JOINT Corp
Form 10-Q
May 15, 2015

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

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

For the transition period from __________________ to _________________

Commission file number: 001-36724

The Joint Corp.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	90-0544160 (IRS Employer Identification No.)
16767 N. Perimeter Drive, Suite 240, Scottsdale Arizona (Address of principal executive offices)	85260 (Zip Code)

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

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

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 þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	þ

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

As of May 8, 2015, the registrant had 9,621,581 shares of Common Stock ($0.001 par value) outstanding.

THE JOINT CORP.
FORM 10-Q

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PART I: FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENT

THE JOINT CORP. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2015 (unaudited)	December 31, 2014 (audited)
Current assets:		
Cash and cash equivalents	$17,082,930	$20,796,783
Restricted cash	338,561	224,576
Accounts receivable, net	775,669	704,905
Income taxes receivable	395,814	395,814
Note receivable - current portion	24,598	27,528
Deferred franchise costs - current portion	579,800	622,800
Deferred tax asset - current portion	208,800	208,800
Prepaid expenses and other current assets	80,326	375,925
Total current assets	19,486,498	23,357,131
Property and equipment, net	1,587,544	1,134,452
Note receivable	27,942	31,741
Deferred franchise costs, net of current portion	2,432,900	2,574,450
Intangible assets, net	1,084,583	153,000
Goodwill	1,821,040	636,104
Deposits and other assets	86,051	585,150
Total assets	$26,526,558	$28,472,028
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$1,575,614	$1,271,405
Co-op funds liability	298,561	186,604
Payroll liabilities	627,467	617,944
Note payable - current portion	115,000	-
Deferred rent - current portion	98,053	93,398
Deferred revenue - current portion	2,008,106	1,957,500
Other current liabilities	41,575	50,735
Total current liabilities	4,764,376	4,177,586
Note payable - net of current portion	140,000	-
Deferred rent, net of current portion	432,317	451,766
Deferred revenue, net of current portion	7,037,500	7,915,918
Other liabilities	296,448	299,405
Total liabilities	12,670,641	12,844,675
Commitment and contingencies		
Stockholders' equity:		
Series A preferred stock, $0.001 par value; 50,000 shares authorized, 0 issued and outstanding, as of March 31, 2015, and December 31, 2014	-	-
Common stock, $0.001 par value; 20,000,000 shares authorized, 10,265,019 shares issued and 9,731,019 shares outstanding as of March 31, 2015 and	10,265	10,197

10,196,502 shares issued and 9,662,502 outstanding as of December 31, 2014		
Additional paid-in capital	21,553,194	21,420,975
Treasury stock (534,000 shares, at cost)	(791,638)	(791,638)
Accumulated deficit	(6,915,904)	(5,012,181)
Total stockholders' equity	13,855,917	15,627,353
Total liabilties and stockholders' equity	$26,526,558	$28,472,028

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

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Revenues:		
Royalty fees	$1,015,513	$608,327
Franchise fees	348,000	464,000
Revenues and management fees from company clinics	387,453	-
Advertising fund revenue	285,516	86,734
IT related income and software fees	203,975	199,625
Regional developer fees	217,500	108,750
Other revenues	49,941	45,401
Total revenues	2,507,898	1,512,837
Cost of revenues:		
Franchise cost of revenues	507,566	458,776
IT cost of revenues	37,695	71,748
Total cost of revenues	545,261	530,524
Selling and marketing expenses	967,024	119,944
Depreciation and amortization	122,596	40,066
General and administrative expenses	2,788,240	979,690
Total selling, general and administrative expenses	3,877,860	1,139,700
Loss from operations	(1,915,223)	(157,387)
Gain on sale of property and equipment	11,500	-
Loss before income tax benefit	(1,903,723)	(157,387)
Income tax benefit	-	29,493
Net loss	$(1,903,723)	$(127,894)
Loss per share:		
Basic and diluted loss per share	$(0.20)	$(0.03)

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

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from operating activities:		
Net loss	$(1,903,723)	$(127,894)
Adjustments to reconcile net loss income to net cash (used in) provided by operating activities:		
Provision for bad debts	847	-
Regional developer fees recognized upon acquisition of development rights	(159,500)	-
Depreciation and amortization	122,596	40,066
Gain on sale of property and equipment	(11,500)	-
Deferred income taxes	-	(2)
Stock based compensation expense	132,287	15,600
Changes in operating assets and liabilties, net of effects from acquisitions:		
Restricted cash	(113,985)	(113,324)
Accounts receivable	(71,611)	85,929
Prepaid income taxes	-	(63,499)
Prepaid expenses and other current assets	295,599	8,033
Deferred franchise costs	74,550	24,800
Deposits and other assets	(8,401)	-
Accounts payable and accrued expenses	304,209	58,096
Co-op funds liability	111,957	26,586
Payroll liabilities	9,523	(17,134)
Other liabilities	(12,117)	34,958
Deferred rent	(14,794)	540,361
Income taxes payable	-	(419,297)
Deferred revenue	(98,998)	(43,500)
Net cash (used in) provided by operating activities	(1,343,061)	49,779
Cash flows from investing activities:		
Acquisition of businesses	(1,830,000)	-
Reacquisition and termination of regional developer rights	(545,000)	-
Purchase of property and equipment	(14,021)	(548,993)
Proceeds received on sale of property and equipment	11,500	-
Payments received on notes receivable	6,729	6,339
Net cash used in investing activities	(2,370,792)	(542,654)
Cash flows from financing activities:		
Net cash provided by financing activities	-	-
Net decrease in cash	(3,713,853)	(492,875)
Cash at beginning of period	20,796,783	3,516,750
Cash at end of period	$17,082,930	$3,023,875
Supplemental cash flow disclosures:		
Cash paid for income taxes	$-	$420,250

