

**SNELLING®**  
**FRANCHISE DISCLOSURE DOCUMENT**

HQ Franchising Corporation  
A Delaware Corporation

111 Springhall Drive, Goose Creek, SC 29445; (843) 723-7400  
[www.hirequest.com](http://www.hirequest.com)

You will operate a *Snelling*® temporary employment service business specializing in light industrial, administrative, and semi-skilled personnel.

The total investment necessary to begin operation of a *Snelling*® franchised business is \$45,150 to \$145,750. This includes \$3,500 to \$26,000 that must be paid to the franchisor or its affiliate(s).

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no government agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact the Franchise Administration Department at HQ Franchising Corporation, 111 Springhall Drive, Goose Creek, SC 29445; (843) 723-7400.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 20580. You can also visit the FTC's home

page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

Issuance Date: 6/5/23

## How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
<b>How much can I earn?</b>	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Exhibit B.
<b>How much will I need to invest?</b>	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
<b>Does the franchisor have the financial ability to provide support to my business?</b>	Exhibit E includes financial statements and the guaranty of HireQuest, Inc., HQ Franchising Corporation's parent company. Review these statements carefully.
<b>Is the franchise system stable, growing, or shrinking?</b>	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
<b>Will my business be the only <i>SNELLING</i> business in my area?</b>	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
<b>Does the franchisor have a troubled legal history?</b>	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
<b>What's it like to be a <i>Snelling</i> franchisee?</b>	Exhibit B lists current and former franchisees. You can contact them to ask about their experiences.
<b>What else should I know?</b>	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

## What You Need To Know About Franchising *Generally*

**Continuing responsibility to pay fees.** You may have to pay royalties and other fees even if you are losing money.

**Business model can change.** The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

**Supplier restrictions.** You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

**Operating restrictions.** The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

**Competition from franchisor.** Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

**Renewal.** Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

**When your franchise ends.** The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

### Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit D.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

## **Special Risks to Consider About *This* Franchise**

Certain states require that the following risk(s) be highlighted:

### **Out of State Dispute Resolution**

1. The Franchise Agreement requires you to resolve disputes with us by arbitration and litigation only in South Carolina. Out of state arbitration and litigation may force you to accept a less favorable settlement for disputes. It may also cost more to arbitrate and litigate with us in South Carolina than in your home state.

### **Sales Performance Required**

2. You must maintain minimum sales performance levels. Your inability to maintain these levels may result in loss of territorial rights, termination of your franchise, and loss of your investment.

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” (if any) to see whether your state requires other risks to be highlighted.

## TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE</u>
1. The Franchisor, and Any Parents, Predecessors and Affiliates .....	9
2. Business Experience .....	14
3. Litigation.....	15
4. Bankruptcy .....	17
5. Initial Fees.....	18
6. Other Fees .....	18
7. Estimated Initial Investment.....	24
8. Restrictions on Sources of Products and Services.....	27
9. Franchisee's Obligations .....	30
10. Financing.....	31
11. Franchisor's Assistance, Advertising, Computer Systems, and Training .....	35
12. Territory .....	40
13. Trademarks .....	43
14. Patents, Copyrights and Proprietary Information .....	46
15. Obligation to Participate in the Actual Operation of the Franchise Business .....	47
16. Restrictions on What the Franchisee May Sell .....	47
17. Renewal, Termination, Transfer and Dispute Resolution.....	49
18. Public Figures .....	50
19. Financial Performance Representations.....	50
20. Outlets and Franchisee Information.....	50
21. Financial Statements .....	66
22. Contracts .....	66
23. Receipts.....	66, end

## EXHIBITS

- A. Snelling Franchise Agreement and Related Contracts  
(Promissory Note; Security Agreement; Collateral Assignment of Lease; Collateral Assignment of Telephone Numbers and Listings)
- B. List of Active and Departed Franchisees
- C. State Specific Information, if applicable
- D. Agents for Service of Process; Regulatory Agencies
- E. Financial Statements
- F. State Effective Page
- G. Receipts



## **ITEM 1 THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES**

### **The Franchisor**

The Franchisor is HQ Franchising Corporation ("we" or "us" or "our company"), a Delaware corporation formed June 7, 2019. To simplify the language in this Franchise Disclosure Document, "you" refers to the person or entity, and the owners of the entity, who buy(s) the franchise. Our principal business address is 111 Springhall Drive, Goose Creek, SC 29445. The trade names and service marks under which we conduct business are SNELLING®, HIRE QUEST®, HIREQUEST DIRECT®, TradeCorp, DriverQuest, HireQuest Health. Our affiliate, HQ MRI Corporation does business under the trade mark MRI® (Management Recruiters International). See Item 13 for a discussion of the trademark offered with the program described in the disclosure document.

HQ Franchising Corporation is a subsidiary of HireQuest, Inc., a Delaware corporation. HireQuest, Inc., was formed following the July 2019 merger between Hire Quest Holdings, LLC (the former franchisor, Hire Quest, LLC's, parent company), and a subsidiary of Command Center, Inc., a publicly-traded staffing-business corporation, formerly based in Lakewood, Colorado (Nasdaq: CCNI) (the "Merger"). As a result of the Merger, Hire Quest, L.L.C., the former Franchisor, now has new corporate ownership and will no longer sell franchises but will continue to be the employer of record for all temporary employees. With the combined assets of the two companies and their related entities, Franchisor is a part of a publicly traded entity on the Nasdaq Capital Market. The assets of Command Center, Inc. and Hire Quest, L.L.C. and their related entities were combined in an all-stock transaction. The management of the merged company changed the name of the merged, publicly-traded entity to "HireQuest, Inc." in the weeks following the Merger date. HQ Franchising Corporation was subsequently formed to facilitate our continued and growing franchising operations.

As of the date of the Merger, Command Center, Inc. had operated its staffing business since 2006 and never offered franchises in any line of business. At the time of the Merger, Command Center had 67 company- owned branch offices in 22 states. Many of those Command Center offices were converted to *HireQuest* staffing center and HIREQUEST DIRECT® franchises. Some Command Center, Inc. branch offices were consolidated and other operations were closed.

Our predecessor, Hire Quest, L.L.C., began offering the ACRUX® and TROJAN LABOR® franchises (later known as *HireQuest* and HIREQUEST DIRECT® franchises) described in this disclosure document in April 2003. From May 2013 until April 2017 Hire Quest, L.L.C. offered similar franchises under the trademark HIRE QUEST LONG TERM STAFFING® described in a separate franchise disclosure document. The HIRE QUEST LONG TERM STAFFING® program was designed to organize business for compliance with the then-new requirements of the federal Affordable Care Act. Hire Quest, L.L.C. did not grant any franchises under the HIRE QUEST LONG TERM STAFFING® program, and there were no, and are no, company-owned operations under that trademark. Hire Quest, L.L.C. did not offer franchises in any other line of business.

We and, before us, Hire Quest, L.L.C., have offered franchises under the trademarks ACRUX® (later *HireQuest* and now Snelling®), and TROJAN LABOR®(now known HIREQUEST DIRECT®) franchises), and HIRE QUEST LONG TERM STAFFING.

### **2021 Acquisitions**

On March 1, 2021, our affiliate, HQ Snelling Corporation (also a wholly owned subsidiary of HireQuest, Inc.), completed its acquisition of certain assets and assumption of certain liabilities of Snelling Staffing, LLC, Snelling Services, LLC, Snelling Employment, LLC, Snelling Medical Staffing, LLC, and Snelling Investments, Inc. This acquisition included various Snelling® trademarks and other intellectual property, corporate branch locations, and assignment of certain franchise agreements and customer contracts.

The Snelling® acquisition involved 10 corporate owned branch locations, 1 “on-site” location, and the assignment of 37 franchise agreements. 1 corporate location (Princeton, NJ) was converted to a franchise under the *Hire Quest*® staffing model but continues to use the Snelling® name. The remaining corporate locations were sold to third parties as detailed below.

Lyneer Staffing Solutions, Inc. purchased the company-owned locations in Albany, NY, Amherst, NY, Arlington Heights, IL, and Hayward, CA. These locations now operate as “Lyneer Staffing.” We are not affiliated with Lyneer Staffing Solutions, Inc.

Viking Staffing purchased the Tracy CA, Ontario, CA, and “on-site” Lathrop, CA company owned locations, and was granted a license to continue to use the Snelling® marks at those locations.

The assigned franchise agreements were subsequently assigned by HQ Snelling Corporation to HQ Franchising Corporation. 23 of the assigned franchises converted to the *HireQuest* staffing model, utilizing the Snelling® trademarks pursuant to a separate trademark license agreement. 18 of the assigned franchise agreements continue to operate under their original Snelling agreements and do not utilize our back-office services described in this offering (these are identified as “Legacy” franchises in Exhibit 3B). These franchises all continue to operate under the Snelling® trademarks.

On March 22, 2021, our affiliate, HQ Link Corporation, completed an acquisition of certain assets of Link Staffing Services Corporation, Franlink, Inc., and Stafflink, Inc. This acquisition included assignment of 35 franchise agreements and various customer contracts, and a trademark license of the Link® trademark (limited to operation of the acquired Link locations).

The Link franchises located in Montebello, CA, Rancho Cucamonga, CA, Anaheim, CA, Bellflower, CA, San Diego, CA, and Orangevale, CA were assigned by HQ Link Corporation to Viking Staffing. The remaining 27 assigned Link® franchise agreements were assigned by HQ Link Corporation to HQ Franchising Corporation. As of the date of this FDD, 25 of those franchises converted to the *HireQuest* staffing model utilizing the Snelling® trademarks pursuant to a separate trademark license agreement. Of the two remaining Link® franchises, one has ceased operations and another continues under its Link agreement while utilizing the Snelling name. We have not and will not be granting any additional Link® franchises.

Because of the national recognition and brand value associated with the Snelling® name, we now offer the former *HireQuest* staffing franchise model under the Snelling® name exclusively. We expect for our existing Hire Quest® franchisees to convert to the Snelling® trademark to allow themselves to associate with this valuable brand.

None of our other predecessor companies have previously offered franchises in any lines of business. Except as described in this Item 1, we have no affiliates, and we have no other parent organizations.

### **Dental Power Staffing Acquisition**

On December 7, 2021, our parent corporation, HireQuest, Inc., closed an acquisition of the Dental Power Staffing ("DPS") division of Dental Power (www.dentalpower.com), a 46-year-old dental staffing company headquartered in Carrboro, North Carolina. Dental Power's DPS division is a leading provider of temporary, long-term contract, and direct-hire staffing services to private sector dental practices across the United States. The DPS Division was sold to an independent MRI Network Franchisee in March of 2023.

### **MRI Acquisition**

On November 16, 2022, our affiliate HQ Snelling Corporation ("HQ Snelling") entered into an Asset Purchase Agreement with MRI Network Holdings, LLC, Management Recruiters International, Inc., MRI International, Inc., and MRI Contract Staffing, LLC, to purchase certain assets and assume certain liabilities associated with the Management Recruiters International franchise brand ("MRI Asset Purchase"). MRI franchises offer executive and management search services but also perform some contract staffing services. This transaction closed on December 12, 2022, resulting in HQ Snelling Corporation acquiring over 200 franchises. MRI will be a new franchise offering for executive search and provides us with immediate scale and brand recognition across the country.

If you become a Snelling franchisee, you may face competition from other outlets that HQ franchises or owns, or from other channels of distribution or competitive brands HQ controls.

**Our company's agent for service of process is disclosed in Exhibit D.**

### **Our Businesses**

Our principal business is providing various types of temporary personnel, staffing, placement, and recruiting services through affiliates and franchised companies, and granting licenses to others to provide one or more of these services, as we determine, using certain service marks, trade names, business systems and procedures. These temporary employees are employed by our affiliate, Hire Quest, L.L.C., and will not be your employees. Accordingly, all payroll expenses attributable to these employees will be paid by us or our affiliate subject to reimbursement from you.

We have organized our services into four separate franchise divisions: the SNELLING® staffing center (formerly ACRUX® and *HireQuest*) division; the HIREQUEST DIRECT® (formerly TROJAN LABOR®) division, and the TradeCorp™ division.

### **SNELLING® Staffing Center Division**

Our SNELLING® staffing center (formerly ACRUX and *HireQuest*) division provides specialized temporary staffing services, which include primarily skilled, semi-skilled and unskilled industrial personnel, as well as professional, clerical, and secretarial personnel in addition to career/direct/permanent placement services. These staffing services are provided to businesses using the trade name "*HireQuest*" and "SNELLING®" through affiliates and franchised companies. As noted above, some HIRE QUEST® franchises opted to use the SNELLING® trade name following the March 1, 2021 acquisition of the SNELLING® trademarks. While we still have franchisees utilizing the *HireQuest* name, in the future, we will instead only license the SNELLING® marks for this franchise model.

### **HIREQUEST DIRECT Division**

Our HIREQUEST DIRECT (formerly TROJAN LABOR®) division provides specialized temporary staffing services, which include primarily unskilled industrial and construction personnel. These staffing services are provided to businesses using the trade name "HIREQUEST DIRECT" through affiliates and franchised companies.

### **HIRE QUEST RESOURCES**

In December 2013, our affiliate Hire Quest Resources, Inc. began to offer a franchise program under the trademark HIRE QUEST RESOURCES®. Franchises in the HIRE QUEST RESOURCES® system offer staffing services specializing in healthcare information technology. Hire Quest Resources, Inc. shares headquarters with us at 111 Springhall Drive, Goose Creek, SC 29445. As of the date of this franchise disclosure document Hire Quest Resources, Inc. has granted two franchises under the HIRE QUEST RESOURCES® brand. The two franchises are no longer in business.

### **DRIVERQUEST**

In 2021, we began to permit eligible existing franchisees to offer temporary and temp-to-hire personnel services in the commercial driving, transportation, and logistics industry under the trademark *DriverQuest* through their existing franchise. We have not sold any standalone *DriverQuest* franchises.

## **HIREQUEST HEALTH**

In 2021, we began to permit eligible existing franchisees to offer temporary and temp-to-hire medical personnel services in the medical services industry under the trademark *HireQuest Health* through their existing franchise. We have not sold any standalone *HireQuest Health* franchises.

**WITH THIS DISCLOSURE DOCUMENT WE OFFER A FRANCHISE FOR THE *SNELLING* FRANCHISE CONCEPT.**

## **THE FRANCHISE OFFERED**

**SNELLING FRANCHISE:** Our franchise agreement (the "Franchise Agreement") for the Snelling franchise authorizes you to operate a business (the "Franchise Business"). In this business you will provide specialized temporary staffing services, which include primarily skilled, semi-skilled and unskilled industrial personnel, as well as professional, clerical, and secretarial personnel. You may, but are not required to, provide temp-to-permanent or other permanent placement services.

All of these services must be provided within the specified territory(ies) as described in your Franchise Agreement (the "Territory") from one or more offices which may be located anywhere within the Territory. You may use our trademarks, service marks, trade names, procedures and business systems. The temporary employees you provide are employed by us. Upon termination or nonrenewal of the Franchise Agreement, all temporary employees, customers and goodwill belong to us. All obligations you incur for temporary employees, customers, vendors and others during the term of the Franchise Agreement are yours. You will pay us a Continuing Fee calculated as a percentage of your sales of the services, as described in Item 6.

The market for services you provide is developed and continues to evolve. You will compete with local and national companies that provide temporary help services for clerical and industrial personnel.

## **Industry-Specific Regulations**

For all purposes related to the Franchised Business, we and you must take all steps necessary to comply with the requirements of pertinent sections of the Patient Protection and Affordable Care Act in the Internal Revenue Code and the regulations issued under the Internal Revenue Code (see 26 CFR part 54, enacted pursuant to Section 4980H of the Internal Revenue Code), as those Internal Revenue Code sections and regulations may be amended over time.

Some states require you to obtain a license to provide employment services. In addition, some states may require a local business license. You should consult with your attorney concerning these and other laws and ordinances that may affect your operations.

## **ITEM 2**      **BUSINESS EXPERIENCE**

The following information pertains to the business experience of executives and other management of the Franchisor.

### **Chief Executive Officer: Richard F. Hermanns**

Mr. Hermanns is the President and CEO of HireQuest, Inc. (HQ MRI Corporation's parent corporation), and has been in this role since HireQuest, Inc.'s formation in July 2019. Prior to this role, Mr. Hermanns served as the CEO and VP of Hire Quest, LLC, from 2002-2019. HireQuest, Inc., is headquartered in Goose Creek, South Carolina.

### **Chief Legal Officer: John McAnnar**

Mr. McAnnar is the Vice President, Secretary, and Chief Legal Officer of HireQuest, Inc., and has been in this role since HireQuest, Inc.'s formation in July 2019. Prior to this role, Mr. McAnnar served as the General Counsel and Secretary of Hire Quest, LLC, from 2002-2019.

### **Chief Financial Officer: David Burnett**

Mr. Burnett has served as the Chief Financial Officer of HireQuest, Inc., since December of 2021. Prior to joining Hire Quest, Mr. Burnett was the Chief Financial Officer for Ivy Asset Group (Charleston, SC) from September 2019-November 2021 and the Chief Financial Officer for BKF Capital Group, Inc. (Westlake Village, CA) from August 2016 to September 2019.

### **Chief Accounting Officer: Cory Smith**

Mr. Smith has served as the Chief Accounting Officer for HireQuest, Inc., since December 2021. He was the Chief Financial Officer for HireQuest, Inc., from its formation in July 2019 until assuming the Chief Accounting Officer role. Previously Mr. Smith was the Chief Financial Officer for Command Center, Inc. (Denver, CO) from July 2017 to July 2019.

### **Chief Information Officer: Joey Gianzanti**

Mr. Gianzanti joined HireQuest, Inc., as Chief Information Officer in June of 2020. Prior to that, Mr. Gianzanti worked for Insurance Technologies as Chief Information Officer in Plantation, FL from 2014-2020.

### **Vice President of Operations: Dave Gerstner**

Mr. Gerstner has served as HireQuest, Inc.'s Vice President of Operations from its formation in July 2019. Prior to joining HireQuest, Inc., Mr. Gerstner was the Regional Vice President for the State of Florida for TrueBlue/People Ready (Tacoma, WA) from February 2013-July 2019.

### **Amy E. Johnston, Hire Quest Director of Franchise Sales**

Ms. Johnston joined Hire Quest in February of 2023 as the Hire Quest Director of Franchise Sales. Prior to that, Ms. Johnston served as the President of SearchPath Global, Inc. located in

Cleveland, OH from June 2022 to February 2023. From April 2020 until June 2022 Ms. Johnston served as SearchPath Global, Inc.'s Sr Vice President of Operations. Prior to that Ms. Johnston served as Vice President and Chief Compliance Officer for RLLS, Inc. d/b/a SearchPath in Cleveland, Ohio.

### **Patrick Rozmus, MRI Director of Franchise Sales**

Mr. Rozmus joined Management Recruiters International, Inc. in August 2022 as the Director of Franchise Sales in Delray Beach, Florida and continues to hold that position with our affiliate HQ MRI Corporation. From December 2021 through July 2022, he was the Development Director of Frandevco in Charlotte, North Carolina. From March 2020 through December 2021, he was the owner and operator of Crossroads Business Consultants in Nesconset, New York. From January 2017 through March 2020, he was the Director of Franchise Development for ATC Healthcare Staffing in New Hyde Park, New York.

## **ITEM 3 LITIGATION**

1.

**Title, case number or citation:** Case No. 2021544173 *HQ Franchising Corporation and Hire Quest, LLC v. Tardis Staffing, LLC; Franklin Capital Holdings, LLC; James Seale individually and d/b/a Jade Holdings, LLC, and/or Raider Staffing; Capital Source Group, LLC.*

**Initial filing date:** April 28, 2021

**Names of the parties:** HQ Franchising Corporation and Hire Quest, LLC (Plaintiffs, hereinafter collectively "HQ") v. Tardis Staffing, LLC ("Tardis"); Franklin Capital Holdings, LLC ("Franklin"); James Seale ("Seale") individually and d/b/a Jade Holdings, LLC ("Jade"), and/or Raider Staffing ("Raider"); Capital Source Group, LLC ("Capital") (collectively, "Defendants")

**Forum:** 237<sup>th</sup> District Court, Lubbock County, Texas

**Relationship of the opposing party to the franchisor:** Former Franchisee -Tardis Staffing, LLC, James Seale. Defendants Jade and Raider are entities allegedly owned and or operated by Defendant Seale that were alleged to have operated in violation of Tardis Staffing, LLC and James Seale's Covenants not to Compete in their HireQuest Direct Franchise Agreement.

Defendants Franklin and Capital were unrelated assignees of certain franchise receivables that were alleged by HQ to have been unlawfully assigned by Tardis/Seale in violation of the Franchise Agreement. These Defendants had no prior relationship with HQ Franchising Corporation.

**Summary of the legal and factual nature of each claim in the action:** In this action, Plaintiff HQ alleged Breach of Contract (as to Seale and Tardis); Misappropriation of Trade Secrets and



Confidential Information (as to Seale and Tardis); Breach of the Duty of Good Faith and Fair Dealing (as to Seale and Tardis); Conversion (as to Tardis and Franklin); Tortious Interference with Existing Contracts (as to Seale and Franklin); and Aiding and Abetting (as to Defendant Capital).

This action arose out of Defendant Tardis (a HireQuest Direct™ franchisee) and its owner, Seale's, alleged conversion of franchise receivables and violation of the Franchise Agreement Covenant not to Compete. Pursuant to the Franchise Agreement, all Franchise Receivables are the exclusive property of HQ Franchising Corporation. HQ Franchising Corporation alleged that Defendants Tardis and Seale had directed HireQuest Direct™ customers to issue payments for services received from the Franchised Business to Defendant Franklin instead of HQ, had informed customers that HQ had closed the subject Lubbock, TX location and that the remaining Defendants were handling customer accounts, and had violated the non-competition and non-solicitation clauses of the Franchise Agreement.

Plaintiffs further sought a temporary restraining order as to Defendants Tardis, Seale, Raider, and Jade based upon those Defendants alleged violation of the HireQuest Direct Franchise Agreement Non-Competition covenants. This claim arose out of those Defendants alleged contact and solicitation of HireQuest Direct™ customers in violation of the Franchise Agreement.

**Summary of the relief sought or obtained:** The Court granted HQ's Petition for a Temporary Restraining Order ("TRO") as to Tardis, Seale, Raider, and Jade ("TRO Defendants"). This TRO prohibited the TRO Defendants from utilizing any of HQ's confidential customer information.

On June 4, 2021, Defendants Tardis, Raider, Jade, and Seale entered into a Consent Judgment and Consent Permanent Injunction with HQ. Subsequently HQ and the TRO Defendants entered into a Forbearance Agreement. Pursuant to this agreement, the TRO Defendants agreed to permanently refrain from utilizing any HireQuest Direct customer information, soliciting customers, compete against HQ in contravention of the Franchise Agreement non-competition clause, or make any statements detrimental to HQ's business goodwill. Further, these Defendants agreed to pay HQ the sum of \$35,000.

Defendants Capital and Franklin entered into separate Confidential Settlement Agreements with HQ.

**Summary of any conclusions of law or fact:** In entering the June 4, 2021 Consent Judgment against Defendants Tardis, Raider, Jade, and Seale, the Court found that these Defendants breached the Franchise Agreement by tortiously interfering with Plaintiffs' business relations and prospective business relations; misappropriating Plaintiffs' confidential information and trade secrets; violating the non-solicitation and noncompetition agreements by contacting Plaintiffs' clients and informing them that Plaintiffs had closed and that the accounts were being handled by Defendants.

**Status of the action:** At this time, the Forbearance Agreement between HQ and the TRO

Defendants remains in effect.

**For prior actions, the date when the judgment was entered and any damages or settlement terms:**

As to the TRO Defendants, June 4, 2021. See above for terms of Consent Judgment

**ITEM 4      BANKRUPTCY**

No bankruptcy is required to be disclosed in this Item.

**ITEM 5      INITIAL FEES**

The initial franchise fee varies between \$2,500 to \$25,000, depending on which designated territory(ies) in which your franchise business will operate, or an amount within that range that we may agree upon with you. Generally, the larger the expected growth rate and size of population in a given territory, the larger the initial franchise fee. For example, a population in your territory of 100,000 or less would indicate an initial fee of \$2,500; a population of 1 million or more would indicate an initial fee of \$25,000. We draw population figures from available data provided through the US Census Bureau. If the franchise is granted to a business converting into our System, the track record of prior sales will be a factor in determining the amount of the initial franchise fee; a high level of gross billings will suggest that a higher initial franchise fee, within the range described above is appropriate.

You must pay us 100% of the initial franchise fee when you sign the Franchise Agreement. When you complete your initial training, we will determine if you are qualified to serve as a Snelling Franchisee, as appropriate to your application. If we determine that you are not qualified to serve as a franchisee or if you otherwise fail to complete your initial training, we will retain up to \$5,000 of your initial franchise fee and will refund the balance to you. There are no refunds under other circumstances. Payment for software of \$1,000 is payable to us prior to your opening. The fee is non- refundable.

**ITEM 6      OTHER FEES**

<b>Type of Fee</b>	<b>Amount</b>	<b>Date Due</b>	<b>Remarks</b>
Continuing Fees	4.5% of Payroll plus 18% of the "Gross Margin" per Territory; 7.0% of career/permanent placement fees.	Weekly on Wednesday. See Note 2	Continuing Fees are deducted from your Gross Margin, as part of the weekly calculation of "Franchisee's Share." See Note 2
Cooperative Advertising	Maximum - 1% of Gross Billings	Established by franchisees	See Note 3
Health Insurance Pool	Up to 3% of Gross Billings	Weekly on Wednesday. See Note 2	Health Insurance Pool contributions are deducted from your Gross Margin, as part of the weekly calculation of "Franchisee's Share." See Note 2
Collection Fees	See Note 4	See Note 4	See Note 4
Late Fee	5% per month not to exceed maximum rate allowed by law	Continues to accrue until paid	Payable if you are late in paying any amount due to us.
Training	See Note 5	See Note 5	See Note 5
Indemnification	Will vary under circumstances	On demand	You must reimburse us for all losses and expenses resulting from certain of your acts or omissions.
Software	\$1,000 See Note 6	Before your opening	You must pay this fee for software we provide to you.

