRANCHISE AGREEMENT

1. Articles 2.6 and 14.5 each contain a provision requiring a general release as a condition of renewal or transfer of the franchise. Such release is subject to and will exclude claims arising under the North Dakota Franchise Investment Law.

2. Article 17.9 will be amended to state that mediation involving a franchise purchased in North Dakota must be held in a location mutually agreed on prior to the mediation, or if the parties cannot agree on a location, at a location to be determined by the mediation.

3. Article 9.3 is amended to add that covenants not to compete on termination or expiration of a Franchise Agreement are generally not enforceable in the State of North Dakota except in limited circumstances provided by North Dakota law.

4. Article 17.9 will be amended to add that any claim or right arising under the North Dakota Franchise Investment Law may be brought in the appropriate state or federal court in North Dakota, subject to the mediation provision of the Agreement.

5. Article 17.11 will be amended to state that, in the event of a conflict of law, to the extent required by the North Dakota Franchise Investment Law, North Dakota law will prevail.

6. Article 17.10 requires the franchisee to waive a trial by jury, as well as exemplary and punitive damages. These requirements are not enforceable in North Dakota pursuant to Section 51-19-09 of the North Dakota Franchise Investment Law, and are therefore not part of the Franchise Agreement.

7. Article 17.10 requirement that the franchise consent to a limitation of claims period of one year is not consistent with North Dakota law. The limitation of claims period under the Franchise Agreement shall therefore be governed by North Dakota law.

8. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the North Dakota Franchise Investment Law, N.D. Cent. Code §§ 51-19-01 through 51-19-17, are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this North Dakota Addendum to the Franchise Agreement on the same day as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____
Print Name: _____

Title: _____

FRANCHISEE

By: _____
Title: _____

RHODE ISLAND ADDENDUM TO FRANCHISE AGREEMENT

1. Articles 2.6 and 14.5 each contain a provision requiring a general release as a condition of renewal and transfer of the franchise. Such release will exclude claims arising under the Rhode Island Franchise Investment Act.

2. This Agreement requires that it be governed by Arizona law. To the extent that such law conflicts with Rhode Island Franchise Investment Act, it is void under Sec. 19-28.1-14.

3. Article 17.11 of the Agreement will each be amended by the addition of the following, which will be considered an integral part of this Agreement:

“§ 19-28.1-14 of the Rhode Island Franchise Investment Act provides that ‘A provision in an Franchise Agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.’”

4. Each provision of this Addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of Rhode Island Franchise Investment Act, §§ 19- 28-1.1 through 19-28.1-34, are met independently without reference to this Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Rhode Island Addendum to the Franchise Agreement on the same date as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____

Print Name: _____

Title: _____

FRANCHISEE

By:

Title:

By:

Title:

VIRGINIA ADDENDUM TO FRANCHISE AGREEMENT

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchise to cancel a franchise without reasonable cause. If any grounds for default or terminated stated in the franchise agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchise to use undue influence to induce a franchisee to surrender any rights given to him under the franchise. If any provision of the franchise agreement involved the use of undue influence by the franchisor to induce the franchisee to surrender any rights given to him under the franchise, that provision may not be enforceable.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Virginia Addendum to the Franchise Agreement on the same date as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____

Print Name: _____

Title: _____

FRANCHISEE

By:

Title: _____

By: _____

Title: _____

WASHINGTON ADDENDUM TO FRANCHISE AGREEMENT

1. We will not require that you prospectively assent to a release, assignment, novation, or waiver that purports to relieve any person from liability imposed by the Washington Franchise Investment Protection Act.

2. We will not require you to agree to any condition, stipulation, or provision, including a choice of law provision, that binds any person to waive compliance with any provision of the Washington Franchise Investment Protection Act. This provision does not apply to a release or waiver executed by any person pursuant to a negotiated settlement. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act shall prevail.

3. Unless you and we mutually agree otherwise, arbitration will be conducted in the State of Washington.

4. We will not unreasonably restrict your rights and remedies under the Washington Franchise Investment Protection Act, including, but not limited to, the right to a jury trial.

5. We will not unreasonably restrict or limit the statute of limitations period for claims under the Washington Franchise Investment Protection Act.

6. Any provision in the Franchise Agreement that limits the time period in which you may assert a legal claim against us under the Washington Franchise Investment Protection Act is amended to toll the statute of limitations for purposes of bringing an action within one (1) year after the final judgment or order in any civil, criminal, or administrative proceedings brought by the federal or Washington state governments or any of their agencies relating to anti-trust or franchising laws, including the Washington Franchise Investment Protection Act.

7. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

8. Section 19.100.180 of the Washington Franchise Investment Protection Act may supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of your franchise.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Washington Addendum to the Franchise Agreement on the same date as the Franchise Agreement was executed.

**THE JOINT CORP.,
a Delaware corporation,**

By: _____
Print Name: _____
Title: _____

FRANCHISEE

By: _____
Title: _____

Consent of Independent Registered Public Accounting Firm

The Joint Corp.
Scottsdale, Arizona

We hereby consent to the incorporation by reference in the Registration Statements on Form S8 (No. 333-225898 and No. 333-208262) of The Joint Corp. of our report dated March 10, 2023, relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ BDO USA, LLP
Phoenix, Arizona

March 10, 2023

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 10, 2023 /s/ Peter D. Holt

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

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 10, 2023 /s/ Jake Singleton

Jake Singleton
Chief Financial Officer
(Principal Financial Officer)

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, 2022 (“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 10, 2023

/s/ Peter D. Holt

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

Dated: March 10, 2023

/s/ Jake Singleton

Jake Singleton
Chief Financial Officer
(Principal Financial Officer)