Supplemental Non-Cash Disclosures:
In connection with our acquisitions of franchises during the three-months ended March 31, 2015, we acquired $525,000 of property and equipment, intangible assets of $329,000 and assumed deferred revenue associated with membership packages paid in advance of $104,936 in exchange for $1,830,000 in cash and notes payable issued to the sellers for an aggregate amount of $255,000. Additionally, at the time of these transactions, we carried deferred revenue of $348,000, representing franchise fees collected upon the execution of franchise agreements, and deferred costs of $155,900, related to our acquisition of undeveloped franchises. In accordance with ASC-952-605, we netted these amounts against the aggregate purchase price of the acquisitions (Note 2).

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In connection with our reacquisition and termination of regional developer rights during the three-months ended March 31, 2015, we carried deferred revenue of $572,750, representing license fees collected upon the execution of the regional developer agreements. In accordance with ASC-952-605, we netted these amounts against the aggregate purchase price of the acquisitions (Note 5).

As of December 31, 2014, we recorded a deposit of $507,500 for the reacquisition and termination of regional developer rights, which were paid in advance. During the three-months ended March 31, 2015, upon the effective date of the agreement, we reclassified $507,500 from deposits, to intangible assets.

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

THE JOINT CORP. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Presentation

These unaudited financial statements represent the condensed consolidated financial statements of The Joint Corp. and its wholly owned subsidiary The Joint Corporate Unit No. 1, LLC (collectively, the "Company"). These unaudited condensed consolidated financial statements should be read in conjunction with The Joint Corp. and Subsidiary consolidated financial statements and the notes thereto as set forth in The Joint Corp.'s Form 10-K, which included all disclosures required by generally accepted accounting principles. In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly our financial position on a consolidated basis and the consolidated results of operations and cash flows for the interim periods presented. The results of operations for the periods ended March 31, 2015 and 2014 are not necessarily indicative of expected operating results for the full year. The information presented throughout the document as of and for the periods ended March 31, 2015 and 2014 is unaudited.

Nature of Operations

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

We completed our initial public offering of 3,000,000 shares of common stock at a price to the public of $6.50 per share on November 14, 2014, whereupon we received aggregate net proceeds of approximately $17,065,000 after deducting underwriting discounts, commissions and other offering expenses. 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 aggregate net proceeds of approximately $2,710,000, after deducting underwriting discounts, commissions and expenses. Also, in conjunction with the IPO, we issued warrants to the underwriters for the purchase of 90,000 shares of common stock, which can be exercised between November 10, 2015 and November 10, 2018 at an exercise price of $8.125 per share.

The following table summarizes the number of clinics in operation under franchise agreements for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
Clinics open at beginning of period	246	175
Clinics opened during the period	13	18
Clinics closed during the period	(6)	(1)
Clinics in operation at the end of the period	253	192
Clinics sold but not yet operational	254	263

Principles of Consolidation

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

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

Variable Interest Entities

An entity that has a controlling financial interest in a variable interest entity ("VIE") is referred to as the primary beneficiary and consolidates the VIE. An entity is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

Certain states regulate the practice of chiropractic care and require that chiropractic services are provided by legal entities organized under state laws as professional corporations or PCs. In these states, where we have acquired franchises as company owned and managed, we have entered into management services agreements with PCs to provide on an exclusive basis, all non-clinical services of the chiropractic practice. We have analyzed our relationship with the PCs and have determined that have we do not have the power to direct the activities of the VIE. As such, the activity of the PCs is not included in our consolidated financial statements.

Cash and Cash Equivalents

We consider all highly liquid instruments purchased with an original maturity of three months or less to be cash. We continually monitor our positions with, and credit quality of, the financial institutions with which we invest. As of the balance sheet date and periodically throughout the period, we have maintained balances in various operating accounts in excess of federally insured limits. We have invested substantially all of the proceeds of our IPO in short-term bank deposits. We had no cash equivalents as of March 31, 2015 and December 31, 2014.

Restricted Cash

Restricted cash relates to cash franchisees are required to contribute to our National Marketing Fund and cash franchisees provide to various voluntary regional Co-Op Marketing Funds. Cash contributed to the National Marketing Fund is to be used in accordance with the Franchise Disclosure Document with a focus on regional and national marketing and advertising.