Direct Deposit Service Fee	\$25/month	Monthly	You must pay this fee for processing direct deposits for you.
Payroll Funding Deposit (Note 7)	\$500 initial year/Daily Average of Payroll For First Quarter each following year	Annually	You must make this deposit in order to utilize electronic pay card systems
Minimum Performance Fee	See Note 8	Within 120 days after end of applicable year, or 60 days after notice.	You will pay us the difference in Continuing Fees between the fees paid and those that would be owing if you met the agreed on minimum performance levels. See Note 8.
Transfer Fee	\$5,000	Before consummation of transfer to new qualified franchisee	Payable when you transfer your franchise to new qualified franchisee.
Audit Fee	Cost of audit plus reimbursement for out-of-pocket expenses	On demand	Payable only if audit discloses an understatement of at least 3% of Gross Billings for any 3 consecutive weeks.
Delinquency Fee	See Note 9	See Note 9	See Note 9
Security Deposit (Note 10)	1% of Gross Billings until amount equals \$15,000.	Weekly on Wednesday. See Note 2	This security deposit is waived if you operate another Hire Quest franchised business and have already made a full security deposit.
Worker's Comp Risk Fee	\$75/day	As incurred. To be paid weekly on Wednesday.	This fee is imposed for each day that an injured worker is not provided appropriate light duty work

Type of Fee	Amount	Date Due	Remarks
Unemployment Claims Handling Fee	Up to 150% of the unemployment claims in excess of state unemployment premiums paid.	Calculated quarterly	This fee is imposed if you do not cooperate with us in handling unemployment insurance claims. It is based on the unemployment claim experience of temporary employees furnished by the Franchised Business during the term of the Franchise Agreement.

Notes:

Except as otherwise stated above, we impose and collect all fees. All fees are nonrefundable.

1. Beginning when you open the initial franchise office, and for the entire term of the Franchise Agreement, you must pay us a Continuing Fee.

The Continuing Fee is an amount equal to the sum of 4.5% of Payroll (this is known as the “Funding Costs” in the Hire Quest staffing center system) and 18% of the “Gross Margin” per Territory. Payroll means any gross wages funded by Hire Quest, L.L.C. on your behalf. You must also pay a Continuing Fee of 7.0% of all gross billings/revenue arising out of any career/permanent placement or direct hire.

2. The Continuing Fees are deducted from your Gross Margin account as part of the weekly calculation of “Franchisee’s Share.” “Gross Margin” means sums billed by Franchisor to customers of the Franchised Business on account of temporary employee placement services after deducting therefrom all Temporary Employee Expenses attributable to temporary employees. As long as your Franchise Agreement remains in effect and you are not in default, we will pay you your Franchisee’s Share on the Wednesday following the twenty-ninth (29th) day after the end of each weekly Accounting Period (which ends on Sunday). If that Wednesday is a banking holiday, then we will pay to you your Franchisee’s Share on the next business banking day. See Section 5 of the Franchise Agreement for a detailed discussion of the calculation of your Franchisee’s Share.

Up to 3% of Gross Billings must be contributed to the Health Insurance Pool we maintain for Snelling System in order to pay for fines and health insurance premiums and other costs associated with the advent of the Affordable Care Act, and rules and regulations adopted as

part of the Internal Revenue Code (see 26 CFR part 54, enacted pursuant to Section 4980H of the Internal Revenue Code), as those Internal Revenue Code sections and regulations may be amended over time. Contributions to the Health Insurance Pool are deducted from your Gross Margin account in the same manner as Continuing Fees, as described above. Within 90 days after the end of each calendar year the excess monies held by the Health Insurance Pool at the end of the year, if any, are returned in proportionate share to each contributing franchisee, less direct costs related to that franchisee's employees; provided, however, that if an employee of a franchisee submits a claim under a self-insurance program then only 50% of the proportionate excess shall be returned within 90 days, and the balance is returned by the end of the full calendar year, less any deductions for late billing by medical providers, and other appropriate offsetting expenses. All reimbursements to Hire Quest by the Health Insurance Pool for payments made will include taxes paid by Hire Quest related to those funds.

3. As used in this disclosure document, the term "gross billings" ("Gross Billings") means the U.S. dollar equivalent of all gross billings (whether collected or not) to customers for all services you provide from or through your franchise business, including liquidated damages customers may pay in hiring of employees you provide, but excluding (i) sales taxes or other taxes which the law may require you to collect from your customers and (ii) bona fide refunds and adjustments.

Franchisees may form an advertising cooperative and establish local advertising fees within a designated marketing region as established by us. Each Snelling franchisee in one of these regions must contribute an amount to the cooperative advertising budget for the region, as mutually agreed upon by a majority of the franchises and Company-owned offices in the region, but not more than 1% of its Gross Billings. Each of these Snelling franchisees shall have the right to cast one vote in these cooperatives and we shall have the right to cast one vote for each Snelling office we operate in the region.

4. We may be required to take steps and incur costs to collect moneys due for services provided to your clients. While collections, credit, plus ancillary expenses are normally your responsibility, should we incur these costs, we will deduct these costs from any amounts owed to you on the next weekly Franchisee Share calculation immediately following our incurring these costs.

5. Part of the initial franchise fee is for the cost of the initial training. You are responsible for all personal, travel and personnel compensation costs related to attending the initial training.

6. We currently have in place a computer services agreement for our software. See Item 11. This computer services agreement requires an up-front fee of \$1,000. We will provide you with 12 hours of ongoing software support per year, and if you request more software support we will assess a fee of \$100 per hour for technical assistance and support for installation and program support of the Software.

7. Hire Quest funds temporary employee payroll. We facilitate the use of an electronic pay card system in affiliation with third party vendor(s). Franchisees may register an account to utilize pay card services. These accounts must be funded in advance. As such, Hire Quest requires franchisees provide a deposit for these funds. For the first year of the Franchise Term the deposit is \$500. For each subsequent year, the deposit will be equal to an average of daily pay from the subject franchise for the first quarter of the year. Each subsequent year this amount is adjusted to reflect the first quarter average daily pay amount. For further information please see the attached Payroll Funding Agreement.

8. We will consensually establish by discussion and negotiation with you minimum performance standards that you must attain or surpass during each calendar year. For Snelling franchisees, these minimum performance standards are based on designated annual gross billings for each respective territory, as described in Exhibit "C" of the Franchise Agreement (see Exhibit "A" attached to this document).

We will establish a prorated minimum performance schedule for the first partial calendar year of your operation, if it applies to your situation. If for any calendar year during the term of the Franchise Agreement you do not attain your minimum performance standards, you have the right to pay to us a fee equal to the difference between the Continuing Fees which would have been payable to us had you fully satisfied the minimum performance standards and the Continuing Fees you actually paid for the year. You must pay us this Minimum Performance Fee at least 120 days following the end of the year or within 60 days of your receipt of our notice informing you of your failure to satisfy the minimum performance standards.

If you do not satisfy the minimum performance standards and do not pay us the fee described above, the Franchise Agreement describes the consequences. We may within 10 months after the end of the calendar year in question, either (a) purchase your Franchise Business by paying you an amount equal to the net book value of the tangible assets of the Franchise Business, or (b) ourselves operate a Snelling business within the Territory or grant a franchise to others to do so. See Section 14.2 of the Franchise Agreement. We will determine your compliance with the minimum performance standards within 60 days after each calendar year.

9. If your receivables remain uncollected for more than 42 days after the invoice date ("42-Day Period"), you must pay us a delinquency fee of one-half percent (1/2%) of the amount of the uncollected receivables for each 14-day period following the 42-Day Period. The conversion of Franchisor receivables for Franchisee's uses for any period of time is not tolerated under any circumstances. If you cannot provide us an acceptable reason for the conversion of our receivables, we may report the matter to local law enforcement authorities.

10. We will hold the Security Deposit until all of your obligations are satisfied, at which time

we will return the balance to you.



**ITEM 7      ESTIMATED INITIAL INVESTMENT****YOUR ESTIMATED INITIAL INVESTMENT**

<b>Type of Expenditure</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
Initial Franchise Fee (See Note 1)	\$2,500 to \$25,000	Cash	Upon Signing	Us
Real Property (See Note 2)	\$800 to \$2,250	See Note 2	See Note 2	See Note 2
Leasehold Improvements, Furniture, Fixtures (See Note 3)	\$2,000 to \$15,000	As Arranged	As Incurred	Contractor, Suppliers
Equipment (See Note 4)	\$3,000 to \$5,000	As Arranged	Before Opening	Suppliers
Opening Advertising (See Note 5)	\$2,500 to \$5,000	As Arranged	Before Opening	Suppliers
Training Expenses	\$1,500 to \$2,500 (See Note 6)	As Arranged	As Arranged	Suppliers
Start-up Supplies	\$200 to \$1,000 (See Note 7)	As Arranged	As Incurred	Suppliers
Insurance	\$1,000 to \$5,000 (See Note 8)	As Arranged	As Incurred	Us and Insurers
Utility Deposits	\$200 to \$3,000 (See Note 9)	As Arranged	As Incurred	Lessor, Utility Companies
Professional Fees	\$300 to \$4,000 (See Note 10)	As Arranged	As Incurred	Professionals
Business License	\$150 to \$2,000 (See Note 11)	As Arranged	As Incurred	Government Agency
Additional Funds (12 months)	\$30,000 to \$75,000 (See Note 12)			

<b>Type of Expenditure</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is To Be Made</b>
Software	\$1,000 (See Note 13)	Cash	Upon Delivery	Franchisor
TOTAL	\$45,150 to \$145,750			

Notes:

Except as otherwise described below, all expenses and fees shown in this Item 7 are non-refundable.

1. Please see Item 5 of this Franchise Disclosure Document for a description of the initial franchise fee. Financing for the initial franchising fee may be available through us. See Item 7. As described in Item 5, a portion of your Initial Franchise Fee may be refunded. If we determine that you are not qualified to serve as a franchisee or if you otherwise fail to complete your initial training, we will retain up to \$5,000 of your initial franchise fee and will refund the balance to you. There are no refunds under other circumstances.
2. You do not have to purchase real estate for the Franchise Business. We assume you will operate the Franchise Business from an office building of any size in either a downtown or suburban area. The cost of leasing space will vary depending on the size, condition and location of the leased premises. Rent is estimated to be \$800 to \$2,250 per month depending on factors such as size, condition and location of the leased premises.
3. You may lease or purchase office furniture and fixtures. The cost will vary depending on the location and type of furniture and improvements.
4. You will need to purchase or lease certain items of equipment including telephones and a telephone system and a computer hardware system we designate. Depending on the needs of your office, you may choose to use more than one computer. The typical office in our system has 2 or 3 computers in use.
5. Before opening a Franchise Business, the advertising you will need includes direct mailing and classified newspaper advertisements for recruitment and client generation.
6. You will incur expenses associated with our initial training program. For this training program, we provide instructors and instructional materials. You must pay for transportation, lodging, food and wages for you and your employees. The cost will depend on the distance you must travel to the training location and the type of accommodations you choose.

7. We will provide, at no cost to you, an initial supply of our forms, supplies and printed materials. You will need to purchase other general office supplies.

8. You must obtain and maintain the types and amounts of insurance described in Section 16 of the Franchise Agreement. The amount in the chart represents a combination of (1) pre-opening insurance expenses, and (2) insurance that we provide under our “Master Policies” for workers compensation and general liability insurance covering temporary employees. In many circumstances, you may need to pay insurance companies initially for the entire annual premium. This is not the case for insurance coverage we provide. The premiums are not paid to Hire Quest up front, and they are not paid to Hire Quest before the franchisee commences business. We will establish Worker’s Comprehensive and General Liability insurance for the temporary workers for whom we are the employer of record, and you will pay the premium on this insurance coverage through deductions we make when calculating each week the Franchisee’s Share. If you knowingly service work in a restricted or prohibited workers’ compensation classification code, you will be liable to pay 100% of all costs associated with any loss related to the misclassified, restricted, or prohibited work. You are also responsible for and must reimburse us for any damages or costs we incur, including the costs of replacing a workers’ compensation insurance policy lost as a result of servicing the restricted or prohibited classification code. You must establish the necessary insurance coverage for your own business operation and your own employees. You must maintain insurance policies issued by carriers with an A.M. Best rating of “A” or better for Best’s Financial Size Category X or larger, and in forms satisfactory to us, covering the risks enumerated and in at least the amounts of coverage specified in the Brand Standards Manual. We may increase or decrease the amounts of coverage required under these insurance policies. We may also require that you establish different or additional kinds of insurance, such as excess liability insurance, to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other changes in relevant circumstances. If you fail to cooperate with Hire Quest in handling unemployment insurance claims, Hire Quest may impose a handling fee you must pay that is commensurate with the failure. The handling fee is 150% of the unemployment claims in excess of state unemployment premiums paid, calculated on a quarterly basis, based on unemployment claim experience of all of your employees.

**For purposes of risk management, you are expressly prohibited from hiring anyone as an employee for employment as a driver of any vehicle, and you must not employ any member of your own staff to serve as a driver of any vehicle for the transportation of placement employees or other members of your staff. You must exclusively employ the online “onboarding process” we provide to record all pertinent information regarding new placement employees.**

9. You will need to provide deposits for utilities. The amount of the deposits will vary depending upon the location of the Franchise Business and the practices of the utility companies and lessor. These deposits may be refundable.

10. You may need to employ an attorney, accountant and other consultants.

11. You may need to obtain a local occupational or business license.
12. You will need to support ongoing expenses, such as Continuing Fees, advertising fees, office payroll, and utilities, to the extent these costs are not covered by sales revenue. New businesses often generate negative cash flow. We estimate that the amount stated will be sufficient to cover on-going expenses for the initial phase of the business which we estimate to be 12 months. This is only an estimate, however, and there is no assurance that you will not need additional funds during or after this initial phase. Local market conditions plus the size and compensation of you and your permanent staff will affect the amount of additional funds you need. We relied on our many years of experience with our company-owned units when preparing these figures. These estimates do not cover all Continuing Fees, which vary depending on your Gross Billings, nor do they cover any interest or other financing costs you may incur, which will vary depending on how much you borrow.
13. You will incur up-front software expenses of \$1,000. See Item 11.

## **ITEM 8**      **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

Except as described below, you do not have to purchase any goods or services from us or from a supplier we designate or approve. We are an approved supplier and you may purchase certain forms, brochures and promotional materials from us. None of our officers has an interest in any other supplier. During our last fiscal year, ended December 31, 2022, we and our affiliates had zero revenues from the sale of these forms, brochures and promotional materials to franchisees.

If you lease the premises for the office, the lease must specifically provide that it will be assignable to us at our sole discretion, upon termination of the Franchise Agreement for any reason. If applicable, we estimate that the lease of the premises in accordance with our specifications will represent approximately 10% to 18% of your total purchases and leases in establishing the Franchise Business, and 10% to 18% of your total purchases and leases in the continuing operation of the Franchise Business.

Except for the computer hardware and software described below, you may purchase goods and services from any supplier; however, all business forms, advertising, brochures, promotional material and similar materials must be purchased in accordance with our specifications. If you do not purchase these items from us, we must approve them before you use the materials. Factors we used to determine acceptability are inventory, quality of goods and services, accessibility, and overall value. Once materials have been submitted to us for approval, we have 30 days to approve or deny the materials. We will provide you with manuals that describe our specifications for the proper use of the trade names and service marks in advertising materials. We estimate that the purchase of these materials in accordance with our specifications will represent approximately 0%

to 2% of your total purchases and leases in establishing the Franchise Business, and 1% to 3% of your total purchases and leases in the continuing operation of the Franchise Business. None of our affiliates is an approved supplier of the Hire Quest System; in 2022 no revenues were derived by us or any of our affiliates based on required purchases by franchisees in our System.

We have developed computer software to be used with the management and operation of our Franchise Business. We are the only approved supplier of this management and operations software for our franchised businesses. We will sublicense this software to you on the same terms and conditions as offered to all of our Franchisees similarly situated and you will be required to utilize the software in the operation of your Franchise Business in accordance with the specifications in the Brand Standards Manual. A form of the Computer Services Agreement is attached as Exhibit "G" of the Franchise Agreement. If you assign the Franchise Agreement, the Computer Services Agreement must be assigned to the new franchisee. In addition, you must pay for the actual cost of all software and published updates. At your expense, before you begin operations of the Franchise Business, you must purchase from us or a vendor approved by us the computer hardware and related equipment required for the operation and use of the software. During our last fiscal year ended December 31, 2020, we and our affiliates had zero revenues from franchisees purchasing from us software, computer equipment, or any other items for their businesses. All hardware and related equipment must meet the specifications provided in the Brand Standards Manual. Also, during the term of the Franchise Agreement, you must allow us access via telephone modem to your computer system to enable us to periodically upload and download data to facilitate our performance of automated payroll and related services.

We may partner with a third-party vendor to offer electronic pay card and direct deposit services. Presently, we utilize Money Network for this service. We require an Indemnity Deposit for this service as explained in Item 6, Note 7. We do not charge any other fees for this service, and we do not receive any revenue for franchisee's use of this vendor.

No officer of the franchisor owns any interest in any third-party supplier.

You must purchase and continuously maintain certain insurance coverage for the operation of the Franchise Business. The required coverage is usually available from a number of suppliers. As a franchisee, you must obtain and maintain the following types/amounts of insurance:

- Commercial General Liability Insurance / \$1,000,000 limit
  - This coverage must include at least \$500,000 in coverage for premises liability
  - This coverage must include at least \$500,000 in coverage for un-owned automobiles
- Workers' Compensation Insurance for your internal staff as may be required by your state.

**For purposes of risk management, you are expressly prohibited from hiring anyone as an employee for employment as a driver of any vehicle, and you must not employ any member of your own staff to serve as a driver of any vehicle for the transportation of placement employees or other members of your staff. You must exclusively employ the online “onboarding process” we provide to record all pertinent information regarding new placement employees.**

We do not receive payment from any supplier based on purchases by our franchisees. We have negotiated purchase arrangements, including price terms, with suppliers for the benefit of our franchisees. We may periodically assist our franchisees in organizing purchasing cooperatives.

We consider a variety of factors when determining whether to renew or grant additional franchises. Among the factors we consider is compliance with the requirements described above.

## **ITEM 9      FRANCHISEE'S OBLIGATIONS**

**This table lists your principal obligations under the franchise agreement and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this Franchise Disclosure Document.**

<b>Obligation</b>	<b>Section in Snelling Agreement</b>	<b>Disclosure Document Item</b>
a. Site selection and acquisition/lease	§ 3.1 of Franchise Agreement	Items 7, 8 and 11
b. Pre-opening purchases/leases	§ 6.1 of Franchise Agreement	Items 5, 7, 8 and 11
c. Site development and other pre-opening requirements	§§ 3.1 and 6.1 of Franchise Agreement	Items 5, 7 and 11
d. Initial and ongoing training	§ 7 of Franchise Agreement	Items 7 and 11
e. Opening	§ 6.1 of Franchise Agreement	Item 11
f. Fees	§§ 9, 14 and 21 of Franchise Agreement	Items 5, 6 and 7
g. Compliance with standards and policies/Brand Standards Manual	§§ 8.2, 9.5 and 15 of Franchise Agreement	Items 8, 11 and 14
h. Trademarks and proprietary information	§§ 10, 13 and 24 of Franchise Agreement	Items 13 and 14
i. Restrictions on products/services offered	§ 3.3 of Franchise Agreement, and purpose clauses of Franchise Agreement	Items 8 and 16
j. Warranty and customer service requirements	§ 11 of Franchise Agreement	Item 16
k. Territorial development and sales quotes	§§ 3 and 14 of Franchise Agreement	Items 6, 12 and 17
l. Ongoing product/service purchases	§ 15 of Franchise Agreement	Item 8
m. Maintenance, appearance and remodeling requirements	§ 15 of Franchise Agreement	Item 7
n. Insurance	§§ 16 of Franchise Agreement	Items 5, 7 and 8

Obligation	Section in Snelling Agreement	Disclosure Document Item
o. Advertising	§§ 17 and 18 of Franchise Agreement	Items 5, 6, 7, 8 and 11
p. Indemnification	§§ 10.7 and 12 of Franchise Agreement	Item 6
q. Owner's participation/management/staffing	Not applicable in Franchise Agreement	Item 15
r. Records/reports	§§ 19 and 20 of Franchise Agreement	Item 6
s. Inspections/audits	§ 20 of Franchise Agreement	Not applicable
t. Transfer	§ 22 of Franchise Agreement	Item 17
u. Renewal	§ 4 of Franchise Agreement	Item 17
v. Post-termination obligations	§ 24 of Franchise Agreement	Item 17
w. Non-competition covenants	§ 13.2 of Franchise Agreement	Item 17
x. Dispute resolution	§ 25.8 in Franchise Agreement	Item 17

## **ITEM 10      FINANCING**

Our affiliate HQ Financial Corporation offers limited financing to qualified franchisees, generally in amounts up to \$25,000 for the purpose of financing your operation. In rare instances we may finance up to \$100,000 for your purchase of your business. You do not have to obtain financing from us, nor do we have any obligation to extend financing to any individual franchisee. We reserve the right to approve or deny any requests for the extension of credit in our absolute discretion. Additionally, by making credit available to you, we assume no obligation to make any additional credit available to you under the specific type of credit arrangement we approved, or under any other type of credit arrangement, nor do we guarantee your note, lease or any obligation.

If you qualify for a loan, you will sign a Promissory Note and Security Agreement (see FDD Exhibit B). Together, the Note and Security Agreement are referred to as the “Loan Documents.” No one other than the Franchisee must guaranty the Loan Documents.

**Purpose of Loan.** Loans are to assist with the establishment of a Snelling business or of a non- Snelling business that you will convert to the Snelling System. If you have a pre-existing loan from us or other indebtedness to us, we may also permit you or require you to refinance that indebtedness as part of the Loan. These Loans may also be used to fund part of the initial



franchise fee, required deposits, fixed assets and/or the first months of operations in which you will likely have more expenses than revenues.

**Eligibility Requirements.** To apply for a loan, you must submit an application to the franchise director, together with financial statements (for each borrower, if there is more than one borrower).

To be eligible for a loan, you must:

- Have no outstanding obligations to us older than 30 days, except for indebtedness that is in good standing and that may be refinanced;
- Have a satisfactory credit rating (your application is permission for us to request credit information from organizations such as D&B and TRW);
- Agree to execute an amendment to your Franchise Agreement extending its term (if necessary) at least to the date on which the loan is scheduled to be repaid in full;
- Meet our then-current operating standards; and
- Be of better than average qualifications.

**Repayment Period.** Principal shall be payable in equal monthly installments over a 3-year period, together with interest payments based on a variable interest rate (see below).

**Prepayment.** You may repay any loan in whole or in part at any time, without penalty. If you make a prepayment, it must include accrued interest to the date of the prepayment.

**Required Security.** You must provide us with certain security for repayment of your loan. The Security Agreement (following the Note at FDD Exhibit B) grants us a security interest in all of your trade accounts and notes receivable (if we do not already own the accounts receivable) and in all franchise rights or other agreements between us and you, as well as in certain of your other assets.

**Interest Rate.** The interest rate for a Loan is a variable rate agreed upon by both parties to the loan. This may be a combination of a number of points above the Prime Rate published by the *Wall Street Journal*. "Prime Rate" means the prime rate of interest as reported in the *Wall Street Journal* on the first day of each month in which an installment is due, with the initial rate determined as of the date of the Loan. Each weekly installment under the Note will include interest from the due date of the preceding installment, calculated on the principal balance that remains unpaid after application of the preceding installment. We do not currently charge up-front points or loan origination fees, although we reserve the right to do so in the future.

In 2020, the Prime Rate fluctuated. As of March 16, 2020, the Prime Rate was 3.25%; therefore, if we both agree to a rate that is 3 percentage points above the Prime Rate the initial interest rate for a loan funded in 2020 would have been 6.25%. Assuming the 6.25% rate, and that you borrowed \$25,000 during that time and agreed to repay the loan in 12 monthly installments, the "Annual Percentage" for the loan (as defined under the Consumer Credit Protection Act) would be 6.25%.

**Your Potential Liability on Default.** Under the Note, if you fail to pay any installment within 30 days after its due date, we may declare the entire indebtedness to be due and payable immediately. After the default, the interest rate on the unpaid principal balance will increase to 18% per annum (not to exceed the maximum legal rate).

Under the Security Agreement, if you fail to make a payment or commit any other default under either of the Loan Documents, we may exercise any rights and remedies available to us under the Florida Commercial Code or otherwise permitted by law, including enforcing our rights to the collateral pledged for the loan and demanding payment from guarantors. Breaches of the Loan Documents include any un-cured default by you under the Franchise Agreement, or the sale, transfer, termination or non-renewal of any Franchise Agreement you have with us.

We also have the right, upon default, to take action in your name (including signing and endorsing documents) to establish, determine priority, or perfect, or enforce our rights under the Loan Documents.

If we employ an attorney to collect a loan, you must pay all of our costs of collection, including reasonable attorneys' fees for pre-trial, trial and appellate proceedings, if any. You must pay all of our reasonable out-of-pocket expenses to enforce your obligations, whether or not we employ an attorney for that purpose. The collateral that you pledge for repayment of your loans also secures these obligations.

A default under the Loan Documents does not automatically constitute a default under your Franchise Agreement. However, the collateral pledged for the loan includes your franchise rights and agreements with us (see above). Thus, a default under the Loan Documents may lead to the loss of your franchise through exercise of our rights to the collateral.

**Waiver of Defenses.** Under the Loan Documents, you and all guarantors agree to waive presentment, demand, protest, notice of protest, dishonor, notice of dishonor, and all other notices; guarantors, in addition, waive notice of default and any right to require us to sue or take other action to enforce payment. These provisions are in the Security Agreement. In addition, you and all guarantors agree to waive any right to a jury trial. (Security Agreement, last paragraph.)

**Other Material Terms of Financing.** You must pay all documentary stamp taxes and other governmental fees that apply to the loan. Currently, the South Carolina stamp tax rate is \$.37 per \$100 of the face value of the loan. The Loan Documents specify that South Carolina law governs.

You must also comply with certain covenants to protect our interest in the pledged collateral. Among other restrictions typical of financing arrangements, you must provide monthly financial statements and accounts receivable data; must not increase the compensation of or pay dividends to any officer, director or shareholder without our prior consent; must not issue or redeem capital stock or securities without our consent; and must maintain insurance on the collateral.

The Security Agreement applies to all indebtedness you may have to us on or after the dates of that agreement. Thus, even if you have repaid your loan in full, if you have other indebtedness to us, we have the right to keep our security interest in the collateral and to require you to be bound by the covenants mentioned above. Our current policy, however, is to cancel the Loan Documents when you have repaid your loan in full.

**Sale or Assignment of Loan Documents.** We presently do not sell or assign franchisee loans to others, nor have we done so in the past. We reserve the right to change this policy in the future, but we have no present plans to do so.

\* \* \*

As described above, we receive interest income from you if you obtain financing from us. We do not arrange financing from other sources, and we do not receive payments from other lenders as a result of any financing extended by them to you. We do not guarantee any obligations you may make to others.

We may change or discontinue our financing program at any time. In isolated cases, we may also offer financing arrangements outside of our regular programs. The terms and conditions of financing in these isolated situations will depend on the circumstances of each case. You should not assume we would be willing to offer any special financing to you.