Concentrations of Credit Risk

We grant credit in the normal course of business to franchisees related to the collection of initial franchise fees, royalties, and other operating revenues. We periodically perform credit analysis and monitor the financial condition of the franchisees to reduce credit risk. As of March 31, 2015, three franchisees represented 45% of outstanding accounts receivable. As of December 31, 2014, six franchisees represented 56% of outstanding accounts receivable. We did not have any customers that represented greater than 10% of our revenues during the three months ended March 31, 2015 and 2014.

Accounts Receivable

Accounts receivable represent amounts due from franchisees for initial franchise fees, royalty fees and marketing and advertising expenses. We consider a reserve for doubtful accounts based on the creditworthiness of the franchisee. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on specific identification and historical performance we track on an ongoing basis. The losses ultimately could differ materially in the near term from the amounts estimated in determining the allowance. As of March 31, 2015 and December 31, 2014, we had an allowance for doubtful accounts of $81,879 and $81,032, respectively.

Deferred Franchise Costs

Deferred franchise costs represent commissions that are paid in conjunction with the sale of a franchise and are expensed when the respective revenue is recognized, which is generally upon the opening of a clinic.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the assets.

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

Software Developed

We capitalize most software development costs. These capitalized costs are primarily related to proprietary software used by clinics for operations and the Company for 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 and incremental, 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. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Software developed is recorded as part of property and equipment. Maintenance and training costs are expensed as incurred. Internal use software is amortized on a straight line basis over its estimated useful life, generally 5 years.

Intangible Assets

Intangible assets consist primarily of re-acquired franchise 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 was approximately 7 years. The fair value of customer relationships is amortized over their estimated useful life of 2 years.

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired in the acquisitions discussed in Note 2. Under FASB ASC 350-10, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests, and tests between annual tests in certain circumstances, based on estimated fair value in accordance with FASB ASC 350-10, and written down when impaired.

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 our assessment of whether or not long-lived assets have been impaired. No impairments of long-lived assets were recorded for the periods ended March 31, 2015 and 2014.

Advertising Fund

We have established an advertising fund for national/regional marketing and advertising of services offered by the clinics owned by the franchisees. As stipulated in the typical franchise agreement, a franchisee, in addition to the monthly royalty fee, pays a monthly marketing fee of 1% of gross sales, which increased to 2% in January 2015. We segregate the marketing funds collected and use the funds for specific purposes as outlined in the Franchise Disclosure

Document. These funds are included in restricted cash on our consolidated balance sheets. As amounts are expended from the fund, we recognize advertising fund revenue and a related expense. Amounts collected in excess of marketing expenditures are included in restricted cash on our consolidated balance sheets.

Co-Op Marketing Funds

Some franchises have established regional Co-Ops for advertising within their local and regional markets. We maintain an agency relationship under which the marketing funds collected are segregated and used for the purposes specified by the Co-Ops officers. The marketing funds are included in restricted cash on our consolidated balance sheets.

Deferred Rent

We lease office space for our corporate offices and company-owned clinics under operating leases, which may include rent holidays and rent escalation clauses. We recognize rent holiday periods and scheduled rent increases on a straight-line basis over the term of the lease. We record tenant improvement allowances as deferred rent liabilities and amortizes the allowance over the term of the lease, as a reduction to rent expense.

Revenue Recognition

We generate revenue through initial franchise fees, regional developer fees, transfer fees, royalties, IT related income, and computer software fees, and from our company-owned and managed clinics.

Initial Franchise Fees. We require the entire non-refundable initial franchise fee to be paid upon execution of a franchise agreement, which has an initial term of ten years. Initial franchise fees are recognized as revenue when we have substantially completed our initial services under the franchise agreement, which typically occurs upon opening of the clinic. Our services under the franchise agreement include: training of franchisee and staff, site selection, construction/vendor management and ongoing operations support. We provide no financing to franchisees or offer guarantees on their behalf.

Regional Developer Fees. During 2011, we established a regional developer program to engage independent contractors to assist in developing specified geographical regions. Under this program, regional developers pay a license fee of 25% of the then current franchise fee for each franchise they receive the right to develop within a specified geographical region. Each regional developer agreement establishes a minimum number of franchises that the regional developer must develop. Regional developers receive 50% of franchise fees collected upon the sale of franchises within their region and a royalty of 3% of sales generated by franchised clinics in their region. Regional developer fees are non-refundable and are recognized as revenue when we have performed substantially all initial services required by the regional developer agreement, which generally is considered to be upon the opening of each franchised clinic. Upon the execution of a regional developer agreement, we estimate the number of franchised clinics to be opened, which is typically consistent with the contracted minimum. When we anticipate that the number of franchised clinics to be opened will exceed the contracted minimum, the license fee on a per-clinic basis is determined by dividing the total fee collected from the regional developer by the number of clinics expected to be opened within the region. Certain regional developer agreements provide that no additional fee is required for franchises developed by the regional developer above the contracted minimum, while other regional developer agreements require a supplemental payment. We reassess the number of clinics expected to be opened as the regional developer performs under its regional developer agreement. When a material change to the original estimate becomes apparent, the fee per clinic is revised on a prospective basis, and the unrecognized fees are allocated among, and recognized as revenue upon the opening of, the expected remaining unopened franchised clinics within the region. The franchisor's services under regional developer agreements include site selection, grand opening support for two clinics, sales support for identification of qualified franchisees, general operational support and marketing support to advertise for ownership opportunities. Several of our regional developer agreements grant us the option to repurchase the regional developer's license.

Revenues and Management Fees from Company Clinics. We earn revenues from clinics that we operate or manage throughout the US. In those states where we 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-visiting pricing. Amounts collected up front for membership and wellness packages are recorded as deferred revenue and recognized when the service is performed. In other states where state law requires the chiropractic practice to be owned by a licensed chiropractor, we enter into a management agreement with the doctor’s professional corporation. Under the management agreement, we provide administrative and business management services to the doctor’s professional corporation in return for a monthly management fee. When the collectability of the full management fee is uncertain, we recognize management fee revenue only to the extent of fees expected to be collected from the professional corporations.

Royalties. We collect royalties, as stipulated in the franchise agreement, equal to 7% of gross sales, and a marketing and advertising fee currently of 2% of gross sales. Certain franchisees with franchise agreements acquired during the formation of the Company pay a monthly flat fee. Royalties are recognized as revenue when earned. Royalties are collected bi-monthly two working days after each sales period has ended.

IT Related Income and Software Fees. We collect a monthly computer software fee for use of our proprietary chiropractic software, computer support, and internet services support, which was made available to all clinics in April 2012. These fees are recognized on a monthly basis as services are provided. IT related revenue represents a flat fee to purchase a clinic's computer equipment, operating software, preinstalled chiropractic system software, key card scanner (patient identification card), credit card scanner and credit card receipt printer. These fees are recognized as revenue upon receipt of equipment by the franchisee.

Advertising Costs

We incur advertising costs in addition to those included in the advertising fund. Our policy is to expense all operating advertising costs as incurred. Advertising expenses were $268,506 and $44,080 for three months ended March 31, 2015 and 2014, respectively.

Income Taxes

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

We account 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. We measure the tax benefits and expenses recognized in the condensed consolidated financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

At March 31, 2015 and December 31, 2014, we maintained a liability for income taxes for uncertain tax positions of approximately $124,000 and $122,000, respectively, of which $32,000 and $30,000 respectively, represent penalties and interest and are recorded in the "other liabilities" section of the accompanying condensed consolidated balance sheets. Interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expenses. Our tax returns for tax years subject to examination by tax authorities include 2011 through the current period for state and federal reporting purposes.

Loss per Common Share

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

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
Net loss	$	(1,903,723)	$	(127,894)
Weighted average common shares outstanding - basic		9,662,502		4,811,561
Effect of dilutive securities:				
Stock options		-		-
Shares issuable on conversion of preferred stock		-		-
Weighted average common shares outstanding - diluted		9,662,502		4,811,561
Basic and diluted loss per share	$	(0.20)	$	(0.03)

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Unvested restricted stock	522,356	125,159
Stock options	366,995	198,915
Warrants	90,000	-

Stock-Based Compensation

We account for share based payments by recognizing compensation expense based upon the estimated fair value of the awards on the date of grant. We determined the estimated grant-date fair value of restricted shares using quoted market prices and the grant-date fair value of stock options using the Black-Scholes option pricing model and recognize compensation costs ratably over the period of service using the straight-line method.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Items subject to significant estimates and assumptions include the allowance for doubtful accounts, share-based compensation arrangements, fair value of stock options, useful lives and realizability of long-lived assets, classification of deferred revenue and deferred franchise costs and the related deferred tax assets and liabilities as long-term or current, uncertain tax positions, realizability of deferred tax assets and purchase price allocations.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard becomes effective for us on January 1, 2017. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. Recent tentative decisions by the FASB may delay the effective date of this ASU and some of its other provisions. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern: Disclosures about an Entity's Ability to Continue as a Going Concern." The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The new guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter. We are currently evaluating the impact of the adoption of ASU No. 2014-15 on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. ASU 2015-03 is not expected to have a material impact on the Company's condensed consolidated financial statements.

Note 2: Acquisitions

Los Angeles County Acquisition of Franchise Units

On December 31, 2014, we acquired substantially all the assets and certain liabilities of six franchises held by The Joint RRC Corp. including franchises that manage four operating clinics in Los Angeles County for a purchase price of $900,000 which was paid in cash on December 31, 2014. We intend to manage four of the acquired franchises as company clinics and to terminate two remaining franchises. On January 1, 2015, we amended the original agreement in which we acquired an additional three undeveloped franchises. This resulted in a net deferred revenue adjustment of $41,100 to the net purchase price. No additional consideration was paid.

The purchase price allocation for these acquisitions is subject to further adjustment upon finalization of the opening balance sheet. The following summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

Property and equipment	$297,630
Intangible assets	153,000
Goodwill	636,104
Total assets acquired	1,086,734
Unfavorable leases	(227,834)
Net assets acquired	$858,900

Intangible assets consist of reacquired franchise rights of $81,000 and customer relationships of $72,000 and will be amortized over their estimated useful lives of seven years and two years, respectively.

Unfavorable leases consist of leases with rents that are in excess of market value. This liability will be amortized over the lives of the associated leases.