## **ITEM 11 FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING**

**Except as listed below, Hire Quest is not required to provide you with any assistance.**

### **Pre-Opening Obligations**

Before you open the Franchise Business, the Franchise Agreement requires us to provide the following assistance and services to you:

1. Provide the training we deem necessary for your conduct of the Franchise Business (Franchise Agreement, Section 7); and
2. Provide you advice and materials to conduct a pre-opening advertising campaign (Franchise Agreement, Section 9.1).

### **Continuing Obligations**

During your operation of the Franchise Business, the Franchise Agreement requires us or our affiliates to provide the following assistance and services to you:

1. Keep you informed about new developments and procedures in the operation of the Franchise Business (Franchise Agreement, Section 9);
2. Provide you with a Brand Standards Manual (Franchise Agreement, Section 9.5);
3. Assist in the development and preparation of sales and promotional programs, campaigns and materials (Franchise Agreement, Section 9.1);
4. Analyze periodically the sales program, promotional efforts, financial status and other aspects of your business, all based on data you submit, and make suggestions based on this analysis (Franchise Agreement, Section 9.3);
5. Be the statutory employer of the workers assigned by your business and pay all attendant costs such as payroll taxes, etc., subject to full reimbursement from you for these costs (Franchise Agreement, Section 8.1.1);
6. Within 60 days after you begin operation of your Franchise Business, we will provide the services of a representative, for approximately 5 days, to assist you in managing your Franchise Business (Franchise Agreement, Section 9.2);
7. We will bill customers, and receive and record all payments made by customers, for all regular and temporary placement services you provide. The payments and accounts receivable that arise from all regular and temporary employee placement services that you provide will belong to us (Franchise Agreement, Section 8.1.2); we will pay you your share of moneys collected from customers, described in the Franchise Agreement as "Franchisee's Share," calculated as Gross Margin less Continuing Fees, other adjustments, and other amounts owing to us, on the Wednesday following the twenty-ninth (29th) day after the end of each weekly Accounting Period. If that Wednesday is a banking holiday, then we will pay to you your Franchisee's Share on the next business-banking day. You will find these terms defined in the definitions section (Section 1) of the Franchise Agreement, and discussed in Section 5.3.;
8. We will assist in identifying sources of certain goods and/or services that you may use with the operation of your Franchise Business (Franchise Agreement, Section 9.4); and

9. We may sponsor and urge your attendance at a meeting of all Snelling-branded franchisees that will last for approximately 1 to 3 days (the "National Business Conference"). The National Business Conference is designed to provide training and information, and facilitate discussions on topics of interest to franchisees. You will be responsible for all personnel and employees' salaries and other compensation, and costs and expenses incurred with your attendance or participation in the National Business Conference although there is no admissions fee for attending the National Business Conference (Franchise Agreement, Section 7.4).

### **Computer Systems**

We have developed software for use in your business. You are responsible for payment of any initial and ongoing software licensing fee. Currently, the up-front fee is less than \$1,000 and the ongoing annual maintenance fee is less than \$500 per year. We specifically reserve the right to change the current software for either software which we develop or for software developed by others. We have the right to charge you for the cost to provide you this new software, whether we develop it ourselves or purchase it from an independent software provider. You are responsible to purchase new software as we may designate. You are also responsible to acquire, at your sole cost and expense, certain other software that we feel is required to operate your business such as word processing and spreadsheet software. You are only responsible for the actual cost of the software; we do not charge any markup. You will need to purchase copies of the following commonly available software programs manufactured by Microsoft: a current Windows professional level operating system, and current versions of Excel and Word.

We will provide you with 12 hours of ongoing software support per year, and if you request more software support we will assess a fee of \$100 per hour for technical assistance and support for installation and program support of the Software.

We also have established certain hardware standard configurations. We recommend that you have a well-equipped PC computer and printer in your office that has a broadband connection to the Internet. The minimum specifications of this computer hardware are described in the Brand Standards Manual and should include a computer running a current Windows professional level operating system, and sufficient processing power to run the functions described in the Brand Standards Manual. You should also have a good general purpose printer, a laser check printer, and a surge regulator. The computer will be used for general office functions and payroll. There are no optional or required maintenance update, upgrading or support contracts. We estimate that the cost of your computer system will be approximately \$1,000 per computer. Depending on the needs of your office, you may choose to have more than one computer.

You do not have to purchase the hardware from us nor must you acquire the hardware through a vendor designated by us. We will, if you wish, acquire the hardware and software for you at your sole cost and expense; we will not charge any mark-up. Otherwise, you may directly acquire the hardware provided it meets the standards that we have established. Also, to the extent that we upgrade or otherwise change the software, which necessitates that the hardware be

upgraded, you will, at your own cost and expense, upgrade your hardware to accommodate the upgraded and changed software. During the term of the Franchise Agreement, you must allow us independent access via broadband Internet connection to your computer system to enable us to periodically upload and download data to facilitate our performance of automated payroll and related services.

### **Brand Standards Manual**

Before signing the Franchise Agreement, you will receive for your inspection a copy of our confidential Brand Standards Manual. This Brand Standards Manual contains certain trade secrets of the Franchise Business and outlines the specifications, standards and procedures by which the Franchise Business shall be conducted, as amended.

The Brand Standards manual totals 156 pages, including the cover page, table of contents, corporate directory, prohibited/restricted class code list, manager training guide, and glossary of terms. The pages devoted to each subject are as follows:

- Introduction: 4 pages
- Starting Your Business: 7 pages
- Accounting: 6 pages
- Core Staff: 2 pages
- Employment: 15 pages
- Workers Compensation: 5 pages
- Daily Procedures: 13 pages
- Sales: 12 pages
- Credit and Collections: 10 pages
- Miscellaneous Policies and Procedures: 2 pages
- Weekly Procedures: 4 pages
- Monthly, Quarterly, and Annual Procedures: 1 page

### **Site Selection**

We will assist you in selecting an area to establish a location for the office, subject to our approval. Factors we use in approving your site include: competition, public transportation, square footage, parking, zoning, access to highways, location of signage, and lease term. We will also advise you in negotiating a lease. If you request, we will review and comment on your proposed lease and assist in negotiating your lease with the prospective landlord. The site selection is ultimately yours to make, however, if a site and opening date have not been determined at the time the franchise agreement is signed, you have 90 days from the date of your agreement to open your Franchises Business (Franchise Agreement, Exhibit B). Failure to open the Franchised Business is grounds for termination (Franchise Agreement, Section 23).

### **Opening the Franchise Business**

We estimate that the typical length of time between signing the Franchise Agreement and opening the Franchise Business will be approximately 4 to 12 weeks. Factors which may affect

this time period include the availability of training classes, ability to obtain a location, execution of a lease, securing any necessary business licenses and/or permits, and timing of office build-out.

### **Training**

Generally, within 30 days before you open the Franchise Business, we will provide you and/or one of your representatives with a mandatory 2-week training course at one of our operating franchise branch locations. At your request, we also will provide training for one or more additional representatives before you open the Franchise Business on a space available basis. You must complete our training program to our satisfaction. Upon opening the office, we will assign one of our representatives to the office, at our expense, for a minimum of 1 week to provide you on-the-job training and assistance. We will conduct our initial training program as follows:

## TRAINING PROGRAM

Subject	Number of Hours of Classroom Training	Number of Hours of On-the-Job Training at Your Offices	Location for Classroom Training
Business Management	24	0	Franchise branch to be determined
Operations	30	18	Franchise branch to be determined
Sales	24	16	Franchise branch to be determined
HQ WebConnect	2	6	Franchise branch to be determined

We may waive the Initial Training requirement if you or your Manager have received training in association with another Hire Quest business.

We conduct our initial training program as needed. Dave Gerstner, our Vice President of Operations, will supervise our initial training program. Mr. Gerstner's experience is described in Item 2 of this Disclosure Document. Other members of the training team have experience as employees of Hire Quest or they have other pertinent employment or staffing experience. Our training materials include workbooks, overheads, handouts, and other presentations.

After you open the Franchise Business, we will provide additional training to you or your employees, at your expense, subject to training course date availability. In addition, we conduct national conventions, which may cover the subjects of sales, advertising, operating procedures, insurance and legal developments. Attendance at these conventions is mandatory.

For all required initial and additional training courses, we will provide, at no charge to you, instructors and training materials. You and your employees must pay all other expenses they incur in the courses, including the cost of transportation, lodging, meals, and wages.



### **Local Advertising**

You may not use any advertising that we have not approved. You must provide and maintain suitable signs approved by us and advertise your offices and services as directed in the Brand Standards Manual. All of this advertising must be submitted to us for our approval. Failure to provide you with a written decision on any submitted advertising within 10 days of our receipt constitutes our approval. We do not restrict where you may advertise. You may advertise on the Internet or any other electronic medium and display our trademarks as long as the advertising and page copy from any Internet presentation receives our prior approval.

### **Cooperative Advertising**

Franchisees are not obligated to participate in any advertising fund. There is currently no cooperative advertising program. We reserve the right in the future to require you to join a cooperative advertising program. The boundaries of each advertising cooperatives will be composed of a geographic marketing region and will determined by us. We have the right to change, dissolve or merge the cooperatives. Each Franchised Business will have one vote on all questions considered by the members of each cooperative. If established, you will be required to contribute an amount mutually agreed upon by the franchisees in your region, which will not exceed 1% of your Gross Billings. An accounting of the expenditures of any established cooperative advertising fund will be available to you and other participating franchisees on reasonable request. You may request an accounting directly from the manager of the cooperative fund or from us. You are not required to participate in a national advertising program.

There is no advertising council composed of franchisees that advises the franchisor on advertising policies.

### **Pricing**

We do not provide franchisees with assistance in setting prices. However, in the event you are eligible to service a National Account, that account will be billed in accordance with the National Account billing rates. Franchisees are not obligated to service any National Account.

## **ITEM 12 TERRITORY**

The Franchise Agreement allows you to operate the Franchise Business within the Territory described in Exhibit "D" of the Franchise Agreement. Your Territory will consist of designated counties, city limits, or other geographic borders in the vicinity of your office (e.g. Zip Codes). You must establish and maintain at least one office within the Territory from which you will operate the Franchise Business. You may provide only the services authorized by the Franchise Agreement to customers at locations within the Territory. You may use our plans, procedures, trade names and service marks only within the Territory. We do not restrict you from soliciting or accepting orders from outside your Territory, provided that you do not solicit or accept orders

within another Snelling franchisee's territory, but you do not have the right to use other channels of distribution to make sales outside of your Territory. You may relocate your Franchise to another place within your Territory. Relocation can occur only with our prior written consent. Generally, the primary criterion for our approval is that the proposed new office space is located within your Territory.

We will not establish company-owned or franchised outlets in your Territory that (1) sell the same or similar temporary personnel services, and (2) are identified by the same or similar trademarks or service marks as are granted to you under the Franchise Agreement. This promise of territorial restriction applies only when both of the features described in subsections (1) and (2) in the previous sentence are present. This promise of territorial restriction applies for as long as the Franchise Agreement is in effect and you have established and maintained an office location within the Territory, except as otherwise described below. **The promise of territorial restriction does not apply to career/permanent placement or direct hire services. Further, if you provide DriverQuest or HireQuest Health services through your franchise, you do not have any territorial rights as it relates to those services.**

If we acquire a business that provides similar services within your Territory, we may: (a) continue to operate the acquired business within the Territory (using trade names and service marks other than those which you are authorized to use); (b) sell the business to an unrelated third party (if the sale does not include the right to use the trade names and service marks that you are authorized to use); (c) sell you the business under terms and conditions we negotiate; or (d) transfer the business to you without charge. If we sell or otherwise transfer the acquired business to you, you must operate the business according to the terms of the Franchise Agreement.

We reserve the right to operate ourselves or grant franchises to others for businesses that may be located in your Territory, that offer the same or similar temporary personnel placement services to your franchised business, but that operate under a different trademark from your franchised business. This will allow us to develop and establish new franchise programs for specialty businesses that promote services to particular industries or particular markets. If any of this activity occurs in your Territory you will not receive any compensation. You will not receive compensation from us for any soliciting or accepting orders from inside your Territory.

We are not otherwise restricted from establishing other franchises or company-owned units or other channels of distribution using our marks. We are not required to pay you if we exercise any of the rights specified above inside your territory. Except as described above, you have no options, rights of first refusal, or similar rights to acquire additional franchises.

We reserve all rights regarding all channels of distribution not specifically granted to you regarding your Territory. These other channels of distribution include the Internet, telemarketing, and direct marketing in your Territory using our Marks.

Although you will receive the territorial rights described above, you may face competition from other *Snelling*®, HIRE QUEST® staffing center, HIREQUEST DIRECT®, DRIVERQUEST™ or TRADECORP™ businesses that we or our affiliates franchise (including MRI® and SearchPath®) or own and that operate at traditional sites outside of your territory. Also, you may face competition from other outlets that we franchise or own, or from other channels of distribution or competitive brands we control. 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 may negotiate and enter into contracts with national account customers ("National Account Customers") to provide services at locations both within and outside the Territory. Promptly after we accept a contract or bid by a National Account Customer to provide services within your Territory, we will provide you, for your consideration, a copy of the customer's requirements, prices and/or specifications described in the contract or bid. You are under no obligation to accept the proposed contract terms, but we ask that you consult with us on any questions or concerns regarding the negotiated terms of service for National Account Customer locations within your Territory. If you accept the terms offered, you agree to use your best efforts to provide services to the National Account customer in a manner that conforms to the contract's requirements. If you elect not to provide contracted services, or if for any reason you do not, or are not able to, provide the contracted services to the National Account Customer in a manner which conforms to the customer requirements, prices and/or specifications described in the contract or bid, we may: (a) provide services to the National Account Customer at locations within your Territory, using the same trade names and service marks you use; and/or (b) contract with another party to provide services to the National Account Customer at locations within your Territory, using the same trade names and service marks you use, or any other trade names or service marks. If you choose to provide these services in your Territory, all standards of performance that may be required by the national account client or by the Snelling System will apply. If, for any reason, the national account client or we conclude that you are not meeting the performance standards related to the accepted national account, we may in good faith consult with you regarding your performance. After consultation, we may direct that either the Franchisor or a third party may provide the services, even if those services are performed in your Territory.

You cannot alter the Territory without our consent. Your territorial rights are dependent on your meeting certain minimum performance standards each year, as described in Note 7 of Item 6, as well as your adherence to all other terms and conditions in the Franchise Agreement.

Minimum Performance Standards will be negotiated with you before entering into a Franchise Agreement. If at any time you do not meet the Minimum Performance Standards with regard to any calendar year, you will have the right to pay us a monetary amount equal to the amount which we would have received as Continuing Fees for any calendar year had you satisfied the Minimum Performance Standards for that year, less the actual Continuing Fees paid

to us for that calendar year. This amount must be paid to us no later than 120 days following the end of each applicable calendar year or within 60 days of your receipt of notice of failure to satisfy the Minimum Performance Standards, whichever is earlier. Your payment of these amounts to us constitutes satisfaction of the Minimum Performance Standards.

If at any time you do not meet the Minimum Performance Standards and provided that you do not elect to pay us the amounts described above, we will have the option, exercisable at any time within 10 months after the end of any year in which the Minimum Performance Standards are not met, to either: (a) purchase the Franchised Business by paying to you an amount equal to the then net book value of the tangible assets of the Franchised Business, as disclosed in the balance sheet for the Franchised Business, provided that each depreciable asset shall be valued as if it had been depreciated on a "straight-line" basis from the date of its acquisition over its useful life without provision for salvage value ("Purchase Price"); or (b) ourselves operate a Snelling business, whichever program was granted to you, within the Territory; or (c) grant a franchise to others to do so. We will exercise our option by providing written notice to you of our election to do so. If we elect to purchase the Franchised Business, upon the purchase, the Franchise Agreement will be terminated as if terminated by us pursuant to the provisions of Section 23 of the Franchise Agreement. Our payment of the Purchase Price will be made in 2 equal monthly installments of principal, without interest, beginning ninety (90) days following the effective date of the termination.

During the first 5 years of operations of your Franchised Business, if you do not attain the Minimum Performance Standards or pay the Continuing Fees or other fees payable to us, or otherwise default under the terms of this Agreement, we may: (i) either operate ourselves (or through an affiliate), or grant a franchise to another, or otherwise permit another, to operate, a Franchised Business within the Territory; or (ii) reduce or otherwise modify the geographic dimensions of the Territory, or eliminate it entirely. After the initial 5 year period of operations of the Franchised Business, if you do not meet the Minimum Performance Standards, even if you pay the Continuing Fees or other fees payable to us attributable to the Minimum Performance Standards, then we may: (i) either operate ourselves (or through an affiliate), or grant a franchise to another, or otherwise permit another, to operate, a Franchised Business within the Territory; and (ii) reduce or otherwise modify the geographic dimensions of the Territory or eliminate it entirely.

## **COMPETITIVE BRANDS CONTROLLED BY FRANCHISOR**

### **1. HireQuest Direct®**

**Services:** HireQuest Direct franchised businesses offer temporary staffing solutions in the construction and unskilled labor sector.

**Trademark:** HireQuest Direct utilizes USPTO Trademarks Registration No. 6,273,623 and 6,920,696.

**Ownership:** All HireQuest Direct franchises are franchisee-owned.

**Orders:** HireQuest Direct franchisees could operate in your area and could compete with you for customers and employees, although HireQuest Direct and Snelling typically do not service the same customer base.

**Conflict Resolution:** HQ Franchising Corporation will attempt to resolve any conflict between franchisees of these systems in a mutually beneficial manner. Presently we have many Snelling and HireQuest Directs in the same geographic markets who service different customer bases of the temporary staffing industry without conflict. In the event of a dispute, solutions may include: informal mediation, fee splitting, referral agreements, and/or Franchisor's enforcement of certain codes of conduct or other operating standards as necessary.

**Principal Address:** 111 Springhall Drive, Goose Creek, SC 29445. HQ Franchising Corporation does not maintain physically separate offices or training facilities for its brands.

## 2. Hire Quest

Hire Quest franchised businesses offer temporary staffing solutions in the light industrial and semi-skilled sector. This model is currently offered under the Snelling® name and the majority of Hire Quest franchisees have chosen to operate as Snelling. We no longer sell new franchises under this trademark.

**Trademark:** Hire Quest is registered with the USPTO under Registration No. 4881921.

**Ownership:** All Hire Quest franchises are franchisee-owned.

**Orders:** Hire Quest franchisees have exclusive territories and primarily service light industrial and semi-skilled temporary staffing clients. Some Hire Quest franchisees provide permanent placement services. These franchisees could operate in your area and could compete with you for customers and employees.

**Conflict Resolution:** HQ Franchising Corporation will attempt to resolve any conflict between franchisees of these systems in a mutually beneficial manner. Solutions may include: informal mediation, fee splitting, referral agreements, and/or Franchisor's enforcement of certain codes of conduct or other operating standards as necessary.

**Principal Address:** 111 Springhall Drive, Goose Creek, SC 29445. HQ Franchising Corporation does not maintain physically separate offices or training facilities for its brands.

## 3. TradeCorp™

TradeCorp franchisees offer skilled trades temporary staffing solutions. This is a new franchise concept created in 2022.

**Trademark:** The TradeCorp trademark application is pending with the USPTO under Serial No. 9764898.

**Ownership:** There are no franchisor-owned TradeCorp franchises.

**Orders:** TradeCorp franchisees primarily service skilled trades temporary staffing clients. However, these franchisees could operate in your area.

**Conflict Resolution:** HQ Franchising Corporation will attempt to resolve any conflict between franchisees of these systems in a mutually beneficial manner. Solutions may include: informal

mediation, fee splitting, referral agreements, and/or Franchisor's enforcement of certain codes of conduct or other operating standards as necessary.

**Principal Address:** 111 Springhall Drive, Goose Creek, SC 29445. HQ Franchising Corporation does not maintain physically separate offices or training facilities for its brands.

## **ADDITIONAL SERVICE LINES**

HQ Franchising Corporation franchisees may also offer additional services through the DriverQuest® (temporary staffing for CDL drivers) and HireQuest Health™ (temporary staffing for healthcare support service providers) service models.

## **COMPETITIVE BRANDS CONTROLLED BY AFFILIATE COMPANIES**

### **1. *MRINetwork/MRI*®**

On December 12, 2022, our affiliate, HQ MRI Corporation, acquired the assets of MRINetwork, a search/placement franchise brand with over 200 domestic and international locations. MRI (Management Recruiters International) franchisees operate search and recruitment businesses that specialize in management-level placements and contract staffing.

**Trademark:** MRI franchisees operate utilizing the Registered Trademarks Nos. 0906,376; 3,286,712.

**Ownership:** There are no franchisor- owned MRI offices.

**Orders:** MRI franchisees do not offer the same type of services as HireQuest Direct. MRI franchisees provide management-level placement and contract staffing services. However, these franchisees may operate in your area.

**Conflict Resolution:** HQ MRI Corporation and HQ Franchising Corporation will attempt to resolve any conflict between franchisees of these systems in a mutually beneficial manner. Solutions may include: informal mediation, fee splitting, referral agreements, and/or enforcement of certain codes of conduct or other operating standards as necessary.

**Physical Address:** HQ MRI Corporation shares its corporate headquarters with HQ Franchising Corporation at 111 Springhall Drive, Goose Creek, SC 29445.

### **2. *SearchPath*®**

On February 28, 2023, our affiliate, HQ MRI Corporation, acquired the assets of SearchPath Global, Inc. ("SearchPath"), a franchisor of permanent placement franchisees across the country. SearchPath franchisees tend to be search/placement generalists and operate under the tradename SearchPath. SearchPath franchisees also offer contract staffing services.

**Ownership:** Franchisor does not own any SearchPath locations.

**Trademarks:** SearchPath franchisees operate under Registered Trademark Nos. 3245499, 6578790.

**Orders:** SearchPath franchisees may solicit or accept orders for customers in your area, however, they do not offer the same services as HireQuest Direct.

**Conflict Resolution:** HQ MRI Corporation and HQ Franchising Corporation will attempt to resolve any conflict between franchisees of these systems in a mutually beneficial manner. Solutions may include: informal mediation, fee splitting, referral agreements, and/or or Franchisor's enforcement of certain codes of conduct or other operating standards as necessary.


**Physical Location:** HQ MRI Corporation shares its corporate headquarters with HQ Franchising Corporation at 111 Springhall Drive, Goose Creek, SC.

**ITEM 13 TRADEMARKS**

The Franchise Agreement grants you the right to use certain proprietary marks in the operation of your Franchised Business.

The principal mark you will use is the Snelling word and logo mark identified below.

The status of current federal registrations at the US Patent and Trademark Office (“USPTO”) of our primary trademarks is as follows:

<b>Mark</b>	<b>Federal</b>	<b>Ser./Reg. No.</b>	<b>Status</b>
<b>SNELLING</b>	USPTO	Reg. 1,755,978	Registered March 2, 1993
	USPTO	Reg. 3,330,166	Registered November 6, 2007

We have filed all appropriate affidavits for these marks on the Principal Register of the USPTO. If our right to use the Snelling marks is challenged you may have to change to an alternative trademark which may increase your expenses.

You must follow our rules when you use our marks. You cannot use a name or mark as part of a corporate name or with modifying words, designs or symbols except for those which we license to you. You may not use the Snelling mark with the sale of an unauthorized product or service or in a manner not authorized in writing by us.

There are no agreements presently in effect or contemplated which would significantly limit our rights to use or license the use of these marks.

There are no currently effective determinations of the PTO, the Trademark Trial and Appeal Board, the Trademark Administrator of this state, or any court, involving these marks.

There is no pending infringement, opposition, or cancellation proceeding involving the Snelling mark.

You must immediately notify us of the existence or assertion of any claim based upon, or any attempt by another person or firm to use, any of these proprietary marks. Although the Franchise Agreement does not obligate us to take any action to protect these proprietary marks, if we elect to do so, you must execute all documents we deem necessary. We have the right to control all litigation involving these proprietary marks. The Franchise Agreement does not impose on us any other obligations to protect these marks. We are not obligated under the terms of the Franchise Agreement or otherwise to protect any rights you have to use these proprietary marks. The Franchise Agreement does not obligate us to protect you against, or indemnify you for, any liability you incur from claims of infringement or unfair competition involving these proprietary marks.

We do not know of any infringing uses that could materially affect your use of these proprietary marks in this state or elsewhere. There are no agreements currently in effect that limit our rights to use or to license the use of any of the proprietary marks described above.

We reserve the right to substitute different proprietary marks for use in identifying our system and the businesses operating under it. We will make the substitution in a uniform manner and require all licensees to promptly implement any substitution of new proprietary marks. We will notify you in writing of each change, and we will provide you at least 60 days to convert. In addition, we will provide you with new stationery, signage and an initial supply of new forms reflecting the new marks, at no cost to you. Except as otherwise described in this Item 13, we will incur no obligation to you regarding the proprietary marks.

## **ITEM 14 PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION**

### **Patents and Copyrights**

We do not own any patents or registered copyrights that are material to the Franchise Business. We claim common law copyright protection for our Brand Standards Manual, certain software, and other written materials we allow you to use.

### **Brand Standards Manual**

We will allow you to inspect our Brand Standards Manual before you sign the Franchise Agreement. The Brand Standards Manual is intended to serve as a reference source for the operation of the Franchise Business. We update the Brand Standards Manual on a continuing basis. You may keep the Brand Standards Manual on your premises during the term of the Franchise Agreement and any renewals. You must not, during or after the term of the Franchise



Agreement, use or disclose any information in the Brand Standards Manual. Upon termination of the Franchise Agreement for any reason, you must return the Brand Standards Manual to us.

### **Confidential Information**

You must not, during or after the term of the Franchise Agreement, disclose to any third party the details or provisions of our system, or the existence or content of any written or oral agreement between us and any other firm or person. You may not, during or after the term of the Franchise Agreement, disclose any statistical data, customer data, applicant or employee lists, sales, promotional or financial information, manual, procedure or other proprietary or confidential information you may have created in operating under our name, or which we created on your behalf, or which may otherwise have come to your attention as a result of your association with us.

**ITEM 15**      **OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

The Franchise Agreement requires that you or an approved manager devote full time to the Franchise Business and participate personally in the direct operation of the Franchise Business. If you do not engage full-time in the operation of the Franchise Business, you must have at least one full time employee (i.e. a designated manager) who has successfully completed all appropriate training. “Full-time” means the expenditure of at least thirty-five (35) hours per week, excluding vacation, sickness, etc. Either you or the designated manager must at all times provide on-premises supervision of the Franchise Business.

As allowed by state law, the designated manager must sign a Non-competition Agreement restricting his or her activities that would be competitive with you or our business during the time of employment, and for twelve months after termination of his or her employment with you. This Non-competition Agreement is for your benefit and ours and is attached as an exhibit to the Franchise Agreement. If the designated manager ceases to be active in this role for any reason, we recommend that you replace the designated manager within 90 calendar days with someone who is fully qualified.

You must employ a competent and fully trained staff to operate the Franchise Business. Subject to state law, each employee must execute a Confidentiality and Non-competition Agreement in the form attached as an exhibit to the Franchise Agreement. This agreement prohibits disclosure of trade secrets and restricts competitive business activity. The designated manager need not have an equity interest in your business. Each franchise owner must sign the Guaranty Agreement found at Exhibit H to the Franchise Agreement.

**ITEM 16**      **RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You may offer your customers only the services authorized by the Franchise Agreement. See discussion in Item 8 regarding restrictions on sources of products and services. We may change the types of authorized services at any time. There are no limits on our right to make these changes. Any entity you form to operate the Franchise Business may not engage in any other business activities. You may not use the office(s) from which you operate the Franchise Business for any other purpose.

You must maintain the regular office hours we establish. There are no restrictions on the customers to whom you may provide the services, except that: (a) we may offer you the opportunity to provide services to National Account Customers under the terms and conditions of a national account contract we negotiate; (b) you may only provide services to customers at locations within the Area; (c) you may only use our plans, procedures, trade names and service

marks within the Territory; and (d) you must satisfy certain credit and risk management procedures. These credit and risk management procedures include (i) your refraining from providing temporary employees to any client which in our opinion involves excessive risk of workers' compensation claims, (ii) your requirement to investigate all work-related accidents and submission of a written report of any accidents to us on the forms we prescribe, (iii) your agreement to re-employ, at your sole expense, any injured workers who have been released to a modified work duty (light duty) status, (iv) your requirement to report to us all accidents and employment terminations immediately upon their occurrence, (v) your requirement to provide us with all information regarding worker's compensation losses (including "loss runs") and status reports from insurance carriers regarding the progress of these workers' compensation claims, (vi) your requirement to provide us with risk management reports on forms we prescribe. Except as noted above, we do not impose any restrictions or conditions that limit your access to customers.

If you do not provide modified work duty (light duty) in appropriate circumstances, we may impose a risk fee of up to \$75.00 per day that an injured worker is not provided appropriate light duty work.

If you fail to cooperate with us in handling unemployment insurance claims, we may impose a handling fee you must pay, and that is commensurate with the failure. The handling fee is up to 150% of the unemployment claims in excess of state unemployment premiums paid, calculated on a quarterly basis, based on unemployment claim experience of temporary employees furnished by the Franchised Business during the term of this Agreement.

**ITEM 17      RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION**

**THE FRANCHISE RELATIONSHIP**

This table lists important provisions of the franchise agreement and related agreements. You should read these provisions in the agreements attached to this disclosure document.

Provision	Section in Snelling Franchise Agreement	Summary
(a) Length of the franchise term	§§ 1 and 4.1 of Franchise Agreement	5 full years plus partial year, if any, in which Franchise Agreement begins.
(b) Renewal or extension of the term	§ 4.2 of Franchise Agreement	Additional, successive 5-year periods.
(c) Requirements for franchisee to renew or extend	§ 4.3 of Franchise Agreement	You must give us 180 days' notice of your intent to renew, sign the current franchise agreement and mutual release. If you seek to renew your franchise at the expiration of the initial term, you will be asked to sign a new franchise agreement that may contain terms and conditions materially different from those in your previous franchise agreement, such as different fee requirements and territorial rights.
(d) Termination by franchisee	§ 22.2 of Franchise Agreement	Any reason, but only during a renewal term and with notice.
(e) Termination by franchisor without cause	Not applicable	

Provision	Section in Snelling Franchise Agreement	Summary
(f) Termination by franchisor with cause.	§§ 23.1 and 23.2 of Franchise Agreement	Violation of any confidentiality provision; bankruptcy; failure to pay sums you owe us; failure to attain Minimum Performance Standards; breach of Franchise Agreement.
(g) "Cause" defined – curable defaults	§ 23.1 of Franchise Agreement	Breach of Franchise Agreement except as otherwise provided; failure to pay sums you owe us; failure to achieve Minimum Performance Standards.
(h) "Cause" defined – non-curable defaults	§ 23.2 of Franchise Agreement	Failure to cure defaults which can be cured within appropriate time period; bankruptcy.
(i) Franchisee’s obligations on termination/non-renewal	§ 24 of Franchise Agreement	Obligations include complete de-identification and payment of amounts due; compliance with covenants.
(j) Assignment of contract by franchisor	§ 22 of Franchise Agreement	We may assign our obligations under the Franchise Agreement.
(k) “Transfer” by franchisee – defined	§ 22.2 of Franchise Agreement	Includes sale or other transfer of Franchise Agreement, Franchise Business, assets you own or use in the operation of the Franchise Business, or any interest the Franchise Agreement grants you.
(l) Franchisor approval of transfer by franchisee	§ 22.2 of Franchise Agreement	We have the right to approve transfers.

Provision	Section in Snelling Franchise Agreement	Summary
(m) Conditions for franchisor approval of transfer	§ 22.6 of Franchise Agreement	Includes our approval of new franchisee, your payment of a \$5,000 transfer fee to us, new franchisee assumes all of your obligations under the Franchise Agreement and completes training program, and new franchisee executes new Franchise Agreement including any personal guarantees.
(n) Franchisor’s right of first refusal to acquire franchisee’s business	§ 22.5 of Franchise Agreement	We can match any offer.
(o) Franchisor’s option to purchase franchisee’s business	§ 14.2 of Franchise Agreement	We can elect to repurchase your supplies and to continue the operation of the Franchise Business if you do not renew or if you terminate the Franchise Agreement; See § 14.2.

Provision	Section in Snelling Franchise Agreement	Summary
(p) Death or disability of franchisee	§ 22.7 of Franchise Agreement	Your beneficiaries may continue operation of the Franchise Business for a period of 180 days following your death or disability, provided they maintain all standards and obligations under the Franchise Agreement. After this 180-day period, your beneficiaries must, in order to continue operation of the Franchise Business, satisfy all qualifications then in effect for a purchaser of a Franchise Business, or be required to sell its ownership interest in the Franchise Business to a qualified purchaser.
(q) Non-competition covenants during the term of the franchise	§ 13.2 of Franchise Agreement	Prohibits owning or operating business which is competitive with the Franchise Business within the Territory and any contiguous county; engaging an employee of the Franchise Business, or engaging an individual or firm to provide management services to the Franchise Businesses, without having the individual or firm execute a non-competition agreement.
(r) Non-competition covenants after the franchise is terminated or expires	§ 13.2 of Franchise Agreement	Includes 2 year prohibition similar to (q), above.

Provision	Section in Snelling Franchise Agreement	Summary
(s) Modification of the agreement	§§ 25.1 and 25.10 of Franchise Agreement	We must provide written notice of any material system change and provide at least 60 days to convert. Any other modification must be made by written agreement executed by both of us.
(t) Integration/merger clause	§25.11 of Franchise Agreement	Only the terms of the franchise agreement are binding (subject to state law). Any representations or promises outside the disclosure document and franchise agreement may not be enforceable. Nothing in the Franchise Agreement or in any related agreement is intended to disclaim the franchisor's representations made in this Franchise Disclosure Document.
(u) Dispute resolution by arbitration or mediation	§ 25.8 of Franchise Agreement	All disputes under the Franchise Agreement (with certain exceptions for injunctive relief, audits, reports, and payment of fees) shall be submitted to arbitration in Berkeley County, South Carolina. (Subject to state law. See State Law Disclosures for more details in your state)
(v) Choice of forum	§ 25.7 of Franchise Agreement	Any arbitration or litigation between the parties must take place in the courts of South Carolina. (Subject to state law. See State Law Disclosures for more details in your state)



<p>(w) Choice of law</p>	<p>§ 25.7 of Franchise Agreement</p>	<p>South Carolina law shall control unless otherwise preempted by Federal law or by state law that prohibits application of South Carolina law. (Subject to state law. See State Law Disclosures for more details in your state)</p>
--------------------------	--------------------------------------	--

## **ITEM 18**    **PUBLIC FIGURES**

We do not use any public figures to promote our franchise.

## **ITEM 19:**    **FINANCIAL PERFORMANCE REPRESENTATIONS**

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) the franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

The representations below are based on historical financial performance of our existing outlets.

### 2021: 70 Offices Represented

Average Gross Profit	\$376,511.14
Median Gross Profit	\$283,622.53
Highest Gross Profit	\$1,213,051.28
Lowest Gross Profit	\$333.45
Average Net Profit	\$311,733.78
Median Net Profit	\$295,111.76
Highest Net Profit	\$827,296.70
Lowest Net Profit	\$27,502.05

### 2022: 74 Offices Represented

Average Gross Profit	\$468,007.04
Median Gross Profit	\$347,471.51
Highest Gross Profit	\$2,015,712.81
Lowest Gross Profit	\$347.07
Average Net Profit	\$399,951.16
Highest Net Profit	\$1,393,594.17
Lowest Net Profit	\$10,310.8
Median Net Profit	\$337,224.51

Notes:

- “Gross Profit” is calculated as the total Bill Amount less Pay Amounts, Workers Compensation Insurance Premiums, and Employer Taxes.
- “Net Profit” is calculated as the total Net Sales less Direct Expenses (Payroll Funded, Federal and State Tax Withholdings, Liability Insurance, Royalty), Accounts Receivables Adjustments, and other miscellaneous Administrative Charges.
- These calculations *do not account for* overhead expenses such as rent and utilities or internal staff payroll.

Some offices have billed these amounts. Your individual results may differ. There is no assurance that you will earn as much.

These statements have not been audited and may not be based on generally accepted accounting principles. Written substantiation for this financial performance representation will be made available to you upon reasonable request.

Other than the preceding financial performance representation, HQ Franchising Corporation does not make any finance performance representations. We also do not authorize our employees or representatives to makes such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor’s management by contacting John McAnnar, Chief Legal Officer, at [jdmcannar@hirequest.com](mailto:jdmcannar@hirequest.com), (843)723-7400, and 111 Springhall Drive, Goose Creek, SC 29445, the Federal Trade Commission, and the appropriate state regulatory agencies.

## **ITEM 20    OUTLETS AND FRANCHISEE INFORMATION**

### **I. SYSTEM INFORMATION:**

Table No. 1  
System-wide Outlet Summary  
For Years 2020 to 2022<sup>1</sup>

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised Outlets	2020	9	10	+1
	2021	10	68	+58*
	2022	68	76	+8
Company Owned	2020	0	0	0
	2021	0	0	0

<sup>1</sup> \*Prior to March 2021, the franchise model offered in this Disclosure Document was known as *HireQuest* and, prior to 2019, was known as *Acrux Star Quality Staffing*. In March of 2021, our affiliate HQ Snelling Corporation purchased certain assets of Snelling Staffing, LLC, Snelling Services, LLC, Snelling Employment, LLC, Snelling Medical Staffing, LLC, and Snelling Investments, Inc. Those assets included the Snelling trademarks referenced in Item 13 and existing Snelling Staffing Services franchise agreements (“Snelling Franchisees”), which were then assigned to HQ Franchising Corporation. In March of 2021, our affiliate HQ Link Corporation purchased certain assets of Link Staffing including Link Staffing franchise agreements (“Link Franchisees”). Those assets including the Link Franchise Agreements were also assigned to HQ Franchising Corporation.

In 2021, most of the acquired Snelling Franchisees and Link franchisees chose to enter into a new *HireQuest* franchise agreement with HQ Franchising Corporation and to operate under the *Snelling* marks pursuant to a separate license agreement. 18 of the acquired Snelling Franchisees continue to operate under their original Snelling franchise or license agreements. These “legacy” franchisees operate under the “Snelling” name but do not utilize all of Hire Quest’s employer of record / back-office services. Those franchisees and their locations are identified in Exhibit C to this FDD as “Legacy” franchisees. **The acquired/converted franchisees are identified as “Outlets Opened” franchisees in 2021, however, we have identified those franchisees with the “†” symbol in order to reflect the fact that these new franchisees had existing temporary staffing business operations at the time they entered into agreements with us or continue to operate under their original agreements we acquired.**

The former *HireQuest* offering is now made as Snelling® and we no longer sell franchises under the *HireQuest* mark. Some of our existing *HireQuest* franchisees chose to use the Snelling marks (instead of *HireQuest*) while some have continued to use *HireQuest*.

	2022	0	1 <sup>2</sup>	1
Total	2020	9	1	10
	2021	10	68	+58
	2022	68	76	+8

Table No. 2

Transfers of Outlets From Franchisees to New Owners  
(Other than the Franchisor) For the Years 2020 to 2022

State	Year	Number of Transfers
GA	2020	0
	2021	0
	2022	1
KY	2020	0
	2021	0
	2022	1
NE	2020	0
	2021	0
	2022	1
TX	2020	0
	2021	0
	2022	1
Total	2020	0
	2021	0
	2022	4

<sup>2</sup> This location is a franchise. The franchisee, SNEL PHIL, LLC, is a wholly owned subsidiary of our parent corporation, HireQuest, Inc.

Table No. 3  
 Status of Franchised Outlets  
 For Years 2020 to 2022

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by HQ	Ceased Operations Other Reasons	Outlets at End of the Year
AL	2020	0	0	0	0	0	0	0
	2021	0	3†	0	0	0	0	3
	2022	3	0	0	0	0	0	3
AR	2020	0	0	0	0	0	0	0
	2021	0	2†	0	0	0	0	2
	2022	2	0	0	0	0	0	2
CO	2020	0	0	0	0	0	0	0
	2021	0	2†	0	0	0	0	2

	2022	2	0	0	0	0	0	2
FL	2020	1	0	0	0	0	0	1
	2021	1	6†	0	0	0	0	7
	2022	7	1	0	0	0	0	8
GA	2020	2	0	0	0	0	0	2
	2021	2	1†	0	0	0	0	3
	2022	3	0	0	0	0	0	3
IA	2020	0	0	0	0	0	0	0
	2021	0	2†	0	0	0	0	0
	2022	2	0	0	0	0	0	2
IL	2020	0	0	0	0	0	0	0
	2021	0	1†	0	0	0	0	0
	2022	1	0	0	0	0	0	1
IN	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1

	2022	1	1 <sup>3</sup>	0	0	0	0	2
KY	2020	0	0	0	0	0	0	0
	2021	0	2 <sup>†</sup>	0	0	0	0	2
	2022	2	0	0	0	0	0	2
LA	2020	0	0	0	0	0	0	0
	2021	0	4 <sup>†</sup>	0	0	0	0	4
	2022	4	1 <sup>4</sup>	0	0	0	0	5
MA	2020	0	0	0	0	0	0	0
	2021	0	1 <sup>†</sup>	0	0	0	0	1
	2022	1	0	0	0	0	0	1
MI	2020	0	0	0	0	0	0	0
	2021	0	3 <sup>†</sup>	0	0	0	0	3
	2022	3	0	0	0	0	0	3
MO	2020	1	0	0	0	0	0	1

<sup>3</sup> This unit converted from our HireQuest Direct Model to Snelling but remains under the same franchise ownership.

<sup>4</sup> This unit converted from our HireQuest Direct Model to Snelling but remains under the same franchise ownership.



	2021	1	2†	0	0	0	0	3
	2022	3	0	0	0	0	0	3
MS	2020	0	0	0	0	0	0	0
	2021	0	1†	0	0	0	0	1
	2022	1	0	0	0	0	0	1
NE	2020	0	0	0	0	0	0	0
	2021	0	1†	0	0	0	0	1
	2022	1	0	0	0	0	0	1
NJ	2020	0	0	0	0	0	0	0
	2021	0	4†	0	0	0	0	4
	2022	4	0	0	0	0	0	4
NM	2020	0	0	0	0	0	0	0
	2021	0	1†	0	0	0	0	1
	2022	1	1	0	0	0	0	2
NY	2020	0	0	0	0	0	0	0

	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
NC	2020	0	0	0	0	0	0	0
	2021	0	1†	0	0	0	0	0
	2022	1	0	0	0	0	0	1
OH	2020	0	0	0	0	0	0	0
	2021	0	2†	0	0	0	0	2
	2022	2	0	0	0	0	0	2
PA	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
SC	2020	1	0	0	0	0	0	1
	2021	1	2†	0	0	0	0	3
	2022	3	0	0	0	0	0	3
TN	2020	0	0	0	0	0	0	0

	2021	0	2†	0	0	0	0	2
	2022	2	0	0	0	0	0	2
TX	2020	0	0	0	0	0	0	0
	2021	0	16†	0	0	0	0	16
	2022	16	2	0	0	0	0	18
UT	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
VA	2020	0	0	0	0	0	0	0
	2021	0	1†	0	0	0	0	1
	2022	1	0	0	0	0	0	1
WI	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
TOTAL	2020	9	1	0	0	0	0	10

	2021	10	58	0	0	0	0	68
	2022	68	8	0	0	0	0	76

Table No. 4  
Status of Company-Owned Outlets  
For Years 2019 to 2021

State	Year	Outlets at Start of Year	Outlets Opened	Reacquired from Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
PA	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0
	2022	0	1	0	0	0	1 <sup>5</sup>
Totals	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0
	2022	0	1	0	0	0	1

Table No. 5  
Projected Openings as of December 31, 2022

State	Franchise Agreements Signed But Not Opened	Projected New Franchised Outlets in the Next Fiscal Year (2023)	Projected New Company-Owned Outlets in the Next Fiscal Year (2023)
TX	0	2-5	0

<sup>5</sup> This outlet is owned by SNEL PHIL, LLC, pursuant to a franchise agreement. SNEL PHIL, LLC, is a wholly owned subsidiary of our affiliate, HQ MRI Corporation.

SC	0	1-2	0
FL	0	1-3	0
Totals	0	4-10	0

Exhibit B lists the names of all of our operating franchisees and the addresses and telephone numbers of their businesses as of December 31, 2022. Exhibit B also lists the name, city and state, and business telephone number of the franchisees, if any, who had an outlet terminated, canceled, not renewed, transferred, or otherwise voluntarily or involuntarily ceased to do business under a Franchise Agreement during 2022, or who has not communicated with us within 10 weeks of the issuance date of this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During the last 3 fiscal years, we have not signed any confidentiality clauses with current or former franchisees that would restrict them from speaking openly with you about their experience with us.

There is no franchisee association in our System.

## **ITEM 21    FINANCIAL STATEMENTS**

Attached at Exhibit E are the following financial statements and related documents:

HQ Franchising Corporation is a wholly owned subsidiary of HireQuest, Inc. Audited year-end financial statements of HireQuest, Inc. for the year ended December 31, 2022, the year ended December 31, 2021, and the year ended December 31, 2020 are attached.

HireQuest, Inc., the publicly traded parent of the franchisor, has unconditionally guaranteed the obligations of the franchisor. A copy of the guarantee is attached at the end of Exhibit E.

## **ITEM 22    CONTRACTS**

The following contracts are attached to this Franchise Disclosure Document in Exhibit A and appear in the following order. These are the only contracts that we will enter into with you in this state.

Snelling Franchise Agreement

Promissory Note

Security Agreement

Collateral Assignment of Lease

Collateral Assignment of Telephone Numbers and Listings

## **ITEM 23    RECEIPTS**

You will find 2 receipt pages at the end of this disclosure document under Exhibit G. Please sign and date both copies of these Receipts. Please keep 1 copy (Your Copy) for your records and return the other copy (Our Copy) to us as directed by your Hire Quest representative.

**HQ FRANCHISING CORPORATION  
FRANCHISE DISCLOSURE DOCUMENT**

**EXHIBIT 2**

***SNELLING*<sup>®</sup> Staffing Franchise Agreement**

**Related Contracts**

- **Promissory Note**
- **Security Agreement & Collateral Lease and Phone Assignments**



**SNELLING® Staffing Center**

**FRANCHISE AGREEMENT**

**By and between**

**HQ FRANCHISING CORPORATION**

**And**

\_\_\_\_\_

**Territory**

**Dated**



# TABLE OF CONTENTS

	<u>Page</u>
1. DEFINITIONS .....	6
2. GRANT OF FRANCHISE.....	10
3. TERRITORIAL RIGHTS.....	11
3.1 Location .....	11
3.2 Territory .....	11
3.3 Restrictions.....	11
3.3.1 Relinquishment Procedures .....	11
3.4 Reserved Rights.....	12
3.4.1 Franchisor's Reserved Rights .....	12
3.4.2 Territorial Restrictions. ....	13
3.4.3 Modification of Territory. ....	13
4. TERM AND RENEWAL .....	14
4.1 Initial Term.....	14
4.2 Successive Terms - Franchisee's Option.....	14
4.3 Successive Terms - Procedures .....	14
4.3.1 Franchisor's Responsibilities .....	14
4.3.2 Franchisee's Responsibilities .....	15
5. FEES.....	15
5.1 Initial Franchise Fee .....	15
5.2 Continuing Fees, Uncollectibles, Collection Expenses .....	15
5.3 Payment of Franchisee's Share .....	16
5.4 Late Payments.....	16
5.5 Application of Payments.....	16
5.6 Allocation of Temporary Employee Expenses .....	16
5.6.1 Workers' Compensation Claims .....	16
5.6.2 Unemployment Claims .....	17
5.7 Determination of Workers' Compensation Classification. ....	18
5.8 Determination of Franchisor Deemed Conclusive.....	18
6. COMMENCEMENT AS A SNELLING STAFFING CENTER FRANCHISEE .....	18
6.1 Time Limitations .....	18
6.3 Franchisor's Approval to Commence Operations.....	18
7. TRAINING.....	19
7.1 Initial Training .....	19
7.1.1 Training .....	19
7.2 Completion of Training; Additional Evaluation .....	19
7.3 Failure to Complete Training/Evaluation .....	19
7.4 National Business Conference .....	19
8. EMPLOYMENT, BILLING, COLLECTION AND PAYMENT OF TEMPORARY EMPLOYEE EXPENSES.....	20
8.1 Franchisor's Obligations .....	20
8.1.1 Employment of Temporary Employees .....	20
8.1.2 Billings and Collections .....	20
8.1.3 Security Interest.....	19
8.2 Franchisee's Obligations .....	21

8.2.1	Employment of Temporary Employees .....	21
8.2.2	Credit Policies .....	21
8.2.3	Workers' Compensation Risk Policies .....	22
8.2.4	Transmittal of Payments .....	22
8.3	Nature of Collections Relationship .....	22
9.	ADDITIONAL SERVICES TO BE PROVIDED BY FRANCHISOR .....	22
9.1	Opening Publicity.....	22
9.2	Management Assistance .....	22
9.3	Additional Guidance .....	22
9.4	Acquisition of Goods and Services.....	23
9.5	Electronic Payroll Funding.....	21
9.6	Brand Standards Manual.....	<b>Error! Bookmark not defined.</b>
9.6.1	Confidential Nature .....	23
9.6.2	Contents .....	23
9.6.3	Modification by Franchisor .....	24
9.6.4	Strict Compliance by Franchisee .....	24
10.	MARKS .....	25
10.1	Ownership .....	25
10.2	Use .....	25
10.3	Prohibited Uses .....	25
10.4	Notices.....	25
10.5	Control of Proceedings.....	26
10.6	Discontinuance of Use .....	26
10.7	Indemnification .....	26
11.	RELATIONS.....	26
11.1	Nature of Relationship.....	26
11.2	Identification .....	27
11.3	Obligations.....	27
11.4	Consent .....	28
12.	INDEMNIFICATION .....	28
13.	TRADE SECRETS.....	28
13.1	Limits on Use.....	28
13.2	Noncompetition.....	29
13.2.1	Franchisee's Covenant Not to Compete During Term of Agreement; Exclusivity .....	29
13.2.2	Solicitation of Customers .....	29
13.2.3	Employees' Covenants Not to Compete .....	30
13.2.4	Franchisee's Covenant Not to Compete Following Expiration or Termination .....	30
13.2.5	Exceptions .....	30
13.2.5.1	Publicly-Traded Stock.....	30
14.	MINIMUM PERFORMANCE STANDARDS .....	30
14.1	Minimum Gross Billings.....	30
14.2	Remedies for Failure to Satisfy Minimum Performance Standards .....	31
14.3	Franchisee's Right to Reimburse Franchisor for Failure to Satisfy Minimum Performance Standards .....	31
15.	IMAGE AND OPERATING STANDARDS .....	31
15.1	Services.....	31

15.2	Specifications, Standards and Procedures .....	31
15.3	Compliance With Laws .....	32
15.4	Reports .....	33
15.5	Actions .....	33
15.6	Business Relations - Professional Conduct .....	33
15.7	Hiring, Training and Conduct of Permanent Employees .....	33
16.	INSURANCE .....	33
16.1	Policies .....	33
16.2	Proof of Coverage .....	34
16.3	Endorsements .....	34
16.3.1	Additional Insured .....	34
16.3.2	Cross-Liability .....	34
16.3.3	Waiver of Subrogation .....	34
16.4	Loss of Coverage .....	34
16.5	Failure to Maintain .....	34
16.6	Insurance Programs .....	35
16.7	Obligation Unconditional .....	35
17.	COOPERATIVE ADVERTISING .....	35
18.	LOCAL ADVERTISING BY FRANCHISEE .....	35
18.1	Required Advertising .....	35
18.2	Conduct .....	35
18.3	Approvals .....	36
19.	ACCOUNTING, REPORTS, FINANCIAL STATEMENTS .....	36
19.1	Maintenance .....	36
19.2	Reports .....	36
19.3	Risk Management Reports .....	36
20.	PERIODIC REVIEWS, INSPECTIONS AND AUDITS .....	37
20.1	Periodic Reviews .....	37
20.2	Inspections .....	37
20.3	Audits .....	37
21.	COMPUTERIZED MANAGEMENT AND OPERATIONAL SYSTEM .....	38
21.1	Software License .....	38
21.2	Software Update and Support .....	38
21.3	Hardware .....	38
21.4	Information Retrieval .....	39
22.	TRANSFER .....	39
22.1	By Franchisor .....	39
22.2	By Franchisee .....	39
22.3	Change of Business Form .....	39
22.4	Deemed Assignment .....	39
22.5	Franchisor's Right of First Refusal .....	40
22.6	Further Conditions .....	40
22.6.1	Transfer to Franchisee's Corporation. ....	40
22.6.2	Other Transfers .....	41
22.6.3	Covenants Not to Compete Unaffected .....	42
22.7	Assignment in Case of Death or Incapacity .....	42
22.7.1	Assignment to Original Signatory .....	42

23. TERMINATION .....	43
23.1 Termination With Opportunity to Cure .....	43
23.2 Termination With No Opportunity to Cure .....	43
23.4 Other Termination Rights .....	44
23.5 Termination by Franchisee .....	45
23.6 Buy-Out Termination. ....	45
24. RIGHTS AND OBLIGATIONS AFTER TERMINATION OR EXPIRATION .....	46
24.1 Payment of Amounts Owed .....	46
24.2 Marks .....	46
24.3 Trade Secrets .....	47
24.4 Client Lists .....	47
25. ENFORCEMENT .....	47
25.1 Severability and Substitution .....	47
25.2 Waiver .....	48
25.3 Nonwaiver .....	48
25.4 Force Majeure .....	49
25.5 Specific Performance and Injunctive Relief .....	49
25.6 Rights Cumulative .....	49
25.7 Dispute Resolution .....	49
25.8 Mediation .....	50
25.9 Binding Effect .....	50
25.10 Modification .....	50
25.11 Construction .....	50
26. MULTIPLE ORIGINALS .....	51
27. NOTICES AND PAYMENTS .....	51
EXHIBIT "A" INITIAL FRANCHISE FEE	
EXHIBIT "B" FRANCHISE LOCATION	
EXHIBIT "C" MINIMUM GROSS BILLINGS	
EXHIBIT "D" DESCRIPTION OF TERRITORY	
EXHIBIT "D-1" MAP OF TERRITORY	
EXHIBIT "E" NONDISCLOSURE AND NONCOMPETITION AGREEMENT	
EXHIBIT "F" SOFTWARE LICENSE AGREEMENT	
EXHIBIT "G" PAYROLL FUNDING AGREEMENT	
EXHIBIT "H" GUARANTY AGREEMENT	
EXHIBIT "I" COLLATERAL ASSIGNMENT OF LEASE	
EXHIBIT "J" COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS & LISTINGS	

# HQ FRANCHISING CORPORATION FRANCHISE AGREEMENT

## SNELLING® Staffing Center

This Franchise Agreement (this "Agreement"), is made effective as of \_\_\_\_\_, 20\_\_ ("Effective Date"), by and between HQ FRANCHISING CORPORATION, a Delaware corporation, having its principal place of business at 111 Springhall Drive, Goose Creek, South Carolina 29445 ("Franchisor"), and \_\_\_\_\_, a(n) \_\_\_\_\_ Limited Liability Company/ Corporation, residing at/having its principal place of business at \_\_\_\_\_ ("Franchisee"). The term Franchisor as used in this Agreement may include Affiliates of HQ Franchising Corporation, as appropriate.