Goodwill recorded in connection with this acquisition was attributable to the workforce of the clinics and synergies expected to arise from cost savings opportunities. All of the recorded goodwill is tax-deductible.

Acquisition of Franchises in Phoenix and Tucson, Arizona

On February 17, 2015, we acquired substantially all of the assets and certain liabilities of two operating franchises in Phoenix and Tucson, Arizona from Roth & Pelan Enterprises, LLC. The total consideration for this transaction was $935,000, subject to certain adjustments, of which $780,000 was funded from the proceeds of our recent initial public offering and a note for $155,000 was issued to the seller. We intend to operate the two franchises as company clinics.

At the time of the transaction, we carried a deferred revenue balance of $29,000, representing franchise fees collected upon the execution of the franchise agreements, and deferred franchise costs of $1,450, related to the undeveloped franchise. In accordance with ASC 952-605, we accounted for the franchise rights associated with the undeveloped franchise as a cancellation, and the respective deferred revenue and deferred franchise costs were netted against the aggregate purchase price. The remaining $907,450 was accounted for as consideration paid for the two acquired franchises.

The purchase price allocation for this acquisition is preliminary and subject to further adjustment upon finalization of the opening balance sheet. The following summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

Property and equipment	$150,000
Intangible assets	155,000
Goodwill	626,973
Total assets acquired	931,973
Deferred membership revenue	(24,523)
Net assets acquired	$907,450

Intangible assets consist of reacquired franchise rights of $82,000, customer relationships of $73,000 and will be amortized over their estimated useful lives of seven years and two years, respectively.

Goodwill recorded in connection with this acquisition was attributable to the workforce of the clinics and synergies expected to arise from cost savings opportunities. All of the recorded goodwill is tax-deductible.

We have retrospectively adjusted the condensed consolidated balance sheet as of December 31, 2014 related to adjustments to the purchase price allocation of the above acquisition. The impacts are adjustments to deferred franchise costs, goodwill and deferred revenue, with no changes to total net assets. There were no impacts on the consolidated statements of operations or cash flows for any prior periods as a result of these adjustments. The balance sheet impacts are as follows:

	December 31, 2014	
	As reported	As revised
Deferred franchise costs - current portion	$ 668,700	$ 622,800
Goodwill	677,204	636,104
Deferred revenue - current portion	2,044,500	1,957,500

Acquisition of Franchises in Phoenix, Arizona

On March 3, 2015, we completed the repurchase of four developed franchises and one undeveloped franchise from TJSC, LLC. The total consideration for this transaction was approximately $750,000, subject to certain adjustments, of which $690,000 was funded from the proceeds of our recent initial public offering and a note for $60,000 was issued to the seller. We intend to continue to operate two of the clinics opened under the developed franchises as company clinics. The franchisee closed the two clinics operated under the remaining developed franchises. We have terminated the undeveloped franchise and may relocate it.

At the time of the transaction, we carried a deferred revenue balance of $29,000, representing franchise fees collected upon the execution of the franchise agreements, and deferred franchise costs of $1,450, related to the undeveloped franchise. In accordance with ASC 952-605, we accounted for the franchise rights associated with the undeveloped franchise as a cancellation, and the respective deferred revenue and deferred franchise costs were netted against the aggregate purchase price. The remaining $722,450 was accounted for as consideration paid for the four acquired franchises.

The purchase price allocation for these acquisitions is preliminary and subject to further adjustment upon finalization of the opening balance sheet. The following summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

Property and equipment	$150,000
Intangible assets	123,000
Goodwill	492,996
Total assets acquired	765,996
Deferred membership revenue	(43,546)
Net assets acquired	$722,450

Intangible assets consist of reacquired franchise rights of $65,000 customer relationships of $58,000 and will be amortized over their estimated useful lives of seven years and two years, respectively.

Goodwill recorded in connection with this acquisition was attributable to the workforce of the clinics and synergies expected to arise from cost savings opportunities. All of the recorded goodwill is tax-deductible.

Acquisition of Franchises in San Gabriel Valley, California

On March 6, 2015, we completed our repurchase of nine franchises from The Joint San Gabriel Valley, Inc. The transaction involved the repurchase of two developed franchises and seven undeveloped franchises. We intend to manage the clinics opened under the two developed franchises and to terminate, re-locate or re-sell the seven undeveloped franchises. The total consideration for this transaction was $300,000, subject to adjustment, of which $270,000 was funded from the proceeds of our recent initial public offering and a note of $30,000 was issued to the seller.

At the time of the transaction, we carried a deferred revenue balance of $203,000, representing franchise fees collected upon the execution of the franchise agreements, and deferred franchise costs of $107,100, related to the seven unopened clinics. In accordance with ASC 952-605, we accounted for the franchise rights associated with the unopened clinics as a cancellation, and the respective deferred revenue and deferred franchise costs were netted against the aggregate purchase price. The remaining $204,100 was accounted for as consideration paid for the two acquired franchises.