### RECITALS:

**WHEREAS**, Franchisor and its affiliates own Trade Secrets (as hereinafter defined) relating to a unique system Franchisor and its affiliates have developed for providing temporary staffing and placement services (the " SNELLING® Staffing Center System"). The SNELLING® Staffing Center System and the business of Franchisor, its licensees and its franchisees transacted in accordance with the System have acquired a distinctive, high-quality reputation and public identity and have generated significant goodwill;

**WHEREAS**, Franchisor has the right to use and license certain proprietary service marks and other trademarks and logos connected with the SNELLING® Staffing Center System as specified by Franchisor from time to time;

**WHEREAS**, Franchisor, through its advertising and marketing programs, its high-quality service and the SNELLING® Staffing Center System, has established a national reputation and a demand for the qualified temporary personnel and the other services it makes available to business and industry under the Marks (as defined in this Agreement); and

**WHEREAS**, Franchisee desires to obtain the benefits of the SNELLING® Staffing Center System and the right to operate a franchised SNELLING® Staffing Center temporary employment service business under the Marks, upon the terms and conditions herein set out.

**NOW, THEREFORE**, Franchisor and Franchisee agree as follows:

**1. DEFINITIONS.** Terms used in this Agreement and not otherwise defined herein shall have the meanings set forth below:

**"Accounting Period"** shall mean each seven-day weekly period ending on Sunday during the term of this Franchise Agreement.

**"Affiliate"** shall mean any company directly or indirectly owned or controlled by Franchisor or any company directly or indirectly owned or controlled by an owner of

Franchisor, that offers services or products, or transacts other business with Franchisee.

**"Agreement"** shall mean this Franchise Agreement dated, \_\_\_\_\_, 20\_\_

**"Appropriate Franchisee"** shall mean, with respect to any client or customer, the franchisee within whose protected territory the relevant jobsite at which personnel will be deployed for that client's or customer's business is situated.

**"Brand Standards Manual"** shall mean the Franchisor's confidential Brand Standards Manuals, containing the Trade Secrets, including, without limitation, specifications, standards and procedures by which the Franchised Business shall be conducted so as to comply in all respects with the SNELLING® brand standards, as amended from time to time.

**"Claims"** shall mean and include all obligations, arising from services, sales or other business in connection with the Franchised Business (hereinafter defined); payments due to Franchisor under this Agreement or otherwise; actual and consequential damages; costs reasonably incurred in defense of any claim against Franchisor, including, without limitation, accountants', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses.

**"Continuing Fees"** shall mean a monetary amount equal to the sum of 4.5% of Payroll ("Funding Costs") and 18% of the "Gross Margin" per Territory for temporary employee staffing and 7.0% of gross revenue received by Franchisee related to or arising out of any Permanent/Career Placement Fees.

**"CPI"** shall mean the Consumer Price Index (U.S. Average, all items) maintained by the U.S. Department of Labor (or such equivalent index as may be adopted in the future).

**"Effective Date"** shall mean \_\_\_\_\_, 20\_\_.

**"Family Member"** shall include an individual's spouse, parents, grandparents, siblings, children and grandchildren (and those of said individual's spouse).

**"Franchised Business"** shall mean the business operated pursuant to this Agreement and the Franchise License.

**"Franchised License"** shall mean the right and license granted pursuant to the terms of this Agreement to use the Marks, the Brand Standards Manual, and the SNELLING® Staffing Center System only and exclusively for the operation of a SNELLING® Staffing Center temporary employment service business as set forth in this Agreement.

**"Franchise Receivables"** shall mean all receivables generated at the Franchisee's Location(s), which receivables shall be the exclusive property of the Franchisor.

**"Franchisee's Share"** shall mean a monetary amount equal to the Gross Margin (hereinafter defined) after deducting there from the Continuing Fees payable to Franchisor, the adjustments described in Section 5.2 of this Agreement, and any other amounts due Franchisor under this Agreement or otherwise. The Franchisee's Share shall be calculated during each Accounting Period commencing on the date of the opening of the Franchised Business.

**"Gross Billings"** shall mean gross amounts received or receivable, directly or indirectly, from or in connection with all services, consultation, assistance or sales provided from, or through or attributable to the Franchised Business regardless of whether such amounts are collectible or uncollectible and further regardless of where or to whom such services are provided, including without limitation, services of temporary and permanent employees, excluding bona fide refunds and adjustments.

**"Gross Margin"** shall mean sums billed by Franchisor to customers of the Franchised Business on account of temporary employee placement services after deducting therefrom all Temporary Employee Expenses (hereinafter defined) attributable to temporary employees.

**"Initial Franchise Fee"** shall mean the franchise fee set forth in Exhibit "A" attached hereto and incorporated herein by this reference.

**"Initial Term"** shall commence on the Effective Date of this Agreement and, unless terminated sooner pursuant to Sections 7.3, 14.2, or 23, shall expire on December 31st of the fifth (5th) full calendar year following the Effective Date of this Agreement.

**"Location"** shall mean the office within each Territory (hereinafter defined) from which the Franchised Business shall be conducted. The Location shall be either (i) at the address set forth in Exhibit "B" attached hereto and incorporated herein by this reference or (ii) at an address approved by Franchisor pursuant to Section 3.1.

**"Manager"** shall mean the person primarily responsible to coordinate and manage the Franchised Business for Franchisee and who will devote full time to the coordination and management thereof.

**"Marks"** shall mean SNELLING and the related logotypes, and other service marks, trademarks, and logos developed or owned by Franchisor or its affiliates after the date hereof.

**"Minimum Performance Standards"** shall mean the amount of annual Gross Billings with regard to each respective Territory, as specified in Exhibit "C" attached hereto and incorporated herein by this reference.

**"National Account Customers"** shall mean any customer designated as such by Franchisor, based upon Franchisor's sole determination that, because such customer conducts its business at multiple Locations situated in more than one

licensed geographic territory of Franchisor, the account of such client or customer shall be negotiated and secured either (i) by Franchisor or (ii) with Franchisor's assistance and approval.

**"National Business Conference"** shall mean a meeting of Franchisor's franchisees to be held from time to time at Franchisor's discretion.

**"Non-Mark Businesses"** shall mean temporary and regular employment service businesses operated under trademarks, service marks, or logotypes other than the Marks, offering services that are the same as or similar to those provided by the Franchised Business.

**"Payroll"** shall mean any gross wages funded by Hire Quest, LLC on behalf of Franchisee.

**"Permanent/Career Placement Fees"** shall mean any fees or other revenue billed to any client or third party related to or arising out of any referral, consult, or placement of employees, candidates, or contractors who are not employed as employees of Hire Quest, LLC.

**"Protected Customer"** shall mean a customer situated within the protected territory of another franchisee of Franchisor or in the territory of a Franchisor operated office.

**"Security Deposit"** shall mean 1% of Gross Billings, collected from Franchisee's Share until such time as the total amount collected equals \$15,000. The Security Deposit is held until all obligations of Franchisee have been satisfied, at which time that balance will be distributed.

**"Software"** shall mean computer software required to be used in connection with the management and operation of the Franchised Business.

**"Successive Agreement"** shall mean a franchise agreement between Franchisor and Franchisee for the Franchised Business, commencing immediately following the expiration of the Initial Term of this Agreement subject to the terms of Section 4, and shall, at the option of Franchisor, continue for succeeding five (5) year terms.

**"Temporary Employee Expenses"** shall mean wages, payroll taxes, workers' compensation insurance premiums, general liability insurance premiums, expenses and related charges, health insurance (if mandatory), longevity pay, holiday pay and vacation pay as described in the Brand Standards Manual, state and local employment charges and taxes and any other statutory obligations imposed from time-to-time by any governmental entity, any additional expenses pursuant to contractual agreements with clients and, to the extent maintained by Franchisor, all insurance charges, including, without limitation, liability insurance, policy premiums, policy deductibles for covered losses or claim costs and expenses for any losses not covered by an insurance policy attributable to temporary employees furnished by the Franchised Business during the term of this Agreement.



**"Territory"** shall mean the protected geographic area or areas, described in Exhibit "D" attached hereto and incorporated herein by this reference and more particularly identified by the map attached as Exhibit "D-1" to this Agreement and incorporated herein by this reference.

**"Trade Secrets"** shall mean all customer lists, sales and advertising and promotional information, employee lists, financial information furnished or disclosed to Franchisee by Franchisor, the Software, the Brand Standards Manual, and other information with respect to Franchisor, the SNELLING Staffing Center System, and/or customers of Franchisor (i) of which Franchisee becomes aware as a result of its franchise relationship with Franchisor, (ii) which has actual or potential economic value to Franchisor from it not being generally known to other persons who could obtain economic value from its disclosure or use, or (iii) which is the subject of reasonable efforts by Franchisor to maintain its secrecy or confidentiality, whether assembled and compiled by Franchisee or produced and provided by Franchisor, and the physical embodiments of such information, all of which are the confidential and trade secret property of Franchisor.

**"Workers Compensation Insurance Premiums"** shall mean 100 % of non experience-modified, non-discounted and non-loss adjusted premiums paid to insurance carrier and shall include any surcharges noted on the policy.

## **2. GRANT OF FRANCHISE.**

**2.1 Grant.** Franchisor hereby grants to Franchisee, and Franchisee accepts, subject to and in accordance with the terms and conditions of this Agreement, the Franchised Business. The Franchised Business shall not provide services related to permanently placed employees for whom Franchisee or Franchisor handles the payroll for such employees; the Franchised Business is restricted to services related to temporary, variable schedule employees and permanent/career placement.

**2.2 Compliance with the Affordable Care Act.** The franchise granted by this Franchise Agreement shall be exclusively for staffing services related to temporary, variable employees, and not for employees for whom the Franchisee is managing payroll services and serving as the employer of record. For all purposes related to the franchised business and these rights, Franchisee shall take all steps necessary to comply with any applicable requirements of pertinent sections of the Affordable Care Act in the Internal Revenue Code and the regulations issued pursuant to the Internal Revenue Code (see 26 CFR part 54, enacted pursuant to Section 4980H of the Internal Revenue Code), as those Internal Revenue Code sections and regulations may be amended over time.

**2.3 Other Franchised Businesses.** In the event that Franchisee is franchised by the Franchisor or an affiliate of the Franchisor to operate a Non-Mark Business, Franchisee shall take all steps necessary to keep the businesses separate for all purposes, and shall comply with any requests by Franchisor to assure that the two or more businesses are maintained separately in appearance and in fact.

### 3. TERRITORIAL RIGHTS.

**3.1 Location.** Franchisee shall conduct the Franchised Business from the Location and such other address(es) as Franchisor shall approve in writing. If, as of the date of this Agreement, the Location has not yet been selected, Franchisee shall select the Location, subject to Franchisor's written approval. If any Location is leased to the Franchisee, all such leases must be fully assignable, and Franchisee shall provide copies of all such executed leases to Franchisor. Franchisee shall commence operations at the Location within each Territory no later than the date(s) specified in Exhibit "B" attached hereto and if no such date(s) are specified then within ninety (90) days after the effective date of this Agreement.

**3.2 Territory.** Except as provided in Sections 3.4.1, 3.4.2 and 14.2, so long as Franchisee is in full compliance with the terms and conditions of this Agreement, Franchisor shall not itself conduct or grant to any other person the right to conduct a SNELLING Staffing Center franchise from a Location within the Territory. Franchisor shall not establish company-owned or franchised outlets in your Territory that (i) sell the same or similar goods or temporary personnel services, and (ii) are identified by the same or similar trademarks or service marks as are granted by this Franchise Agreement. This promise of territorial restriction shall apply only when both of the features described in subsections 3.2(i) and 3.2(ii), above, are present. **This provision shall not apply to Permanent/Career Placement or direct hire activity conducted by Franchisee or any other franchisee of Franchisor.**

**3.3 Restrictions.** Franchisee's license is limited to the Territory. Franchisee shall not sell the services provided by the Franchisee through the Franchised Business or affiliated business to customers that seek to send temporary employees to jobsites or work Locations situated in the protected territory of another franchisee of the Franchisor. Franchisee shall not provide the services provided by the Franchisee through the Franchised Business to customers seeking to employ temporary workers at work locations outside the Territory without the Franchisor's prior written consent. **This provision shall not apply to Permanent/Career Placement or direct hire activity conducted by Franchisee or any other franchisee of Franchisor.**

If Franchisee provides its services to any customer with respect to a jobsite or work location situated in an unlicensed geographic area which subsequently becomes a Protected Customer of another franchisee of Franchisor or, if for any other reason, Franchisee shall sell the services provided through the Franchised Business to a Protected Customer of another franchisee of Franchisor, upon being notified thereof, Franchisee shall immediately relinquish all sales and service rights associated with such customer to the Appropriate Franchisee for such Protected Customer.

**3.3.1 Relinquishment Procedures.** In the event of an encroachment on a protected territory as set forth in this Section 3.3, Franchisee shall:

- (i) Coordinate the substitution of temporary employees by the Appropriate Franchisee for those placed with the Protected

Customer by Franchisee in such a manner as to minimize the impact of the substitution on the Protected Customer; and

- (ii) Within five (5) days of becoming aware of the encroachment, and prior to the substitution, (a) notify the Protected Customer that further requests for SNELLING® Staffing Center temporary staffing services should be directed to the Appropriate Franchisee and (b) provide the Protected Customer with a schedule for substitution of temporary employees.

### **3.4 Reserved Rights.**

**3.4.1 Franchisor's Reserved Rights.** Franchisor reserves all rights not expressly granted to Franchisee hereunder. Except as otherwise provided herein, without limiting the generality of the foregoing, except as otherwise provided in Section 3.4.2, Franchisor reserves the right, without geographic limitation, to:

- (i) Sell products and services authorized for Franchised Businesses, using the Marks or other trademarks, service marks and commercial symbols;
- (ii) Operate and grant to others the right to operate Franchised Businesses outside of the Territory on such terms and conditions as Franchisor deems appropriate;
- (iii) Operate and grant franchises to others to operate Non-Mark Businesses, wherever located, including within your Territory, specializing in the sale of products or provision of temporary personnel placement services, including temporary personnel businesses that are the same or similar to your Franchised Business, and which in all instances shall be identified by trademarks and/or service marks that are not the same as, and not similar to, the trademarks and/or service marks granted by this Franchise Agreement.
- (iv) Provide billing, collecting, payroll, insurance, accounting services and financing of receivables to other firms; and
- (v) Negotiate and enter into contracts with National Account Customers to provide services offered on a regional, national, or other specialty basis. These services, and the terms on which they are offered, shall be presented to franchise owners in affected territories for consideration and completion of the contracted services. Franchisee shall be under no obligation to accept the proposed contract terms, but shall in good faith consult with the Franchisor on any questions or concerns regarding the negotiated terms of service for National Account Customer locations within the Territory. If, after consultation, Franchisee declines to provide the services in its Territory, the

Franchisor may itself or through a third party provide the services, even if those services are performed in Franchisee's Territory. If a designated contractor or if we ourselves provide National Account Customer services in these circumstances, we may employ the same trademark and service marks as are granted to you under this Franchise Agreement, or any other trade names or service marks we designate. If Franchisee elects to provide the services in its Territory, all standards of performance that may be required by the national account client or by the SNELLING Staffing Center System shall apply. If, for any reason, the national account client or the Franchisor concludes that performance standards related to the accepted national account are not being met by Franchisee, the Franchisor shall in good faith consult with Franchisee regarding its performance. After consultation, the Franchisor may direct that either it or a third party may provide the services, even if those services are performed in Franchisee's Territory.

**3.4.2 Territorial Restrictions.** Subject to Sections 3.4.1 and 3.4.3, Franchisor will not operate, or grant a franchise to anyone else to operate, a Franchised Business within the Territory unless:

- (i) Franchisee breaches any of the provisions of this Franchise Agreement; or
- (ii) During the Initial Term of this Agreement, Franchisee fails to achieve the Minimum Performance Standards and does not elect to pay Franchisor the amounts set forth in Section 14.3 herein; or
- (iii) After the Initial Term of this Agreement, Franchisee either (a) fails to attain the Minimum Performance Standards and does not elect to pay Franchisor the amounts set forth in Section 14.3 herein; or (b) achieves Gross Billings in any two (2) consecutive semi-annual periods (calculated on the basis of Locations that have been open for business for three (3) years or more) that, on a per capita basis (reflecting the population within the Territory, according to the most recent official census data available to Franchisor), ranks in the lowest ten percent (10%) of Gross Billings of all SNELLING Staffing Center franchised locations that have been open for three (3) years or more.

**3.4.3 Modification of Territory.** During the first five (5) years of operations of the Franchised Business, if Franchisee does not attain the Minimum Performance Standards or pay the Continuing Fees or other fees payable to Franchisor, or otherwise defaults under the terms of this Agreement, Franchisor may: (i) either operate (or through an affiliate), or grant a franchise to another, or otherwise permit another, to operate, a

Franchised Business within the Territory; or (ii) reduce or otherwise modify the geographic dimensions of the Territory, or eliminate it entirely. After the initial five (5) year period of operations of the Franchised Business, if Franchisee does not meet the requirements of subsection 3.4.2(iii), above, even if Franchisee pays the Continuing Fees or other fees payable to Franchisor attributable to the Minimum Performance Standards, then Franchisor may: (i) either operate (or through an affiliate), or grant a franchise to another, or otherwise permit another, to operate, a Franchised Business within the Territory; and (ii) reduce or otherwise modify the geographic dimensions of the Territory, or eliminate it entirely.

#### **4. TERM AND RENEWAL.**

**4.1 Initial Term.** The Initial Term shall commence on the Effective Date of this Agreement.

**4.2 Successive Terms - Franchisee's Option.** Subject to the conditions of this Section 4, so long as the Franchisee has fully complied with this Agreement and is in full compliance with this Agreement when the Initial Term expires, and contingent upon the Franchisee's execution of general releases, in form satisfactory to Franchisor, of all claims against Franchisor and its officers, directors, employees and agents, Franchisee shall have the option to enter into a Successive Agreement(s). The terms of the Successive Agreement(s), including, without limitation, the levels of Continuing Fees and other fees payable by Franchisee, shall be the same as the terms set forth in Franchisor's then-standard form of franchise agreement for a new franchise of the type granted hereunder, except that, under the Successive Agreement(s), no initial or renewal franchise fee shall be charged to the Franchisee and provided that the levels of Continuing Fees and other fees payable by Franchisee (exclusive of fees based on workers compensation claims or unemployment claims) with regard to any calendar year during the term of each such Successive Agreement shall not exceed one hundred twenty-five percent (125%) of the Continuing Fees, which were in effect for the immediately preceding term, plus the annual increase in the CPI. Franchisor shall have the right to charge Franchisee for services that Franchisor renders to Franchisee or expenses that Franchisor incurs in connection with such Successive Agreement.

**4.3 Successive Terms - Procedures.** Franchisee shall notify Franchisor in writing of its desire to enter into a Successive Agreement no earlier than three hundred sixty (360) days and no later than one hundred eighty (180) days prior to the expiration of the Initial Term. Time is of the essence. Franchisee's failure to provide such written notice within the specified time limitations shall constitute Franchisee's election not to enter into a Successive Agreement. In the event any law applicable to such Successive Agreement shall require additional notice, this Agreement shall be deemed amended to conform to the minimum requirement of such law and, until such additional notice has been given, this Agreement shall remain in effect on a month-to-month basis.

**4.3.1 Franchisor's Responsibilities.** Upon receipt of Franchisee's notice, Franchisor shall determine whether Franchisee has fully complied with and is in full compliance with this Agreement to Franchisor's satisfaction. If so, Franchisor shall then deliver to Franchisee (i) a form Successive Agreement; (ii) general release forms; and (iii) any ancillary agreements and documents then customarily used by Franchisor in the grant

of franchises of the type described in this Agreement. Each of these agreements shall be modified, as necessary, to conform to Section 4.2 hereof.

**4.3.2 Franchisee's Responsibilities.** Franchisee shall execute the agreements and releases described in Section 4.3.1 and return the executed documents to the Franchisor within thirty (30) days of Franchisee's receipt thereof. Franchisee's failure to execute and return the agreements and releases shall constitute Franchisee's election not to enter into a Successive Agreement. In the event Franchisor updates its standards as set forth in the Brand Standards Manual, Franchisee shall adhere to such updated standards.

## **5. FEES.**

**5.1 Initial Franchise Fee.** Upon execution of this Agreement, Franchisee shall pay Franchisor the Initial Franchise Fee, as described in Exhibit "A" attached hereto and incorporated herein by this reference.

**5.2 Continuing Fees, Uncollectibles, Collection Expenses, Security Deposit.** Following the end of each Accounting Period, Franchisee's Share shall be calculated by deducting from Gross Margin the following amounts:

- (i) The Continuing Fees;
- (ii) to the extent that Franchise Receivables remain uncollected beyond forty-two (42) days after the invoice date ("Forty-Two Day Period"), a delinquency fee of one-half percent (½%) of the amount of such uncollected Franchise Receivables for each fourteen (14) day period following said Forty-Two Day Period;
- (iii) the full face amount of Franchise Receivables that are either (i) declared uncollectible (and, thus, written off) during the Accounting Period or (ii) which remain uncollected beyond eighty-four (84) days after the invoice date;
- (iv) Franchisee's pro-rata share of all legal and other out-of-pocket collection expenses incurred by Franchisor related to Gross Billings; and
- (v) At Franchisor's discretion, any other amounts owed by Franchisee to Franchisor or any of its Affiliates, provided such amounts are disclosed to Franchisee.
- (vi) 1% of Gross Billings until such amount equals \$15,000 as security deposit to be held until all obligations of the franchise are satisfied, at which time balance shall be returned to Franchisee.

To the extent that any payments are received during the Accounting Period on account of Franchise Receivables previously deemed uncollectible (or which remain

uncollected beyond eighty-four (84) days after the invoice date), Franchisee's Share shall be increased accordingly.

**5.3 Payment of Franchisee's Share.** As long as this Agreement remains in effect and Franchisee is not in default hereunder, Franchisor will pay to Franchisee Franchisee's Share on the Wednesday following the twenty-ninth (29th) day after the end of each weekly Accounting Period. If that Wednesday is a banking holiday, then Franchisor will pay to Franchisee Franchisee's Share on the next business banking day. Upon termination of this Agreement, the final payment of the Franchisee's Share shall be withheld and retained by Franchisor until an equivalent amount of Franchise Receivables, plus an amount of Franchise Receivables equal to any unpaid Continuing Fees or other fees payable to Franchisor hereunder, have been collected and remitted to Franchisor at which time (or as soon as reasonably practicable thereafter): (i) Franchisor shall remit to Franchisee the Franchisee's Share, if any, as determined in accordance with Section 5.2 hereof; and (ii) Franchisor shall assign to Franchisee any remaining Franchise Receivables.

**5.4 Late Payments.** If any amount payable by Franchisee to Franchisor or any Affiliate of Franchisor under this Agreement or otherwise is not paid when due, Franchisor shall be entitled, in addition to the amount due, to liquidated damages (and not as a penalty) in an amount equal to the lesser of five percent (5%) per month of the late payment from the date due until paid or the maximum rate allowable under applicable law. This provision is neither an agreement by Franchisor to accept any late payment nor a commitment by Franchisor to extend credit or otherwise finance any aspect of the Franchised Business, and shall not be construed as such.

**5.5 Application of Payments.** Franchisor shall have the right to apply any payment(s) received from Franchisee to any amount(s) owed Franchisor or Franchisor's Affiliates by Franchisee under this Agreement or otherwise regardless of Franchisee's designation as to application of such payment(s).

## **5.6 Allocation of Temporary Employee Expenses.**

### **5.6.1 Workers' Compensation Claims.**

Franchisee understands and agrees that Franchisor may (but shall not be obligated to) maintain a blanket policy of workers' compensation insurance covering temporary employees furnished by the Franchised Business and temporary employees furnished by other SNELLING® Staffing Center temporary employment service businesses. If Franchisee has a greater than sixty-five percent (65%) loss ratio based on the workers' compensation claims experience of temporary employees furnished by the Franchised Business during any one year policy period during the term of this Agreement in relation to non-experienced modified, non-discounted and non-loss adjusted workers' compensation premiums for the Franchised Business, Franchisor or an Affiliate shall allocate to Franchisee an amount equal to one hundred percent (100%) of the claims payments in excess of the sixty-five percent (65%) loss ratio, provided that the aggregate charge to Franchisee hereunder shall be limited to one hundred thirty percent (130%) of the annual, non-experienced modified, non-discounted, surcharged, and non-loss adjusted premiums. Under

Franchisor's Risk Management Incentive Program, in the event such loss ratio is less than forty percent (40%), Franchisor shall reduce the royalty fee charged to Franchisee an amount equal to forty percent (40%) of the difference between the premium amount and the amount of the losses, which amount shall be payable once all insurance claims are closed; provided, however, that if an old claim is reopened (or if a previously unreported claim is made), Franchisee shall immediately repay to Franchisor any royalty fee reduction previously received by Franchisee with regard to the applicable policy period for which the additional claims payment(s) are made. Franchisor may collect all or a portion thereof from the Franchisee's Share. Further, if the reopened or unreported claim changes the Franchisee's loss ratio, and it moves the loss ratio above 40%, the entire allocation formula under the SNELLING Risk Management Incentive Program shall be recalculated, and the entire amount of the reopened or unreported claim shall be reimbursed to Franchisor or its designated Affiliate. In order to qualify for a royalty fee reduction under the Risk Management Incentive program, the franchisee must have a minimum of \$30,000 of premium for the applicable policy period. If not, the franchisee has the option to pay up to the \$30,000 threshold to qualify for said applicable royalty fee reduction. Should Franchisor choose not to maintain or otherwise be able to maintain a blanket policy of workers' compensation insurance, then there will be no royalty fee reduction paid by Franchisor to Franchisee no matter the loss ratio. The amount of premium charged to the franchisee shall be whatever premium is consistent with the overlying policy that is issued by the commercially licensed workers' compensation insurance carrier inclusive of all surcharges and fees charged by the insurance carrier. The premium charged to the franchisee shall be paid to Franchisor or its designated Affiliate. Should the Franchisee commence business at least six (6) calendar months and one day after the commencement of any master policy year, then the rebate calculations will be based on the premium collected for the remaining months of the then current policy added to the next full year's policy. If the Franchise is transferred, and there is any common continuing ownership during the policy period, then one calculation will be done to determine the rebate, if any, without regard to any actual ownership differences during the policy period.

**5.6.2 Unemployment Claims.** If, in the Franchisor's sole determination, Franchisee fails to cooperate with Franchisor or its Affiliate in handling unemployment insurance claims, Franchisor may impose a handling fee to be paid by Franchisee commensurate with such failure. The handling fee shall be up to one hundred fifty percent (150%) of the unemployment claims in excess of state unemployment premiums paid, calculated on a quarterly basis, based on unemployment claim experience of temporary employees furnished by the Franchised Business during the term of this Agreement.

**5.6.3 Commercial General Liability Insurance.** Franchisor, in its sole discretion, may provide a Commercial General Liability Insurance policy covering the actions of the temporary employees. Franchisee agrees to pay the full premium, including all surcharges, imposed by the insurance carrier for the allocated portion of the policy that is attributable to Franchised Business.



**5.7 Determination of Workers' Compensation Classification.** Franchisor shall determine the workers' compensation classification, subject to any redetermination by an insurance company pursuant to an audit by same. If Franchisee knowingly services work in restricted or prohibited workers' compensation classification code, Franchisee shall be liable to pay 100% of all costs associated with any loss related to the misclassified, restricted, or prohibited work. Franchisee shall also be responsible for and shall reimburse Franchisor for any damages or costs incurred by the Franchisor, including the costs of replacing a workers' compensation insurance policy lost as a result of servicing the restricted or prohibited classification code.

**5.8 Determination of Franchisor Deemed Conclusive.** All determinations which under this Section 5 are required or permitted to be made by the Franchisor shall be deemed conclusive as to the Franchisee and its heirs, estates, successors and assigns, unless clear and convincing evidence can be shown so as to make the Franchisor's determinations wholly arbitrary and capricious. All benefit of doubt shall be resolved in favor of sustaining the determinations of the Franchisor.

## **6. COMMENCEMENT AS AN SNELLING STAFFING FRANCHISEE.**

**6.1 Time Limitations.** Within ninety (90) days after the date of this Agreement, Franchisee shall with regard to each Location (except as otherwise provided herein):

- (i) Furnish and equip office space and facilities for the Franchised Business which satisfies Franchisor's specifications;
- (ii) Cause staff who will perform tasks in connection with the Franchised Business to satisfactorily complete the initial training program described in Section 7 hereof; and
- (iii) Obtain all required licenses, insurance policies and permits and take all other actions necessary to commence operating the Franchised Business.

**6.2 Franchisor's Approval to Commence Operations.** Franchisee shall not conduct the Franchised Business or otherwise operate as a SNELLING® Staffing Center franchise until Franchisee has complied with Sections 6 and 7 of this Agreement to Franchisor's satisfaction.

## 7. TRAINING.

**7.1 Initial Training.** Franchisor shall furnish, at no additional charge, for the Franchisee and Manager, an initial training program covering topics in the management of the Franchised Business, which may include, but are not limited to, the sales, service and operations of a franchised office. The duration of Initial Training shall be up to 10 days of instruction, as determined by the Franchisor. Instruction shall be a combination of classroom instruction, as described below in Section 7.1.1, online programs, and online self-guided courses, the mix, duration, and availability of these offerings will be determined and scheduled by the Franchisor. Additional employees of Franchisee may be provided training at no charge to Franchisee; however, such training shall be provided based upon space availability at regularly scheduled training programs. Should space be limited, priority shall be given to Managers over Franchisee's other employees. Franchisee shall be responsible for all personal and employee salaries, other compensation, expenses and other costs, including but not limited to, travel and living expenses associated with attendance or participation in the initial training program (and in any additional training program).

**7.1.1 Training.** The training shall include online and in-person classes in all aspects of the Franchised Business. In-person classes will take place at the Franchisor's corporate headquarters located in Goose Creek, South Carolina, or such other place or additional places as may be designated by the Franchisor. Such training shall be free of charge if, and to the extent that, space is available. Franchisee shall be responsible for all out-of-pocket costs and expenses incurred in connection with such training.

**7.2 Completion of Training; Additional Evaluation.** Franchisee and Manager shall, as a condition subsequent to this Agreement, complete Franchisor's training program to Franchisor's sole subjective satisfaction, exercised in good faith. During the initial training program, Franchisor shall have the right to evaluate Franchisee's and Manager's fitness to operate the Franchised Business. The parties hereby expressly recognize and acknowledge that only the Franchisor is capable of making this judgment due to its unique experience and knowledge of the business methods involved in the operations of the Franchised Business.

**7.3 Failure to Complete Training/Evaluation.** Upon Franchisor's good faith determination that Franchisee lacks fitness to operate as a franchisee, or has failed to satisfactorily complete the training program, Franchisor shall provide written notice of such determination to Franchisee and Franchisor may, in its sole determination elect to terminate this Agreement by repurchasing the Franchise from the Franchisee for the Initial Franchise Fee, less the non-refundable training fee portion of the Initial Franchise Fee of Five Thousand Dollars (\$5,000.00). Upon Franchisor's good faith determination that the Manager initially designated by Franchisee lacks fitness to operate as a manager of a franchise, or has failed to satisfactorily complete the training program, Franchisor shall provide written notice of such determination to Franchisee, whereupon Franchisee shall promptly obtain and submit for training a substitute Manager.

**7.4 National Business Conference.** Franchisor, at its sole determination, may sponsor a National Business Conference and may require the attendance of the Franchisee and/or the Manager. The National Business Conference will be designed to provide further

training, provide information and facilitate discussions, on topics of interest to franchisees and will be one (1) to three (3) days in duration. Franchisee shall be responsible for all personal and employee salaries and other compensation, and other costs and expenses, including, but not limited to, travel and living expenses, in connection with attendance at or participation in such National Business Conference.

## **8. EMPLOYMENT, BILLING, COLLECTION AND PAYMENT OF TEMPORARY EMPLOYEE EXPENSES.**

### **8.1 Franchisor's Obligations.**

**8.1.1 Employment of Temporary Employees.** Temporary employees shall be employees of the Franchisor or its designated Affiliate, and Franchisor or its designated Affiliate shall pay all Temporary Employee Expenses, subject to full reimbursement from collections in respect of Franchise Receivables; provided that if any of the temporary employees or the Franchised Business is subject to any fines, assessments, or penalties for any wrongful act related to federal, state or local employment requirements, such fines, assessments, or penalties shall be paid by Franchisee.

**8.1.2 Billings and Collections.** Franchisor shall bill customers for all regular and temporary placement services provided by the Franchised Business and shall collect all payments made by customers for all regular and temporary employee placement services provided by the Franchised Business (including liquidation fees paid for temporary employees hired on a regular basis by a customer). Franchisor shall receive the full benefit of any and all tax credits and benefits associated with the regular and temporary placement services provided by the Franchised Business. Franchisee shall endeavor in good faith to collect all billings made by Franchisor to customers of the Franchised Business and, in performing such work, shall apply substantially the same collection procedures and policies as are set forth in the Brand Standards Manual. The payments and accounts receivable that arise from all regular and temporary employee placement services provided by the Franchised Business shall be the exclusive property of Franchisor. Franchisee shall execute any assignments, authorizations or other documents as may be requested from time-to-time by Franchisor to allow it to accept, endorse and deposit all such remittances. The conversion of Franchisor receivables for Franchisee's uses for any period of time shall not be tolerated under any circumstances; indeed, converting Franchisor receivables, which are the property of the Franchisor, is considered to be larceny and punishable as a crime. If Franchisee cannot provide Franchisor an acceptable reason for the conversion of Franchisor receivables, Franchisor may report the matter to local law enforcement authorities.

**8.1.3 Security Interest.** Notwithstanding Franchisor's exclusive property right and interest in all Franchise Receivables and without in any way diminishing the Franchisee's agreement to such exclusive right and interest, Franchisee grants to Franchisor a security interest in all present and later acquired interests of Franchisee in accounts, payment intangibles and rights under contracts with customers or clients (including, without limitation, the Franchise Receivables), if any, and all cash or non-cash proceeds thereof as security for all present and future obligations of Franchisee to Franchisor under this Agreement, including, without limitation, Franchisee's obligation to pay fees and expenses (including, without limitation, Temporary Employee Expenses) under this Agreement. Franchisee authorizes Franchisor, in its discretion, to file one or more financing statements under the Uniform

Commercial Code (the "UCC") as adopted in any applicable jurisdiction, continuation statements under the UCC, amendments or other documents as Franchisor deems necessary to carry out the Agreement, including, without limitation, the grant of a security interest in such accounts, payment intangibles and rights under contracts with customers, including, without limitation, the Franchise Receivables and all cash or non-cash proceeds thereof (the "Collateral"). Franchisee further appoints Franchisor as its attorney-in-fact, with such power of attorney being coupled with an interest and is therefore irrevocable, to perform all acts which Franchisor deems appropriate to perfect and to continue perfection of the security interest, or any other interest, granted to Franchisor hereunder and collect the Collateral, including, without limitation, (x) the filing of financing statements and continuation statements under the UCC, and amendments thereto; and (y) the endorsement, presentation, and collection in Franchisee's name of any item or documents necessary or desirable to collect on any amounts related to the Collateral. Franchisee further agrees to execute any such documents requested by Franchisor in furtherance of the interests granted in the Collateral. Franchisor has the right to assign the security interest granted under this provision at any time without notice to Franchisee.

## **8.2 Franchisee's Obligations.**

**8.2.1 Employment of Temporary Employees.** Franchisee shall exercise its best efforts to recruit, screen, interview, test, hire, train, indoctrinate, assign, place and dispatch temporary employees on behalf of Franchisor in strict compliance with all applicable local, state, and federal law, including, without limitation, all laws related to employment discrimination and illegal immigration. Prior to placement of any temporary employee through the Franchised Business, Franchisee shall obtain from such temporary employee a current application for employment and all other forms required by applicable law, including, without limitation, laws relating to immigration status in the United States, in a form satisfactory to Franchisor. Franchisee shall employ the online electronic application process and any other required information-management systems in accordance with policies as may be prescribed by Franchisor in the Brand Standards Manual. Notwithstanding anything herein to the contrary, Franchisee shall not complete or submit job applications for temporary employees in classifications of businesses (i) which are specifically prohibited by Franchisor, in its sole and absolute discretion, and which are disclosed to Franchisee; or (ii) which, although not specifically prohibited by Franchisor, involve dangerous working conditions or immoral or unlawful purposes. For purposes of risk management, and unless expressly approved by Franchisor in writing, Franchisor expressly prohibits Franchisee from hiring on Franchisor's behalf anyone as a temporary employee for employment as a driver of any vehicle, and Franchisee shall not bring onboard any member of its own staff to serve as a driver of any vehicle for the transportation of temporary employees or other members of Franchisee's staff. Franchisee shall exclusively use the E-Verify System and the online "onboarding process" provided by Franchisor to record all pertinent information regarding new temporary employees to be hired by Franchisor or its Affiliate; provided that Franchisee may use, but is not required to use, the E-Verify System for the employment of core staff employees of the Franchised Business.

**8.2.2 Credit Policies.** Franchisee shall adhere to all credit policies and practices that may be recommended by Franchisor from time to time. Franchisor reserves

the right to review the creditworthiness of any new client and to set credit limitations for clients. Franchisee shall not provide services to clients deemed uncreditworthy or clients whose accounts Franchisor has deemed delinquent and shall not extend credit to any client in any amount exceeding the credit limits set by Franchisor for such client. In the event that Franchisor incurs collection expenses or any other losses or deems any receivables uncollectible in connection with any client or account, Franchisor shall be entitled to deduct all such expenses, losses or uncollectibles in calculating Franchisee's Share pursuant to Section 5.2.

**8.2.3 Workers' Compensation Risk Policies.** Franchisee shall adhere to all workers' compensation risk minimization policies that may be recommended by Franchisor from time to time. Franchisee shall investigate the nature of work for which temporary employees are provided by the Franchised Business and shall refrain from providing temporary employees to any client which, in Franchisor's opinion, involves an excessive risk of workers' compensation claims. Franchisee shall also investigate all work-related accidents and shall submit a written report of such accidents to Franchisor on such forms as may be prescribed by Franchisor from time-to-time. Franchisee shall, at its sole expense, reemploy any injured workers who have been released to a modified work duty (light duty) status. If Franchisee does not provide light duty in these circumstances, Franchisor may impose a risk fee of up to \$75.00 per day that an injured worker is not provided appropriate light duty work.

**8.2.4 Transmittal of Payments.** Franchisee shall immediately forward to Franchisor, without any deduction of any kind, any payment received by Franchisee from customers on account of billings made by Franchisor.

**8.3 Nature of Collections Relationship.** Franchisee shall endeavor in good faith to collect all billings made by Franchisor for accounts of Franchisee, but Franchisee is not an agent, legal representative, joint venture, partner, employee or servant of Franchisor and shall not be a fiduciary of Franchisor (and vice versa) by reason of the billing, collection and other arrangements described in this Agreement.

## **9. ADDITIONAL SERVICES TO BE PROVIDED BY FRANCHISOR.**

**9.1 Opening Publicity.** Franchisor shall provide Franchisee with information and materials with which Franchisee shall conduct an advertising campaign prior to and upon commencement of the Franchised Business in accordance with an advertising schedule to be determined by Franchisor.

**9.2 Management Assistance.** Franchisor may, upon request, and subject to availability, provide the services of a Franchisor representative on site to assist Franchisee in managing the Franchised Business for a period of approximately five (5) days within the sixty (60) days following commencement of operations of the Franchised Business. In order to prevent dissemination of the Trade Secrets, absent Franchisor's prior written approval, Franchisee is prohibited from retaining outside operations and marketing consultants, other than legal and accounting advisors.

**9.3 Additional Guidance.** Franchisor, at its sole determination, may require Franchisee to provide operating, accounting, and other reports and may conduct

inspections or authorize its representatives to conduct inspections of the Franchised Business' operations and records. Franchisor shall review such reports and/or inspections and, on the basis thereof, may, in its sole determination, provide guidance with respect to (a) management and operation of the Franchised Business; (b) advertising standards and operating procedures used by SNELLING Staffing Center franchisees; (c) acquisition of supplies, insurance and other products and services; (d) administrative, bookkeeping, accounting and general operating and management procedures; (e) employee training; (f) use of the Software; and (g) such other matters as Franchisor deems necessary, appropriate or advisable. Franchisor may furnish guidance through Franchisor's confidential Brand Standards Manual, bulletins, written correspondence, meetings, or personal consultations with Franchisee. Upon Franchisee's reasonable request, Franchisor may furnish additional guidance with respect to the operation of the Franchised Business.

**9.4 Acquisition of Goods and Services.** Franchisor shall assist Franchisee in identifying sources of certain goods and/or services that Franchisee may use in connection with the operation of the Franchised Business.

**9.5 Electronic Payroll Funding.** Franchisor may facilitate use of direct deposit and electronic pay card services for Temporary Employee Payroll. Franchisee will be permitted to use such services on the same terms and conditions as offered to all franchisees of Franchisor similarly situated pursuant to a Payroll Funding Agreement (PFA) to be entered into between Franchisor and Franchisee, in the form attached hereto as Exhibit "G," upon execution of this Agreement. Franchisee shall utilize the electronic payroll services in the operation of the Franchised Business as set forth in the PFA and the Brand Standards Manual. Franchisee shall duly perform all of its obligations under the PFA and a default shall constitute a default under this Agreement. In the event of an assignment of this Agreement pursuant to Section 22 below, the PFA shall be assigned to the assignee of this Agreement.

## **9.6 Brand Standards Manual.**

**9.6.1 Confidential Nature.** Whereas, Franchisor's confidential Brand Standards Manual contains Trade Secrets related to the operation of Franchisor's business, the Franchised Business, and other SNELLING® Staffing Center franchisees, Franchisee is strictly prohibited from disclosing the Brand Standards Manual or any part thereof to any person or entity other than Franchisee's core staff employees without Franchisor's prior express written consent. Any such disclosure shall be deemed to constitute a material breach of this Agreement and shall constitute just cause for termination of this Agreement by the Franchisor pursuant to Section 23.2 of this Agreement. Franchisee shall obtain from each of its core staff employees within five (5) days after the date of this Agreement, or the date of employment of each core staff employee, whichever is later, confidentiality agreements, in form and substance satisfactory to Franchisor.

**9.6.2 Contents.** The Brand Standards Manual contains mandatory specifications, standards and operating procedures prescribed from time to time by Franchisor for SNELLING® Staffing Center franchisees and information concerning other obligations of Franchisee and the operation of the Franchised Business to meet the brand standards. The Brand Standards Manual may also contain recommended, and not

required, specifications, standards and procedures regarding the Franchised Business, as may be offered from time-to-time by Franchisor. The Brand Standards Manual does not include any mandatory personnel policies or procedures. If any human resources guidance is provided, Franchisee shall determine to what extent, if any, this guidance might apply to the operation of its Franchised Business.

**9.6.3 Modification by Franchisor.** Franchisor shall have the right, in its sole determination, to modify the Brand Standards Manual from time to time to reflect changes in the various attributes associated with or constituting part of the SNELLING® Staffing Center System and brand standards including, without limitation, image, methods, standards, specifications and procedures.

**9.6.4 Strict Compliance by Franchisee.** Franchisee expressly agrees to conduct the Franchised Business in strict compliance with the mandatory specifications, standards and operating procedures established by Franchisor and incorporated in the Brand Standards Manual, as modified by Franchisor from time to time, including, but not limited to, standard and procedures related to:

- (i) Image, appearance and decor of office;
- (ii) notices, signs, marketing and advertising materials;
- (iii) type, brand, appearance, cleanliness, sanitation, safety and functioning of the Franchised Business and its fixtures, furnishings, furniture, equipment, decor and signs, including, but not limited to, computer hardware and software;
- (iv) ;

Use of standard forms and contracts;

- (v) Methods of dealing with customers and potential customers and the temporary personnel;
- (vi) Use of the Marks and use and protection of Trade Secrets;
- (vii) Preparation and retention of records;
- (viii) Franchisee's supervision of its core staff employees so that the Franchised Business meets Franchisor's brand standards;
- (ix) Risk management administration methods for dealing with workers' compensation and unemployment compensation;
- (x) Use of exterior and interior signs, posters, displays and standard formats; and
- (xi) Hours and days during which the Franchised Business will be open for business.

## 10. MARKS.

**10.1 Ownership.** Franchisee's license to use the Marks derives only from and is governed by the terms of this Agreement. This Agreement confers no goodwill or other interest in the Marks other than the non-exclusive right to use them in connection with the Franchised Business for the duration of this Agreement. Franchisee acknowledges and agrees that all goodwill resulting from Franchisee's use of the Marks shall inure exclusively to the benefit of Franchisor or its Affiliate, the owner of the Marks. In the event that Franchisor authorizes and licenses Franchisee to use additional proprietary trade and service marks or commercial symbols from time to time during the duration of this Agreement, all provisions of this Agreement which apply to the Marks shall apply equally to all such additional marks and symbols.

**10.2 Use.** Franchisee shall only use the Marks to identify the Franchised Business. Franchisee shall prominently display the Marks on stationery, packaging and supply materials and in connection with advertising and marketing of the Franchised Business pursuant to the specifications, standards and operating procedures set forth in the Brand Standards Manual.

In order to protect the goodwill and reputation associated with the Marks, Franchisee further covenants and agrees as follows:

(a) A reasonable number of samples of all uses of the Marks shall be submitted to Franchisor for its review at any time upon Franchisor's reasonable request therefore.

(b) Franchisee's use of the Marks shall not reflect adversely upon the good name of Franchisor or upon the goodwill and reputation associated with the Marks.

(c) Franchisee acknowledges that the goodwill of the Marks is dependent on satisfactory customer service. Therefore, Franchisee agrees to use all commercially reasonable efforts to provide customer service at all Locations of the Franchised Business at a level of quality commensurate with that provided at other Franchisor locations.

**10.3 Prohibited Uses.** Franchisee shall not use the Marks as part of any corporate or trade name or with any prefix, suffix, or modifying words, terms, designs, or symbols other than logos authorized for use by Franchisee under this Agreement. Franchisee shall not use the Marks in any modified form, in connection with performance of any unauthorized services, or in any other manner, unless expressly authorized in writing by Franchisor. Franchisee shall not use any of the Marks in signing any contract, check, purchase agreement, negotiable instrument or other legal obligation, application for any license or permit, or in any manner that may result in liability of Franchisor for any debt or obligation of Franchisee whatsoever.

**10.4 Notices.** Franchisee shall give such notices of trade and service mark registrations as Franchisor specifies. Franchisee shall obtain such fictitious or assumed



name registrations as applicable law requires and shall file statements of abandonment of use of such fictitious or assumed names as applicable law requires or when it becomes appropriate to do so. Franchisee shall immediately notify Franchisor of any apparent infringement of or challenge to Franchisee's use of the Marks, or claim by any person of any rights in the Marks, and Franchisee shall not communicate with any person other than Franchisor and Franchisor's counsel in connection with any such infringement, challenge, or claim.

**10.5 Control of Proceedings.** The license to the Marks granted under this Agreement is non-exclusive, and Franchisor retains sole determination to take or refrain from taking any action in connection with any possible or actual infringement, challenge or claim described in this Section 10. Franchisor retains the exclusive right to control the prosecution, defense and settlement of all litigation, Patent and Trademark Office or other proceedings that in any way relate to any of the Marks.

**10.6 Discontinuance of Use.** In the event that Franchisor in its sole judgment determines that Franchisee should modify or discontinue use of any or all of the Marks, and/or use one or more additional or substitute trade or service marks, Franchisee shall comply with Franchisor's directions to modify or otherwise discontinue use of such Marks within such reasonable time after notice to Franchisee and pursuant to such directions that Franchisor specifies to Franchisee in writing. Franchisor's sole liability and obligation to Franchisee for such modification or discontinuance will be to provide Franchisee with, or reimburse Franchisee for, replacement of stationery, forms, business cards, signage and the like, utilizing the substitute marks.

**10.7 Indemnification.** So long as Franchisee's use of the Marks complies with the terms of this Agreement, including, without limitation, this Section 10 and the Brand Standards Manual, Franchisor shall indemnify Franchisee against and reimburse Franchisee for all damages for which Franchisee is held liable in any proceeding arising from Franchisee's use of the Marks and for all costs that Franchisee reasonably incurs in defense of any such claim against Franchisee or in any such proceeding in which Franchisee is named as a party, provided (i) Franchisor receives notice of any such claim from Franchisee within ten (10) days of Franchisee's receipt of notice of such claim, (ii) has the right to fully control the defense of any such claim (including the right to compromise, settle or otherwise resolve the claim and to determine whether to appeal a final determination of the claim), and (iii) receives Franchisee's full cooperation in such defense.

## **11. RELATIONS.**

**11.1 Nature of Relationship.** Franchisor and Franchisee are independent businesses and/or businesspersons, have dealt at arm's length in entering into this Agreement, and will continue to deal at arms length as independent contractors for the duration of this Agreement. Franchisor and Franchisee shall have no agency, joint venture, employer-employee, partnership, fiduciary, or other special relationship.

Franchisee agrees that its core staff employees are its own exclusive legal responsibility in all respects and that Franchisor disclaims any influence whatsoever over the labor relations of Franchisee. Franchisor agrees that it has, and shall exercise, no direct, indirect, or potential control over any such employees' terms of employment, including, but not limited

to:

- (a) wages and benefits;
- (b) employee personnel issues;
- (c) the number of employees needed to perform a job or task;
- (d) employee work hours, schedules, work week length, and shift hours;
- (e) employee grievances, including administration of any applicable collective-bargaining agreement;
- (f) authorizing overtime;
- (g) general workplace, and safety, rules and standards;
- (h) production standards;
- (i) break and/or lunch periods;
- (j) assignment of work and determination of job duties;
- (k) work instructions relating to the means and manner to accomplish a job or task;
- (l) training employees or establishing employee training requirements;
- (m) vacation and holiday leave and pay policies;
- (n) discipline;
- (o) discharge;
- (p) hiring; or
- (q) any other term or condition of employment.

If Franchisor and Franchisee are found to be joint employers of any of Franchisee's employees, and they lawfully form a collective bargaining unit (a "Bargaining Unit"), Franchisee shall be solely responsible for bargaining (and any associated costs) all mandatory subjects of bargaining, as defined under the National Labor Relations Act, with the Bargaining Unit. Franchisee further agrees to assume the risk of, and sole responsibility for, and agree to indemnify Franchisor, its directors, employees, agents, affiliates and insurers from and against any and all expenses, costs, liabilities, and causes of action resulting from, related to or arising out of Franchisee's employment of its employees.

**11.2 Identification.** In all transactions with clients, patrons, suppliers, public officials and Franchisee's employees and colleagues, Franchisee shall conspicuously identify itself as the operator of the Franchised Business under a franchise from Franchisor. Franchisee shall place such other notices of independent ownership on forms, business cards, stationery, advertising and other materials as Franchisor may from time to time require.