The purchase price allocation for this acquisition is preliminary and subject to further adjustment upon finalization of the opening balance sheet. The $204,100 of net consideration paid to acquire the two clinics was allocated to assets and liabilities as follows:

Property and equipment	$150,000
Intangible assets	34,000
Goodwill	20,100
Total assets acquired	$204,100

Intangible assets consist of reacquired franchise rights of $18,000, customer relationships of $16,000 and will be amortized over their estimated useful lives of seven years and two years, respectively.

Goodwill recorded in connection with this acquisition was attributable to the workforce of the clinics and synergies expected to arise from cost savings opportunities. All of the recorded goodwill is tax-deductible.

Acquisition of Franchises in Glendale, Arizona

On March 23, 2015, we completed our repurchase of one developed franchise from The Joint Arrowhead Ranch, LLC. We intend to operate the acquired clinic as a company clinic. The total consideration for this transaction was approximately $100,000, subject to adjustment, of which $90,000 was funded from the proceeds of our recent initial public offering and a note for $10,000 was issued to the seller.

The purchase price allocation for this acquisition is preliminary and subject to further adjustment upon finalization of the opening balance sheet. The following summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

Property and equipment	$75,000
Intangible assets	17,000
Goodwill	21,170
Total assets acquired	113,170
Deferred membership revenue	(13,170)
Net assets acquired	$100,000

Intangible assets consist of reacquired franchise rights of $9,000 customer relationships of $8,000 and will be amortized over their estimated useful lives of seven years and two years, respectively.

Goodwill recorded in connection with this acquisition was attributable to the workforce of the clinics and synergies expected to arise from cost savings opportunities. All of the recorded goodwill is tax-deductible.

Acquisition of Franchisee Upon Default

In January 2015, in connection with the default by a franchisee under its franchise agreement, we assumed substantially all of the assets of a clinic in Tempe, Arizona. We are accounting for this as a business combination. As no consideration was transferred to the franchisee, we expect to recognize a bargain purchase gain equal to the fair value of the net assets acquired; however, no amounts have been recorded in the consolidated financial statements for the three months ended March 31, 2015, as information is not yet available to reasonably estimate the fair value of the net assets acquired.

Pro Forma Results of Operations (Unaudited)

The following table summarizes selected unaudited pro forma consolidated statements of operations data for the three months ended March 31, 2015 and 2014 as if the acquisitions had been completed at the beginning of the year.

	Pro Forma for the Three Months Ended	
	March 31, 2015	March 31, 2014
Revenues, net	$ 2,667,820	$ 1,848,689
Net loss	(1,979,530)	(505,834)

This selected unaudited pro forma consolidated financial data is included only for the purpose of illustration and does not necessarily indicate what the operating results would have been if the acquisitions had been completed on that date. Moreover, this information does not indicate what our future operating results will be. The information for 2014 and 2015 prior to the acquisitions is included based on prior accounting records maintained by the acquired companies. In some cases, accounting policies differed materially from accounting policies adopted by the Company following the acquisitions. For 2015, this information includes actual data recorded in our financial statements for the period subsequent to the date of the acquisition. The Company's consolidated statement of operations for the three months ended March 31, 2015 include net revenue and net loss of $406,706 and $153,547, respectively, attributable to the acquisitions.

The pro forma amounts included in the table above reflect the application of our accounting policies and adjustment of the results of the clinics to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property and equipment and intangible assets had been applied from January 1, 2014, together with the consequential tax impacts.

Note 3: Notes Receivable

Effective July 2012, we sold a previously owned company clinic, including the license agreement, equipment, and customer base, in exchange for a $90,000 unsecured promissory note. The note bears interest at 6% per annum for fifty-four months and requires monthly principal and interest payments over forty-two months, beginning August 2013 and maturing January 2017. The outstanding balance of the note as of March 31, 2015 and December 31, 2014 was $52,540 and $59,269, respectively.

Note Receivable — Related Party

Effective October 2012, a stockholder and former director of the Company transferred ownership in his clinic to a third party in connection with which we assessed a contractual transfer fee of $21,750. We accepted the stockholder's promissory note in the amount $21,750 in payment of this fee. The note has not been formalized with terms, including interest rate or payment schedules and, accordingly, was presented as a long-term note receivable at December 31, 2014. Due to uncertainty surrounding the collectability of the note, we reserved the note in full as of March 31, 2015.

We consider a reserve for doubtful accounts on notes receivable. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is our best estimate of uncollectible amounts and is determined based on specific identification and historical performance we track on an ongoing basis. Losses ultimately could differ materially from amounts estimated in determining the allowance. The allowance for doubtful accounts on notes receivable was $21,750 as of March 31, 2015 and December 31, 2014.

Note 4: Property and Equipment

Property and equipment consists of the following:

	March 31, 2015	December 31, 2014
Office and computer equipment	$ 207,668	$ 209,575
Leasehold improvements	1,192,868	665,961
Software developed	564,560	564,560
	1,965,096	1,440,096
Accumulated depreciation and amortization	(391,573)	(305,644)
	$ 1,573,523	$ 1,134,452
Assets in progress	14,021	-
	$ 1,587,544	$ 1,134,452

Depreciation and amortization expense was $85,929 and $40,066 for the three months ended March 31, 2015 and 2014, respectively.