**11.3 Obligations.** Except as this Agreement expressly authorizes, neither Franchisee nor Franchisor shall make any express or implied agreement, warranty, guaranty or representation or incur any debt, in the name of or on behalf of the other. Neither Franchisee nor Franchisor shall represent that their relationship is other than that of independent contractors or Franchisor and Franchisee. Neither Franchisee nor Franchisor shall have any obligation or liability under any agreement, representation, or warranty made by the other that is not expressly authorized by this Agreement. Franchisor shall have no obligation for any damages to any person or party that arises directly or indirectly from the Franchised Business whether caused by Franchisee's negligent or willful action or failure to act. Franchisor shall have no liability for any sales, use, occupation, excise, gross receipts, income, property, license, or other fees or taxes, whether levied upon Franchisee, the Franchised Business, or Franchisee's property, or upon Franchisor, in connection with

services rendered or activities or business conducted by Franchisee or payments to Franchisor pursuant to this Agreement, except as otherwise provided by law or this Agreement.

**11.4 Consent.** Franchisee acknowledges and agrees that Franchisor may grant franchises to other franchisees to operate Franchised Businesses using the Marks. Franchisee agrees that, whenever Franchisor may request from time-to-time, Franchisee will give its written consent to use of the Marks by such franchisees.

**12. INDEMNIFICATION.** Franchisee shall defend, indemnify and hold Franchisor, and Franchisor's parents, subsidiaries, affiliates, insurers, shareholders, directors, officers, employees, agents, attorneys, successors in interest and assignees harmless against any loss, damage or expense (including attorneys' fees) or liability for any Claims that arise from or in connection with the Franchised Business or from the acts, omissions or agreements of Franchisee or any of its officers, directors, employees or agents; or for any Claims arising from any circumstances in which Franchisee fails to adhere to the requirements and guidelines for the Franchised Business; or for any enforcement action by the U.S. Immigration and Customs Enforcement agency or the U.S. Equal Employment Opportunity Commission. Franchisor shall have the right to defend any Claim against Franchisor at Franchisee's expense. This indemnity shall continue in full force and effect after and regardless of this Agreement's expiration or termination. This indemnity shall extend to any fines, co-payment requirements, or deductible expenses under our insurance policies, and/or our costs for events and violations not covered by our insurance policies, arising from the operation of Franchisee's business, which relate to Franchisee's non-compliance with or violation of federal or state employment laws, national or local immigration laws, or laws pertaining to Homeland Security.

**13. TRADE SECRETS.** Franchisee agrees that all Trade Secrets are and will remain the confidential and trade secret property of Franchisor. Upon expiration or termination of this Agreement for any reason, and as a condition precedent to receiving payment of any sums due from Franchisor upon such expiration or termination, Franchisee shall immediately return to Franchisor all material containing Trade Secrets, including all copies thereof and shall provide Franchisor with a sworn affidavit confirming that it has fully complied with this Section 13.

**13.1 Limits on Use.** Franchisee acknowledges and agrees that ownership of all rights, title and interest in the Trade Secrets are and shall remain vested solely in Franchisor and Franchisee disclaims any right or interest therein or the goodwill derived there from. Franchisee shall acquire no interest in the Trade Secrets other than the right to use them in developing and conducting the Franchised Business during this Agreement's term. Franchisee shall not challenge or contest the rights, title or interest of Franchisor in and to the Trade Secrets. Franchisee's duplication or use of the Trade Secrets in any other endeavor or business shall constitute an unfair method of competition. Franchisee shall:

- (i) Not use the Trade Secrets in any business or other endeavor other than in connection with the Franchised Business;
- (ii) Maintain absolute confidentiality of the Trade Secrets during and after this Agreement's term;

- (iii) make no unauthorized copy of any portion of the Trade Secrets, including, without limitation, the Brand Standards Manual, bulletins, supplements, forms such as customer applications and applications for temporary personnel, confidential correspondence, or other confidential communications, whether written or oral; and
- (iv) Implement, maintain, and diligently utilize all reasonable procedures prescribed from time to time by Franchisor to prevent unauthorized use and disclosure of the Trade Secrets, including, without limitation, restrictions on disclosure to employees and use of nondisclosure and non-competition provisions as Franchisor prescribes in employment agreements with employees who may have access to the Trade Secrets. Promptly upon Franchisor's request, Franchisee shall deliver executed copies of such agreements to Franchisor.

## **13.2 Noncompetition.**

**13.2.1 Franchisee's Covenant Not to Compete During Term of Agreement; Exclusivity.** Franchisee recognizes that Franchisor's Trade Secrets are the underpinning of Franchisor's business, and protection of the Trade Secrets is a matter of critical importance to Franchisor, and Franchisee acknowledges Franchisor's need to protect the Trade Secrets against unauthorized use or disclosure as well as Franchisor's simultaneous need to encourage free exchange of ideas and information among SNELLING Staffing Center franchisees. Franchisee agrees that neither Franchisee, nor, as applicable, any shareholder who owns more than three percent (3%) of the outstanding capital stock of Franchisee, nor any general partner, director, officer, manager nor other key employee of Franchisee, nor a Family Member of any such person, shall directly or indirectly, as an owner, manager, employee, operator, consultant, agent, principal, partner, stockholder, corporate officer, director or in any other capacity or in any other manner whatsoever, engage in or perform services for or hold an ownership interest in any competing business, or any entity that grants franchises or licenses to others to conduct or operate any competing businesses, during the term of this Agreement, except under a franchise agreement with Franchisor or its Affiliates. Franchisee and its shareholders, officers, directors and partners agree to devote their best efforts exclusively to the best interests of Franchisor and Franchisee's promise to deal exclusively with Franchisor is a significant element of the consideration for which Franchisor grants the rights in this Agreement and Franchisor has entered into this Agreement in reliance upon such promise. For purposes of this Agreement, the term "competing business" shall mean a business engaged in the temporary staffing of skilled and/or unskilled personnel (including, without limitation, clerical, computer, technical, accounting, driving/transportation, and medical), employee leasing or related enterprise.

**13.2.2 Solicitation of Customers.** Franchisee shall not, without the prior written consent of Franchisor, within the Territory, either directly or indirectly, on its own behalf or in the service or on behalf of others, solicit, divert or appropriate to any competing

business, any person or entity which is, or was at any time during the preceding two (2) year period, a customer of the Franchised Business.

**13.2.3 Employees' Covenants Not to Compete. Where allowed by law,** Franchisee shall obtain from each of its employees within five (5) days after the date of this Agreement, or the date of employment of each employee, whichever is later, covenants and agreements not to compete, in form and substance satisfactory to Franchisor. Such covenants and agreements shall be for the benefit of and enforceable by Franchisor against the employee. In the event that Franchisee becomes aware of any actual or threatened violation of any such covenants and agreements by any of its employees, Franchisee shall within ten (10) days of becoming aware of such actual or threatened violation fully advise Franchisor in writing of all related facts known to Franchisee regarding same. Franchisee may take action to prevent or stop any such violation as it deems appropriate, at its own expense, except that, it may not waive its rights or give any release without the express written consent of Franchisor. Franchisor may request that Franchisee take action or may take action itself to prevent or stop any such violation. Franchisee will cooperate with Franchisor in all ways reasonably requested by Franchisor to prevent or stop any such violation, including, without limitation, instituting or permitting to be instituted in the name of Franchisee any demand, suit or action which Franchisor determines to be necessary or appropriate. If Franchisor makes any such demand, the suit or action will be maintained and prosecuted at the expense of Franchisor unless otherwise agreed.

**13.2.4 Franchisee's Covenant Not to Compete Following Expiration or Termination.** Upon expiration or termination of this Agreement for any reason, Franchisee and, as applicable, its partners and its shareholders (and their Family Members) shall not, for a period of two (2) years thereafter, have any interest, directly or indirectly, as an owner, manager, employee, operator, consultant, agent, principal, partner, stockholder, corporate officer, director or in any other capacity, or in any other manner whatsoever, in any business, venture, program or enterprise the primary function of which is to provide temporary or permanent employee placement, or otherwise engage or participate in any business that is a "competing business" as that term is defined in Section 13.2.1., within the Territory and/or within any county or parish outside of the Territory in which Franchisee provided client services during the term of this Agreement.

### **13.2.5 Exceptions.**

**13.2.5.1 Publicly-Traded Stock.** The restrictions in this Section 13.2 shall not apply to ownership of securities traded on a nationally recognized stock exchange that constitute less than three percent (3%) of the shares of the class of securities issued and outstanding, or to the conduct of other franchised businesses pursuant to franchise agreements with Franchisor.

## **14. MINIMUM PERFORMANCE STANDARDS.**

**14.1 Minimum Gross Billings.** During each year during the term of this Agreement, Franchisee's average Gross Billings shall be not less than the Minimum Performance Standards set forth in Exhibit "C" attached hereto and incorporated herein by this reference.

#### **14.2 Remedies for Failure to Satisfy Minimum Performance Standards.**

Franchisor shall determine Franchisee's compliance with the Minimum Performance Standards within sixty (60) days after each calendar year. If Franchisee at any time fails to satisfy the Minimum Performance Standards and provided that Franchisee does not elect to pay Franchisor the amounts set forth in Section 14.3 below, Franchisor shall have the option, exercisable at any time within ten (10) months after the end of any year in which the Minimum Performance Standards are not satisfied, to either: (a) purchase the Franchised Business by paying to Franchisee an amount equal to the then net book value of the tangible assets of the Franchised Business, as disclosed in the balance sheet for the Franchised Business, provided that each depreciable asset shall be valued as if it had been depreciated on a "straight-line" basis from the date of its acquisition over its useful life without provision for salvage value ("Purchase Price"); or (b) itself operate a SNELLING Staffing Center Temporary Services business within the Territory; or (c) grant a franchise to others to do so. Franchisor shall exercise its option by providing written notice to Franchisee of its election to do so.

If Franchisor elects to purchase the Franchised Business, upon such purchase, this Agreement shall be terminated as if terminated by Franchisor pursuant to the provisions of Section 23 hereof. Franchisor's payment of the Purchase Price shall be made in two (2) equal monthly installments of principal, without interest, beginning ninety (90) days following the effective date of such termination.

**14.3 Franchisee's Right to Reimburse Franchisor for Failure to Satisfy Minimum Performance Standards.** If Franchisee at any time fails to satisfy the Minimum Performance Standards with regard to any calendar year, Franchisee shall have the right to pay to Franchisor a monetary amount equal to the amount which Franchisor would have received as Continuing Fees for any calendar year had Franchisee satisfied the Minimum Performance Standards for such year, less the actual Continuing Fees paid to Franchisor for such calendar year. Such amount shall be paid to Franchisor no later than one hundred twenty (120) days following the end of each such calendar year or within sixty (60) days of Franchisee's receipt of notice of its failure to satisfy the Minimum Performance Standards, whichever is earlier. Franchisee's payment of such amount to Franchisor shall and for purposes of this Agreement (other than this Section 14.3) constitute satisfaction of the Minimum Performance Standards.

### **15. IMAGE AND OPERATING STANDARDS.**

**15.1 Services.** Franchisee shall offer all services designated by Franchisor. Franchisee shall not, without Franchisor's written approval, offer any services or products in connection with the Franchised Business that are not authorized by Franchisor.

**15.2 Brand Standards.** Franchisee acknowledges that every detail of the Franchised Business's operation as it relates to the SNELLING® brand, the appearance of the business, the quality of the supplies used, and range of services offered is critically important to Franchisor, other SNELLING® Staffing Center franchisees, and to Franchisee's clients and customers. Absent written consent, Franchisee shall devote full time to development of the Franchised Business in accordance with Franchisor's brand standards. Franchisee shall comply with all mandatory specifications, standards and operating procedures, regardless of whether these appear in the Brand Standards Manual,

or are communicated to Franchisee in writing or by other means, relating, without limitation, to:

- (i) Appearance and decor and standards of services and conduct of the Franchised Business;
- (ii) Supplies and suppliers;
- (iii) Recommended weekly and daily schedules for providing services to clients;
- (iv) Image, appearance and decor of office;
- (v) notices, signs, marketing and advertising materials;
- (vi) type, brand, appearance, cleanliness, sanitation, safety and functioning of the Franchised Business and its fixtures, furnishings, furniture, equipment, decor and signs, including, but not limited to, computer hardware and software;
- (viii) Use of standard forms and contracts;
- (ix) Methods of dealing with customers and potential customers and the labor personnel;
- (x) Use of the Marks and use and protection of Trade Secrets;
- (xi) Preparation and retention of records;
- (xii) Risk management administration methods for dealing with workers' compensation and unemployment compensation; and
- (xiii) Use of exterior and interior signs, posters, displays and standard formats.

**15.3 Compliance with Laws.** Franchisee shall conduct the Franchised Business in compliance with all applicable laws, ordinances and regulations, including, without limitation, all laws and regulations relating to insurance, unemployment insurance, wage and hour laws, immigration, employment discrimination and withholding and payment of federal, state and local income taxes. The specific statutes with which Franchisee must comply include, without limitation, the Fair Labor Standards Act (FLSA), Family and Medical Leave Act (FMLA), Occupational Safety and Health Act (OSHA), Employee Retirement Income Security Act (ERISA), Title VII, the Age Discrimination Employment Act, the Americans with Disabilities Act, and the Affordable Care Act. Franchisee shall obtain and maintain in Franchisee's name all required licenses, permits and certificates relating to the conduct of the Franchised Business. Upon Franchisor's request, Franchisee shall immediately transmit copies of each such license, permit and certificate to Franchisor. Franchisee shall assume all risk of any expenses, costs, fines, punishment by legal

authority, and other consequences of violation of the employment laws, national or local immigration laws, or laws pertaining to Homeland Security arising from the operation of Franchisee's business. Franchisee shall also be responsible for, and reimburse Franchisor for, any fines, co-payment requirements, or deductible expenses under all insurance policies, and/or all costs for events and violations not covered by our insurance policies, arising from the operation of Franchisee's business, which relate to Franchisee's non-compliance with or violation of the employment laws, national or local immigration laws, national or local healthcare insurance laws, or laws pertaining to Homeland Security.

**15.4 Reports.** Within five (5) days after the receipt of written notice of, or the receiving any report or notice from any government agency or department, or from any licensing organization, Franchisee shall deliver to Franchisor a complete copy of such report or notice.

**15.5 Actions.** Franchisee shall notify Franchisor in writing, as soon as possible, but not later than five (5) days after the receipt of a written threat or notice of, or the commencement of any action, suit or proceeding against the Franchisee or the Franchised Business, or after issuance of any order, writ, injunction, award or decree of any court or government agency concerning the Franchisee or the Franchised Business.

**15.6 Business Relations - Professional Conduct.** In all dealings with clients and customers, suppliers, Franchisor and all others, Franchisee shall adhere to the highest standards of ethical and professional conduct, honesty, integrity, good faith and fair dealing. Franchisee shall use its best efforts to develop, maintain and promote the Franchised Business and its public image. Franchisee shall refrain from any business practice that Franchisor determines may injure Franchisor's business, other franchisees of Franchisor or the goodwill associated with the Marks.

**15.7 Core staff employees.** Franchisee shall have exclusive responsibility for all obligations that arise from employment and compensation of Franchisee's core staff employees (as distinguished from temporary staffing services provided to clients) and, except as set forth in Section 7, for the complete training of such core staff employees in the operation of the Franchised Business. Franchisee agrees to hire all core staff employees of the Franchised Business and to be exclusively responsible for the terms of their employment, their compensation, and for their complete training in the operation of the Franchised Business.

## **16. INSURANCE.**

**16.1 Policies.** During this Agreement's term, Franchisee shall, at its sole cost and expense, maintain insurance policies issued by carriers with an A.M. Best rating of "A" or better for Best's Financial Size Category X or larger, and in forms satisfactory to Franchisor, covering the risks enumerated and in at least the amounts of coverage specified in the Brand Standards Manual. Franchisor, in its sole determination, may from time to time increase or decrease the amounts of coverage required under such insurance policies. Franchisor may from time to time require different or additional kinds of insurance, such as excess liability insurance, to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other changes in relevant circumstances.



**16.2 Proof of Coverage.** Franchisee shall provide evidence satisfactory to Franchisor that such insurance policies are in force at least ten (10) days before commencing the Franchised Business. Furthermore, Franchisee shall provide Franchisor with copies of all required insurance policies and related documents within ten (10) days following any request by Franchisor for such disclosure. Franchisee shall provide Franchisor with satisfactory evidence of renewal of required insurance policies fifteen (15) days prior to the expiration of any such policies. Satisfactory evidence shall consist, at a minimum, of binders of coverage or certificates of insurance including copies of required endorsements issued by the insurance carrier or an authorized representative thereof.

### **16.3 Endorsements.**

**16.3.1 Additional Insured.** The Comprehensive General Liability, Automobile Liability and Errors and Omissions (Professional Liability) Insurance policies required under this Agreement shall be endorsed to show Franchisor, Franchisor's Parent, and Franchisor's Affiliates, their officers, directors, agents and employees, as additional insureds with respect to Franchise operations performed by or on behalf of the named insured. These endorsements shall provide that insurance for the additional insured shall be primary and not contributing with any other insurance maintained by the additional insured.

**16.3.2 Cross-Liability.** The Comprehensive General Liability, Comprehensive Automobile Liability and Errors and Omissions (Professional Liability) policies required under this Agreement shall be endorsed to show that each such policy applies separately to each insured against which claim is made or suit is brought, except with respect to the limits of the insurance company's liability.

**16.3.3 Waiver of Subrogation.** Franchisee's Workers' Compensation and Errors and Omissions (Professional Liability) policies covering their own employees shall be endorsed to show that the respective insurers agree to waive all rights of subrogation against the Franchisor, its officers, directors, agents and employees.

**16.4 Loss of Coverage.** The required insurance policies shall include a provision requiring insuring companies to provide not less than thirty (30) days written notice to Franchisor of any intent to cancel, not to renew, or to materially alter or reduce the required insurance. Franchisee shall not alter, reduce, cancel, or fail to renew or replace the required insurance without prior written consent of Franchisor, which shall be at Franchisor's sole determination but not unreasonably withheld and which, if given, shall not waive any other rights of Franchisor.

**16.5 Failure to Maintain.** If Franchisee fails for any reason to maintain all required insurance policies, or to furnish evidence satisfactory to Franchisor that such insurance policies are in force, Franchisor shall have the option, but not the obligation, in addition to Franchisor's other rights and remedies, to obtain insurance on Franchisee's behalf. In such circumstances Franchisee shall cooperate with Franchisor in Franchisor's efforts to obtain and maintain such insurance; promptly execute all forms or instruments; allow any inspections of the Franchised Business appropriate or necessary to obtain such insurance; and pay Franchisor on demand all costs and premiums incurred by Franchisor.

**16.6 Insurance Programs.** Franchisor may, but is not required to, establish programs for its franchisees, including Franchisee, for any of the required insurance coverage. Franchisee shall enroll and maintain its participation in any such programs, if requested to do so by Franchisor. As a condition of participation in such programs, Franchisee shall be responsible for any payment of a deductible expense relating to an insurance claim for liability arising from its business operations or arising from any claim related to temporary employees furnished by the Franchise Business. Further, if Franchisee requests on behalf of a customer a waiver of subrogation under the insurance coverage established by the Franchisor, the Franchisee shall assume the burden of any additional costs or additional claims that may result directly from the waiver of subrogation.

**16.7 Obligation Unconditional.** Separate insurance that Franchisor from time to time maintains shall not affect Franchisee's obligation to maintain insurance as described in this Section 16. Franchisor shall have no liability for the sufficiency of insurance that Franchisor requires Franchisee to maintain, that Franchisor maintains on Franchisor's behalf, or that Franchisor obtains for Franchisee pursuant to this Section 16.

**17. COOPERATIVE ADVERTISING.** At such times as Franchisor deems appropriate, Franchisor may, but shall not be obligated to, delineate or modify the boundaries of a marketing region that encompasses the Territory for purposes of administering a cooperative advertising program among SNELLING® Staffing Center franchisees in that region. If Franchisor establishes any such region, Franchisee shall participate in cooperative advertising in the same manner and to the same extent as a majority of SNELLING® Staffing Center offices in the region elect. The size and composition of such region and any other marketing regions delineated by Franchisor shall be binding upon Franchisee. Each SNELLING® Staffing Center franchisee in such region shall contribute such amount, as mutually agreed upon by a majority of the franchisees in such region, but in no event more than one percent (1%) of its Gross Billings toward the cooperative advertising budget and shall have the right to cast one vote for each Franchised Business operated by such franchisee in such region and the Franchisor shall, similarly, have the right to cast one vote for each SNELLING® Staffing Center office operated by Franchisor in such region, in all questions considered by the members of such region.

## **18. LOCAL ADVERTISING BY FRANCHISEE.**

**18.1 Required Advertising.** Franchisee shall provide and maintain suitable signs approved by Franchisor identifying the Franchised Business as a SNELLING® Staffing Center franchise, and advertise Franchisee's offices and services in conformity with the Brand Standards Manual.

**18.2 Conduct.** Franchisee shall advertise the services offered by the Franchised Business factually, ethically and in good taste in Franchisor's judgment. Advertising by Franchisee shall be subject to Franchisor's approval as provided in Section 18.3. Franchisee shall refrain from any advertising technique or program that Franchisor determines may injure Franchisor's business, other franchisees of Franchisor or the goodwill associated with the Marks.

**18.3 Approvals.** Franchisee shall submit to Franchisor, before use, samples of all local advertising and promotional materials, and descriptions of all local advertising programs, not prepared or previously approved by Franchisor, for Franchisor's approval. Franchisee shall not use any advertising material or program that Franchisor disapproves. Franchisor's failure to provide Franchisee written notice of Franchisor's decision concerning any such submission within ten working (10) days after Franchisor receives the submission shall constitute Franchisor's approval.

## **19. ACCOUNTING, REPORTS, FINANCIAL STATEMENTS.**

**19.1 Maintenance.** Franchisee shall, at Franchisee's expense, maintain true business records and books of account at the Location according to generally accepted accounting principles and other methods and procedures prescribed by Franchisor. All such records shall be open to inspection and copying by Franchisor and/or Franchisor's authorized representatives at the Location during regular business hours or at other reasonable times requested by Franchisor. Franchisee shall cooperate in Franchisor's inspection and copying.

**19.2 Reports.** Franchisee shall furnish Franchisor the following items, signed and verified by Franchisee, in the form and manner that Franchisor prescribes from time to time:

- (i) Within thirty (30) days after the end of each month, a profit and loss statement for the preceding month and a year-to-date profit and loss statement for the Franchised Business utilizing Franchisor's standard chart of accounts;
- (ii) Within ninety (90) days after the end of Franchisee's fiscal year, a balance sheet and an annual profit and loss statement reflecting all year-end adjustments for the Franchised Business prepared and certified by an independent certified public accountant; and
- (iii) Upon request, any requested Social Security reports, Immigration and Naturalization Service reports or forms, state and federal unemployment reports, federal income tax returns, state, county or city income, franchise, or other tax returns, and other federal, state or other governmentally mandated reports.

**19.3 Risk Management Reports.** In order to enable Franchisor to assist Franchisee with the administration of risk management of workers' compensation and unemployment compensation matters, Franchisee must report to Franchisor all accidents and employment terminations immediately upon their occurrence. Franchisee must provide to Franchisor all information regarding workers' compensation losses and status reports from the insurance carrier regarding the progress of the workers' compensation claims and cases. The risk management reports must be on forms that Franchisor prescribes from time-to-time and contain all of the information required.

## **20. PERIODIC REVIEWS, INSPECTIONS AND AUDITS.**

**20.1 Periodic Reviews.** From time to time, at times that Franchisor designates, Franchisee and Manager shall meet with Franchisor's representatives to discuss and review the Franchised Business' operations, status and financial performance.

**20.2 Inspections.** To determine whether Franchisee and the Franchised Business are complying with this Agreement and with specifications, standards and operating procedures prescribed by Franchisor for operation of the Franchised Business, Franchisor or Franchisor's designated agents shall have the right at any reasonable time and without prior notice to Franchisee to:

- (i) Interview Franchisee and core staff employees of the Franchised Business;
- (ii) Interview the Franchised Business' clients and customers, Franchisee's suppliers and any other person with whom Franchisee does or did business;
- (iii) Confer with members and staff of government agencies with authority over Franchisee about matters relevant to the Franchised Business; and
- (iv) Require Franchisee to participate and/or request Franchisee's clients and customers, Franchisee's suppliers and any others to participate in any marketing surveys performed by or on behalf of Franchisor.

Franchisee must cooperate fully with Franchisor in connection with any of these inspections, observations and interviews.

### **20.3 Audits.**

- (i) Franchisor shall have the right, during regular business hours of Franchisee and without prior notice to Franchisee, to inspect, copy and/or audit or cause to be inspected, copied and/or audited the business, bookkeeping, accounting, sales tax, income tax, files, and other records of the Franchised Business, and the books and records of any individual, partnership or corporation that owns the Franchised Business. Franchisee shall fully cooperate with Franchisor's representatives or independent certified public accountants in any such inspection or audit.
- (ii) If Franchisee's failure to maintain or furnish reports, supporting records or other information required by this Agreement or the Brand Standards Manual makes necessary any such inspection or audit, or if an understatement of Gross Billings for any three (3) consecutive weeks is determined by an audit or

inspection to be greater than three percent (3%), Franchisee shall reimburse Franchisor for the costs of such audit or inspection. Such reimbursement shall include, without limitation, charges of any independent accountants and travel expenses, room and board and compensation of Franchisor's employees and other agents or representatives who participate in such inspection or audit.

- (iii) The remedies in this Section 20 shall be additional to and not in lieu of Franchisor's other remedies and rights under this Agreement or applicable law.

## **21. COMPUTERIZED MANAGEMENT AND OPERATIONAL SYSTEM.**

**21.1 Computer Services Agreement.** Franchisor or its Affiliate has developed computer software to be used in connection with the management and operation of SNELLING Staffing Center franchises. Franchisor owns certain domains associated with the Snelling trademark and will grant access to certain "Snelling.com" email addresses/accounts to Franchisee and its internal staff. Franchisor or its Affiliate shall license the Software to Franchisee and provide access to "Snelling.com" email addresses/accounts on the same terms and conditions as offered to all franchisees of Franchisor similarly situated pursuant to a Computer Services Agreement (CSA) to be entered into between Franchisor and Franchisee, in the form attached hereto as Exhibit "G," upon execution of this Agreement. Franchisee shall utilize the Software and Snelling.com email addresses/accounts in the operation of the Franchised Business as set forth in the CSA and the Brand Standards Manual. Franchisee shall duly perform all of its obligations under the CSA and a default shall constitute a default under this Agreement. In the event of an assignment of this Agreement pursuant to Section 22 below, the CSA shall be assigned to the assignee of this Agreement.