Note 5: Intangible Assets

On January 1, 2015 we completed our reacquisition and termination of our regional developer rights and three licenses for undeveloped franchises for the Los Angeles County, California region in exchange for cash consideration of $507,500. At the time of the transaction, we carried a deferred revenue balance of $174,000, representing license fees collected upon the execution of the regional developer agreements. In accordance with ASC 952-605, we accounted for the development rights associated with the undersold or undeveloped franchises as a cancellation, and the respective deferred revenue was netted against the aggregate purchase price. The remaining $333,500 was accounted for as consideration paid for the reacquired development rights.

On January 23, 2015 we completed our reacquisition and termination of our San Diego regional developer rights in exchange for cash consideration of $400,000. At the time of the transaction, we carried a deferred revenue balance of $94,250, representing license fees collected upon the execution of the regional developer agreements. In accordance with ASC 952-605, we accounted for the development rights associated with the undersold or undeveloped franchises as a cancellation, and the respective deferred revenue was netted against the aggregate purchase price. The remaining $305,750 was accounted for as consideration paid for the reacquired development rights.

On March 20, 2015 we completed our reacquisition and termination of our New Jersey regional developer rights in exchange for cash consideration of $145,000. At the time of the transaction, we carried a deferred revenue balance of $304,500, representing license fees collected upon the execution of the regional develop agreements. In accordance with ASC 952-605, we accounted for the cash consideration paid as a cancellation of the development rights associated with the undersold or undeveloped franchises, and netted this amount against the respective deferred revenue. The excess deferred regional developer fees revenue was recognized as revenue at the date of the agreement as no further performance obligations exist.

Intangible assets which remain subject to adjustment upon receipt of final valuation information, consisted of the following:

	As of March 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:			
Reacquired franchise rights	$ 255,000	$ 4,702	$ 250,298
Customer relationships	227,000	4,786	222,214
Reacquired development rights	$ 639,250	$ 27,178	612,072
Unamortized intangible assets:	$ 1,121,250	$ 36,667	$ 1,084,583
Goodwill			1,821,040
Total intangible assets			$ 2,905,623

Amortization expense was $36,667 and $0 for the three months ended March 31, 2015and 2014, respectively.

Estimated amortization expense for 2015 and subsequent years is as follows:

2015	$183,443
2016	241,250
2017	141,000
2018	127,750
2019	127,750
Thereafter	263,390
Total	$1,084,583

Note 6: Notes Payable

On February 17, 2015, we entered into a $155,000 note payable as a portion of the consideration paid in connection with the acquisition of two existing franchises and a license to develop one additional franchise from Roth & Pelan Enterprises, LLC. This note bears interest at 1.5% per annum with $25,000 plus interest due on June 17, 2015 and the remaining principal and interest due February 17, 2017. While this is a below market interest rate loan, we did not impute interest as the effects are immaterial.

On March 3, 2015, we entered into a $60,000 note payable as a portion of the consideration paid in connection with the acquisition of four existing franchises and a license to develop one additional franchise from TJSC, LLC. This note bears interest at 4.5% per annum with $30,000 plus interest due on July 30, 2015 and the remaining principal plus interest due on January 30, 2016.

On March 6, 2015, we entered into a $30,000 note payable as a portion of the consideration paid in connection with the acquisition of two existing franchises and licenses to develop seven additional franchises from The Joint San Gabriel Valley Inc. This note bears interest at 1.5% per annum with principal and interest due on November 19, 2015.

On March 23, 2015, we entered into a $10,000 note payable as a portion of the consideration paid in connection with the acquisition of an existing franchise from The Joint Arrowhead Ranch LLC. This note bears interest at 1.5% per annum with principal and interest due September 20, 2016. If the seller has fully performed their duties under the agreement, one half of the principal plus interest will be paid on July 20, 2015.

Maturities of our notes payable are as follows as of March 31, 2015:

2015	$115,000
2016	10,000
2017	130,000
Total	$255,000

Note 7: Equity

Initial Public Offering

We completed our initial public offering of 3,000,000 shares of common stock at a price to the public of $6.50 per share on November 14, 2014, whereupon we received aggregate net proceeds of approximately $17,065,000 after deducting underwriting discounts, commissions and other offering expenses. 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 aggregate net proceeds of approximately $2,710,000, after deducting underwriting discounts, commissions and expenses. Also, in conjunction with the IPO, we issued warrants to the underwriters for the purchase of 90,000 shares of common stock, which can be exercised between November 10, 2015 and November 10, 2018 at an exercise price of $8.125 per share.

Stock Options

In November 2012, we adopted the 2012 Stock Plan ("2012 Plan"). The 2012 Plan's purpose is to attract and retain the best available personnel for positions of substantial responsibility, provide incentives and additional ownership opportunities for employees, directors, and consultants, and generally promote the success of our business. The 2012 Plan permits us to grant incentive stock options, non-statutory stock options, restricted stock, stock appreciation rights, performance units and performance shares to employees, directors, and consultants for a period of ten years.

On May 15, 2014, we adopted the 2014 Stock Plan ("2014 Plan"). The 2014 Plan is designed to supersede and replace the 2012 Plan, effective as of the adoption date and set aside 1,513,000 shares of our common stock that may be granted under the 2014 Plan.

On January 1, 2014, we granted stock options to employees to purchase 198,915 shares of the Company. These options vest over a period of four years from grant date with the exception of 100,125 options that were contingent on the initial public offering that took place on November 14, 2014. These options vest in 12 monthly installments of 4,171 shares the first year, 12 monthly installments of 2,503 shares the second year, and 12 monthly installments of 1,670 shares the third year.

On May 15, 2014, we granted stock options to an employee to purchase 72,100 shares of the Company. These options vest over 16 quarterly installments of 4,450 shares, beginning September 30, 2014.

On November 10, 2014, in conjunction with the initial public offering, 50,000 additional stock options were granted that vest one year after the grant date.

The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. In order to calculate the fair value of the options, certain assumptions are made regarding the components of the model, including the estimated fair value of underlying common stock, risk-free interest rate, volatility, expected dividend yield and expected option life. Changes to the assumptions could cause significant adjustments to the valuation.

The fair value of our common stock prior to our IPO was estimated by the Board of Directors at or about the time of grant for each share-based award. At each grant, the board considered a number of factors in establishing a value for our common stock including our EBITDA, assessments of an amount our shareholders would accept in the private sale of the company, discussions with our investment bankers regarding pricing of the company's common stock in an initial public offering and the probability of successfully completing an IPO. Although the methods for determining the fair value of our common stock are not complex, the board's estimate of the fair value of our common stock did involve subjectivity, especially assessments of value in a private sale and estimates of value in the public stock market.

Since our stock was not publicly traded, expected volatilities were based on volatilities from publicly traded companies with business models similar to ours. Upon the completion of our IPO, our stock trading price became the basis of fair value of our common stock used in determining the value of share based awards. We will rely upon the volatilities from publicly traded companies with similar business models until our common stock has accumulated enough trading history for us to utilize our own historical volatility. The expected life of the options granted is based on the average of the vesting term and the contractual term of the option. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury 10-year yield curve in effect at the date of the grant.

We have computed the fair value of all options granted during the three months ended March 31, 2015 and 2014, using the following assumptions:

	March 31, 2015	2014
Expected volatility	47%	46%
Expected dividends	None	None
Expected term (years)	6.25	7.5
Risk-free rate	1.45% to 1.74%	0.07%
Forfeiture rate	20%	None

The information below summarizes the stock options:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2014	312,995	$ 2.04	$ 0.92	9.2
Granted at market price	54,000	8.20		
Exercised	-	-		
Cancelled	-	-		
Outstanding at March 31, 2015	366,995	3.11	1.43	9.1
Exercisable at March 31, 2015	61,294	$ 1.38	$ 0.65	8.8

The intrinsic value of our stock options outstanding was $1,822,383 at March 31, 2015.

For the three months ended March 31, 2015 and 2014, stock based compensation expense for stock options was $43,529, and $5,606 respectively. Unrecognized stock-based compensation expense for stock options as of March 31, 2015 was $348,202, which is expected to be recognized ratably over the next 2.96 years.

Restricted Stock

On January 1, 2014, we granted restricted stock awards to an executive and a consultant to earn an aggregate of 567,375 shares of our stock. The restricted stock was granted in two tranches. The first tranche vests over a period of four years from the grant date. The second tranche began vesting upon completion of our initial public offering on November 14, 2014 over a three year period. The fair market value of the 567,375 shares of restricted stock was valued at $1.20 per share, determined by our Board of Directors, totaling approximately $679,000 to be recognized ratably as the stock is vested.

On December 16, 2014, we granted restricted stock to an executive to earn 95,000 shares of our common stock. These shares vest over a four year period from the grant date. The estimated fair market value of these shares was valued at $6.20 per share, based on our stock trading price, totaling approximately $589,000 to be recognized ratably as the stock is vested.

The information below summaries the restricted stock activity:

Restricted Share Awards	Shares
Outstanding at December 31, 2014	662,375

Restricted stock awards granted	-
Awards forfeited or exercised	-
Outstanding at March 31, 2015	662,375
Remaining available to be issued	42,950

For the three months ended March 31, 2015 and 2014, stock based compensation expense for restricted stock awards was $88,758, and $9,994, respectively. Unrecognized stock based compensation expense for restricted stock awards as of March 31, 2015 was $1,109,454 to be recognized ratably over 3.17 years.

Warrants

In conjunction with the IPO, we issued warrants to the underwriters for the purchase of 90,000 shares of common stock, which can be exercised between November 10, 2015 and November 10, 2018 at an exercise price of $8.125 per share. For the year ended December 31, 2014, a net expenses of $113,929 were recorded against proceeds against additional paid in capital, associated with these awards. The fair value of the warrants was determined using the Black-Scholes option valuation model. The warrants expire on November 10, 2018 and have a remaining contractual life of 3.6 years as of March 31, 2015.

The information below summarizes the warrants:

	Number of Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Intrinsic Value
Outstanding at December 31, 2014	90,000	$8.13	3.9	-
Granted				