**21.2 Software Update and Support.** Currently, the cost of Software, Software updates, and email access are paid out of the Initial Franchise Fee and Continuing Fees. However, Franchisor reserves the right in the future to require that Franchisee pay for actual cost of all Software, for all published updates of the Software, and for email access. Franchisor shall provide Franchisee with twelve (12) hours of support per year at no cost or expense to Franchisee and, thereafter, Franchisee shall pay Franchisor its normal hourly rate (currently, seventy-five dollars (\$75) an hour) for technical assistance and support for installation and program support of the Software as updated from time to time. It is acknowledged that the scope of technical Software support to be provided by Franchisor is limited, and that further technical support is available only from the licensor of the Software. In the event of the development of proprietary software by Franchisor as a replacement or supplement to the required licensed software, Franchisee shall pay Franchisor a reasonable cost for the use of such software, which cost shall not exceed the cost of competitive software, and shall enter into such modification of the existing CSA or new CSA, as may be requested by Franchisor.

**21.3 Hardware.** At Franchisee's expense, prior to commencement of operations of the Franchised Business, Franchisee shall purchase the computer hardware and related equipment required for the operation and use of the Software and install such hardware and

equipment at the premises of the Franchised Business. In the event the Software is upgraded which necessitates that the hardware be upgraded, Franchisee shall, at its sole cost and expense, upgrade its hardware to accommodate the upgraded Software. Any and all such hardware and related equipment must fully comply with Franchisor's specifications as set forth in the Brand Standards Manual.

**21.4 Information Retrieval.** During the term of this Agreement, Franchisee shall afford Franchisor access via an Internet connection to Franchisee's computer system to enable Franchisor to periodically upload and download data to facilitate Franchisor's performance of automated payroll and related services hereunder.

## **22. TRANSFER.**

**22.1 By Franchisor.** This Agreement shall be fully and freely transferable and assignable by Franchisor at any time for any reason.

**22.2 By Franchisee.** Franchisee understands and acknowledges that the rights and duties created by this Agreement are personal to Franchisee or its owners and that Franchisor has entered into this Agreement in reliance upon the individual or collective character, skill, aptitude, attitude, business ability and financial capacity of Franchisee or its owners. Therefore, except as hereinafter provided, neither Franchisee's interest in this Agreement nor any of its rights or privileges herein or obligations hereunder shall be sold, assigned, transferred, sublicensed, shared or divided or otherwise transferred by Franchisee, in whole or in part, voluntarily or involuntarily, by operation of law or otherwise in any manner, except upon prior written approval of Franchisor, and in accordance with the provisions of this Section 22. Any assignment or transfer without such approval shall constitute a breach of this Agreement and shall convey no rights or interest in the Franchised Business to such purported assignees or transferees. The only permissible methods of sale, transfer or assignment of the Franchised Business are those set forth in this Section 22.

**22.3 Change of Business Form.** Whether or not an assignment or transfer of the Franchised Business is involved, Franchisee, whether an individual or otherwise, shall not change its business form, whether to obtain the services of a partner, to merge, consolidate, reorganize, or to accomplish any other change, without the prior written approval of Franchisor.

**22.4 Deemed Assignment.** If Franchisee is at any time a corporation or limited liability company, then one or more transactions involving (i) issuance of any securities by Franchisee, or (ii) the transfer of stock or voting power of Franchisee, or (iii) any merger or consolidation involving Franchisee, the effect of which shall result in Franchisee's shareholders/members owning or controlling less than fifty-one percent (51%) of the aggregate voting securities of Franchisee or otherwise losing the right to control the affairs of Franchisee, shall be deemed to be an assignment of this Agreement within the meaning of this Section 22.

If Franchisee is at any time a partnership, then the death, voluntary or involuntary or other withdrawal of any general partner, admission of any additional general partner, or transfer of any general partner's interest in the property, management or profits

and/or losses of the partnership shall be deemed to be an assignment within the meaning of this Section 22.

**22.5 Franchisor's Right of First Refusal.** If Franchisee desires to sell or otherwise transfer the Franchised Business and assign this Agreement, Franchisee shall deliver to Franchisor written notice setting forth all the terms of the proposed transfer and assignment and all information that Franchisor requests concerning the proposed assignee. Franchisor shall have the option, during the thirty (30) days after receipt of the notice, to purchase the Franchised Business and accept assignment of this Agreement on the terms contained in the notice, provided that Franchisor shall have the right to substitute the cash equivalent of any non-cash consideration described in such notice. If Franchisor exercises this option, the purchase of the Franchised Business by Franchisor must be completed no later than thirty (30) days after Franchisor's notice to Franchisee of its purchase election.

If Franchisor does not exercise this option during such thirty (30) day period then Franchisee may, during the following one hundred twenty (120) days, transfer the Franchised Business and assign this Agreement to the proposed assignee on the terms in the notice, provided that the assignment shall be made, without limitation, in compliance with this Section 22. Any proposed transfer not completed within such one hundred twenty (120) day period or any material change in the terms of the proposed transaction prior to closing shall constitute a new offer to which Franchisor shall have the right of first refusal and shall require compliance with this Section 22.5.

**22.6 Further Conditions.** If Franchisor elects not to exercise its right of first refusal, Franchisor's approval of a proposed transfer shall not be unreasonably withheld. However, without limitation of the foregoing, imposition of any or all of the following conditions precedent to Franchisor's approval shall be deemed to be reasonable:

**22.6.1 Transfer to Franchisee's Corporation.** If Franchisee is an individual or partnership and desires to assign and transfer his rights to a newly organized corporation or limited liability company solely for the convenience of ownership:

- (i) Such entity's charter shall provide that its activities are confined exclusively to operating the Franchised Business as set forth in this Agreement;
- (ii) Franchisee shall be, and shall remain, the owner of the majority stock interest in the transferee corporation or limited liability company;
- (iii) The individual Franchisee (or if the Franchisee is a partnership, one of the general partners) shall be, and shall remain, the principal executive officer of the entity;
- (iv) The transferee entity shall enter into a written assignment with Franchisee and Franchisor, in form satisfactory to Franchisor, assuming all of the Franchisee's obligations under this Agreement; provided, however, that the Franchisee shall

guarantee and shall remain ultimately responsible for all of Franchisee's obligations under this Agreement;

- (v) Each stock certificate of the transferee entity shall have conspicuously endorsed upon it a statement that it is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon assignments and transfers by this Agreement;
- (vi) No new shares of common or preferred voting stock in the transferee entity shall be issued to any person, partnership, trust, foundation, or corporation without obtaining Franchisor's prior written consent; and
- (vii) All accrued money obligations of Franchisee to Franchisor, its Affiliates or assignees, shall be satisfied prior to assignment or transfer.

**22.6.2 Other Transfers.** If the transfer, other than such transfer authorized under Section 22.6.1 of this Agreement, as consummated alone or together with other related previous, simultaneous, or proposed transfers, would have the effect of transferring control of the Franchised Business to someone other than an original signatory of this Agreement:

- (i) The proposed assignee(s) or, if the proposed assignee is a corporation or limited liability company, its principal officers, shareholders, members, or directors, shall be of good moral character and demonstrate skills, qualifications and economic resources necessary in Franchisor's reasonable judgment, to operate the franchise that this Agreement contemplates and, in any event, at least equal to the Franchisee's skills, qualifications and economic resources;
- (ii) The proposed assignee(s) shall expressly assume in writing, for Franchisor's benefit, all Franchisee's obligations under this Agreement;
- (iii) The proposed assignee(s) shall have completed the training program and additional evaluation to Franchisor's sole subjective satisfaction, as described in Section 7;
- (iv) As of the date of any such transfer, Franchisee shall have fully satisfied all Franchisee's obligations, including accrued money obligations, to Franchisor and Franchisor's Affiliates and assignees under this Agreement and any other agreement, arrangement or understanding;
- (v) Franchisor shall require the proposed assignee(s), including all shareholders, members, and partners of the proposed



assignees(s), to jointly and severally execute Franchisor's standard form Franchise Agreement, including any personal guarantees thereof, then being offered to prospective franchisees of Franchisor, except that no initial franchisee fee shall be required from the proposed assignee and the term of the Agreement shall be modified to equal the remaining term under this Agreement;

- (vi) Franchisee shall pay Franchisor a transfer fee of Five Thousand Dollars (\$5,000.00), which is deemed to be reasonably required to cover Franchisor's expenses relating to such transfer;

**22.6.3 Covenants Not to Compete Unaffected.** No sale, assignment, transfer, conveyance, encumbrance or gift of any interest in this Agreement, or in the Franchised Business, shall relieve Franchisee, and as applicable, its shareholders or partners participating in any transfer, of the obligations of the covenants not to compete contained in Section 13.2 of this Agreement.

**22.7 Assignment in Case of Death or Incapacity.** If, as applicable, Franchisee, or Franchisee's majority stockholder, member, or general partner is or becomes permanently disabled for any mental or physical condition (as evidenced by an inability to perform usual duties for a period of four (4) consecutive months), the surviving spouse, heirs, beneficiaries, devisees, or legal representative of said individual, partner or shareholder shall have the opportunity to participate in the Franchised Business during the one hundred eighty (180) days following such death or incapacity, provided that during that time such participant shall maintain all standards and obligations required under this Agreement. During such one hundred eighty (180) day period, such participant shall either satisfy all the then-current qualifications for a purchaser of a SNELLING® Staffing Center franchise in accordance with the requirements of this Section 22 or sell, transfer, or assign such participant's ownership interest in Franchisee, or, if applicable, this Agreement and the Franchised Business to a person who satisfies the Franchisor's then-current standards for new SNELLING® Staffing Center franchisees.

**22.7.1 Assignment to Original Signatory.** If, as a result of the death or incapacity of a shareholder, member, or partner of the Franchisee, all of the deceased or disabled party's interest in this Agreement or the Franchised Business is transferred to an original signatory to this Agreement, then, upon written notice to Franchisor, Franchisor shall consent to the continued operation of the Franchised Business pursuant to the terms of this Agreement.

## 23. TERMINATION.

**23.1 Termination with Opportunity to Cure.** Except as provided in Section 23.2, when Franchisee receives written notice from Franchisor that Franchisee has failed to comply with the terms of this Agreement, Franchisee shall have thirty (30) days to cure the breach and to prove such cure to Franchisor. If any breach is not cured within thirty (30) days of Franchisee's receipt of notice of such breach, Franchisor may terminate this Agreement upon written notice to Franchisee of such termination, effective on the expiration of the cure period.

**23.2 Termination with No Opportunity to Cure.** If any of the following events of default occur, Franchisor may terminate this Agreement immediately upon delivery to Franchisee of notice of termination. Franchisor shall have no obligation to allow Franchisee any opportunity to cure any such event of default.

- (i) Franchisee is declared bankrupt or judicially determined to be insolvent, or all or a substantial part of the assets of Franchisee or the Franchised Business are assigned to or for the benefit of any creditor, or Franchisee admits his inability to pay Franchisee's debts as they come due;
- (ii) Franchisee abandons the Franchised Business by failing to operate for five (5) consecutive days during which Franchisee is required to operate the Franchised Business under this Agreement's terms, or any shorter period after which it is not unreasonable under the facts and circumstances for Franchisor to conclude that Franchisee does not intend to continue to operate the Franchised Business;
- (iii) Franchisee has made any material misrepresentation relating to acquisition of the Franchised Business;
- (iv) Franchisee engages in conduct that, in Franchisor's sole determination, materially and unfavorably reflects upon the operation and reputation of the Franchised Business or the SNELLING Staffing Center System;
- (v) Franchisee fails for a period of ten (10) days or such longer period as applicable laws may require, after notification of noncompliance, to comply with any federal, state or local law or regulation applicable to operation of the Franchised Business;
- (vi) After curing any failure described in Section 23.1 Franchisee engages in the same noncompliance, regardless of whether such noncompliance is corrected after notice;
- (vii) Franchisee repeatedly fails to comply with one (1) or more requirements of this Agreement regardless of whether corrected after notice;

- (viii) The Franchised Business is seized, taken over or foreclosed by a government official in the exercise of such official's duties, or seized, taken over, or foreclosed by a creditor, lien holder or lessor, provided that a final judgment against Franchisee remains unsatisfied for thirty (30) days, unless a supersedes or other appeal bond has been filed;
- (ix) a levy of execution is made upon the Franchised Business or upon any property used in the Franchised Business and is not discharged within five (5) days after such levy;
- (x) Franchisee is convicted of, or pleads guilty or no contest to, any crime punishable as a felony or involving moral turpitude or immoral conduct;
- (xi) Franchisee attempts to transfer the Franchised Business or make an assignment of this Agreement in violation of Section 22 of this Agreement;
- (xii) In the event of death or incapacity, the surviving spouse, heirs, beneficiaries, devisees, or legal representatives fail to comply with the provisions of Section 22.7;
- (xiii) Franchisee discloses attempts or threatens to disclose any of the Trade Secrets in violation of this Agreement;
- (xiv) Franchisee willfully and knowingly employs temporary employees in classifications of business which are specifically prohibited by Franchisor or otherwise does not adhere to the risk management policies of Franchisor;
- (xv) Franchisee fails to disclose to Franchisor the existence of a non-compete restriction applicable to Franchisee; or
- (xvi) Franchisee or, if applicable, its shareholders, officers, directors or partners, directly or indirectly, engage in or perform services for or hold an ownership interest in any business engaged in the temporary staffing of skilled and/or unskilled personnel (including, without limitation, clerical, computer, technical, accounting and medical), employee leasing or related enterprise, other than Franchisor or its Affiliates or its franchisees.

**23.3 Other Termination Rights.** Franchisor's right to terminate this Agreement is in addition to all other rights and remedies, whether at law or in equity, that Franchisor might have against Franchisee as a result of any breach or default by Franchisee of any provision of this Agreement.

**23.4 Termination by Franchisee.** Franchisee understands and acknowledges that Franchisee is obligated by this Agreement to operate the Franchised Business as set forth herein for the duration of the Initial Term, and any attempt by Franchisee to terminate this Agreement prior to the expiration of such Initial Term shall be deemed to be a material breach of this Agreement and shall be grounds, at Franchisor's sole determination, for termination by Franchisor pursuant to Section 23.2.

**23.5 Buy-Out Termination.** Commencing on January 1st of the last full calendar year of the Initial Term under this Agreement, Franchisee may terminate this Agreement and Franchisor will waive the competitive restrictions imposed by Section 13.2.5 for the applicable Territory (and only for such Territory) in which the Franchised Business is then operated by said Franchisee (i.e., such waiver shall not release Franchisee from competitive restrictions imposed by Section 13.2.5 for any geographical area or areas other than the Territory in which the Franchised Business is then operated by said Franchisee), on the following conditions:

- (i) Franchisee must send Franchisor written notice ("Notice") six (6) months prior to the date of the proposed buy-out;
- (ii) Franchisee must pay Franchisor a buy-out price equal to fifteen percent (15%) of the Gross Billings of the Franchised Business during the immediately preceding twelve (12) calendar months;
- (iii) The Notice must include a cash deposit of one-third (1/3) of the amount due Franchisor for the buy-out, along with a promissory note ("Note") for the balance upon such terms and on such forms as Franchisor prescribes, and Franchisor's standard form of mutual termination agreement utilized in this context;
- (iv) Interest on the Note accrues from the date Franchisor receives the Notice;
- (v) If, after sending such Notice to Franchisor, Franchisee does not consummate the transaction, Franchisor may either:
  - (1) Retain fifty percent (50%) of the deposit paid with Franchisee's notice as liquidated damages and keep this Agreement in force; or
  - (2) Purchase the Franchised Business by paying to Franchisee an amount equal to the Purchase Price (as that term is defined in Section 14.2 of this Agreement), retain the deposit and return the Note.

Franchisee's option to terminate this Agreement through this buy-out procedure automatically ceases if Franchisor grants Franchisee a successor franchise. Any buy-out option at that time will be governed by the terms of the successor franchise agreement. If Franchisee exercises and fully complies with the buy-out procedures described in this Section, Franchisor will waive the post-termination competitive restrictions described in

Section 13.2.5 of this Agreement for the applicable Territory in which the Franchised Business is then operated by Franchisee (and only for such Territory); however, Franchisee will remain responsible for compliance with all of the other post-termination obligations described in Section 13 or otherwise in this Agreement, including, without limitation, any competitive restrictions imposed by Section 13.2.5 for any geographical area or areas other than the Territory in which the Franchised Business is then operated by Franchisee. If Franchisee (or one of Franchisee's principal owners) owns or has a controlling interest in one or more addition Franchised Businesses, Franchisee may only exercise its rights to buy out this Agreement if Franchisee (or such principal owner) also exercises such termination rights with respect to all Franchised Businesses in which Franchisee or such principal owner holds equity interest.

## **24. RIGHTS AND OBLIGATIONS AFTER TERMINATION OR EXPIRATION.**

**24.1 Payment of Amounts Owed.** Upon expiration of this Agreement or termination of this Agreement for any reason, and regardless of any other provision of this Agreement, all amounts owed to Franchisor or Franchisor's Affiliates, and interest due on any of these amounts shall be immediately due and payable, subject to withholding of the final payment of Franchisee's Share as provided in Section 5.3 hereof.

**24.2 Marks.** After termination or expiration of this Agreement, Franchisee shall:

- (i) Refrain from directly or indirectly, at any time or in any manner, identifying Franchisee or any business as a current or former SNELLING® Staffing Center franchisee or business;
- (ii) Refrain from using any Marks or any colorable imitation of any Marks or other evidence of a Franchised Business in any manner or for any purpose or use for any purpose any trade name, trade or service mark or other commercial symbol that suggests or indicates a connection or association with Franchisor;
- (iii) Within thirty (30) days after such termination or expiration, remove and discontinue use of all signs, sign faces, stationery, advertising materials, informational or other brochures, and other materials containing any of the Marks or otherwise identifying or relating to the Franchised Business, provided that Franchisee shall immediately upon such termination or expiration cease using any of the Marks in connection with any telephone or other direct communications with other parties.
- (iv) Take all action necessary or appropriate to cancel all fictitious or assumed name or equivalent registrations relating to Franchisee's use of any of the Marks; and
- (v) Furnish to Franchisor within thirty (30) days after the effective date of termination or expiration, evidence satisfactory to

Franchisor of Franchisee's compliance with all obligations under this Section 24.

**24.3 Trade Secrets.** Upon termination or expiration of this Agreement, Franchisee shall immediately cease to use any of the Trade Secrets disclosed to Franchisee pursuant to this Agreement. Upon such termination or expiration, Franchisee shall immediately return to Franchisor all confidential or proprietary materials that Franchisor has loaned to Franchisee. Franchisee's continued use of any of the Trade Secrets or any other confidential or proprietary materials or information following the expiration of this Agreement or termination of this Agreement for any reason shall constitute an unfair method of competition.

**24.4 Client Lists.** It being recognized and acknowledged that Franchisee's client base is derived, in large part, from its affiliation with Franchisor and from the goodwill associated with the Marks, it is the intent of the parties to this Agreement that the client base of the Franchised Business shall inure to the benefit of the Franchisor and, upon expiration of this Agreement or termination of this Agreement for any reason, Franchisee shall deliver to Franchisor all copies of all materials in Franchisee's possession which in any way identify the clients of the Franchised Business and Franchisor shall have the right to open its own business Location in the Franchisee's Territory and to utilize for Franchisor's benefit any customer lists generated by the Franchisee. Franchisee further agrees not to contact clients of the Franchised Business for the purpose of offering services of the type provided by the Franchised Business for a period of two (2) years following the expiration or termination of this Agreement. Franchisee agrees that any failure by Franchisee to fully comply with this Section 24.4 shall constitute an unfair method of competition.

## **25. ENFORCEMENT.**

### **25.1 Severability and Substitution.**

- (i) Except as expressly provided to the contrary herein, each part of this Agreement shall be severable. If any provision is held invalid, or in conflict with any applicable law or regulation in a final unappealable ruling by a competent court, agency or other tribunal in a proceeding to which Franchisor is a party, the ruling shall not impair or otherwise affect remaining parts of this Agreement that remain intelligible. Any portion held invalid shall be deemed not to be part of this Agreement when the time for appeal expires if Franchisee is a party to such proceeding, otherwise when Franchisee receives notice of non-enforcement of such provision from Franchisor.
- (ii) To the extent that Sections 13 or 24.2, relating to trademarks, Trade Secrets and non-competition, or any part of such sections is unenforceable because of geographical, temporal or subject-matter scope, but could be enforceable by reducing any or all of such scope, such provisions shall be enforced to the fullest extent permissible under applicable laws and public policies.

- (iii) If any applicable law or rule requires greater prior notice of termination or refusal to enter into a Subsequent Agreement, or action different than this Agreement requires, or if under any applicable law or rule any provision of this Agreement or specification, standard or operating procedure prescribed by Franchisor is invalid or unenforceable, the prior notice and/or action required by such law or rule shall replace this Agreement's comparable provisions. In such circumstances, Franchisor shall have the right, in Franchisor's sole determination, to modify the invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable.
- (iv) Franchisee shall satisfy the maximum duty and obligations imposed upon Franchisee by law under any promise or covenant contained within this Agreement, that results from reducing any provision, or specification, standard or operating procedure prescribed by Franchisor, or striking from any such provision, specification, standard or operating procedure, any portion(s) that a court of competent jurisdiction holds unenforceable, or orders to be unenforced, in a final decision to which Franchisor is a party, as if the remaining promise or covenant were a separately articulated part of this Agreement. Such modifications to this Agreement shall be effective only in such jurisdiction, unless Franchisor elects to make them applicable in other jurisdictions.

**25.2 Waiver.** Franchisor or Franchisee may unilaterally waive or reduce any obligation of or restriction upon the other only by a signed written instrument. Such waiver shall take effect upon delivery of the instrument to the other or such other date stated in the instrument. Any waiver shall be without prejudice to the waiving party's other rights and shall be subject to continuing review.

**25.3 Nonwaiver.** Franchisor and Franchisee shall not be deemed to waive or impair the right to demand strict compliance with every term, condition and covenant in this Agreement, or to declare any breach to be a default and to terminate this Agreement prior to its expiration, or any other right, power or option reserved in this Agreement, by virtue of:

- (i) Any custom or practice of the parties that varies from this Agreement's terms;
- (ii) Any failure, refusal or neglect to exercise any right under this Agreement or to insist upon strict compliance with mandatory specifications, standards, operating procedures or other obligations;

- (iii) Any waiver, forbearance, delay, failure or omission to exercise any right, power or option, of the same, similar or different nature, with respect to other franchisees; or
- (iv) Acceptance of payments after any breach of this Agreement.

**25.4 Force Majeure.** Neither Franchisor nor Franchisee shall be liable or deemed to be in breach for loss, damage or failure to perform that result from any of the following causes. Any delay that results from the following causes shall extend performance accordingly or excuse performance in whole or in part as is reasonable. However, such causes shall not excuse payment of amounts due or owed at the time of such occurrence or payment of any fees due to Franchisor from subsequent Gross Billings.

- (i) Strikes, inadequate supply of equipment, merchandise, supplies, material or energy, or the voluntary foregoing of the right to acquire or use any of these in order to accommodate or comply with orders, requests, regulations, recommendations or instructions of any government, government department or government agency;
- (ii) Compliance with any law, rule, order, regulation, requirement or instruction of a government agency other than an order, requirement or instruction that arises from a violation of law or this Agreement;
- (iii) Acts of God, acts of the public enemy, acts of terrorism, or societal disruptions caused by terrorism or civil unrest; or
- (iv) Acts or omissions of the other party.

**25.5 Specific Performance and Injunctive Relief.** Nothing in this Agreement shall prevent Franchisor or Franchisee from obtaining specific performance of this Agreement and injunctive relief against threatened conduct that will cause loss or damages, under equity rules, including applicable rules for obtaining restraining orders and preliminary injunctions. Franchisor shall be entitled to injunctive relief without bond but upon due notice, in addition to all further and other relief available at law or equity. Franchisee's sole remedy upon entry of any injunction shall be dissolution of the injunction, if warranted, upon hearing.

**25.6 Rights Cumulative.** Franchisor and Franchisee's rights under this Agreement are cumulative. No exercise or enforcement of any right or remedy shall preclude exercise or enforcement of any other right or remedy that the law entitles Franchisor or Franchisee to enforce.

**25.7 Dispute Resolution.** THIS AGREEMENT IS EXECUTED IN THE STATE OF SOUTH CAROLINA AND SHALL BE CONSTRUED AND GOVERNED, AS TO FORM, SUBSTANCE, PROCEDURE, RIGHTS, AND REMEDIES, SOLELY BY THE LAWS OF SOUTH CAROLINA. FRANCHISOR AND FRANCHISEE HEREBY SUBMIT TO THE JURISDICTION AND EXCLUSIVE VENUE OF ALL COURTS LOCATED WITHIN SOUTH CAROLINA FOR ALL MATTERS ARISING UNDER THIS AGREEMENT.



Franchisor and Franchisee irrevocably waive trial by jury in any action, proceeding, or counterclaim, whether at law or in equity, brought by either of them against the other, whether or not there are other parties in such action or proceeding.

Any and all claims and actions arising out of or relating to this Agreement, the relationship of Franchisee and Franchisor, or Franchisee's operation of the franchised business, brought by any party hereto against the other, shall be commenced within one (1) year from the time the aggrieved party first becomes aware of or reasonably should be aware of the occurrence of the facts giving rise to such claim or action, or such claim or action shall be barred.

Franchisor and Franchisee hereby waive to the fullest extent permitted by law any right to or claim of any punitive or exemplary damages against the other, and agree that in the event of a dispute between them each shall be limited to the recovery of any actual damages sustained by it.

**25.8 Mediation.** Except as precluded by applicable law, prior to instituting any suit or action in a court of law, any controversy or claim that arises out of or relates to this Agreement, or any breach of this Agreement, including, without limitation, any claim that any of this Agreement is invalid, illegal, voidable or void, shall be submitted to mediation in Goose Creek, South Carolina, as voluntary non-binding mediation, to be conducted in accordance with the process set forth in the South Carolina Circuit Court Alternative Dispute Resolution Rules or any similar successor rules.

**25.9 Binding Effect.** This Agreement shall inure to the benefit of and shall bind the parties and their executors, administrators, heirs, assigns, and successors in interest.

**25.10 Modification.** Except as expressly provided in Section 25.1, the parties may modify this Agreement only by written instrument signed by the parties.

**25.11 Construction.**

- (i) The preambles and exhibit(s) are part of this Agreement. This Agreement is the parties' entire agreement with respect to its subject matter. There are no other prior or contemporaneous oral or written understandings or agreements between the parties relating to the subject matter of this Agreement.
- (ii) Nothing in this Agreement shall confer any right or remedy upon any third person or legal entity not a party to this Agreement.
- (iii) Except when this Agreement expressly requires Franchisor to reasonably approve or not unreasonably withhold approval of any action or request by Franchisee, Franchisor shall have the right to refuse any request by Franchisee or to withhold approval of any action by Franchisee.

- (iv) Headings in this Agreement are for convenience only. Headings do not define, limit or construe the contents of sections.
- (v) If two or more persons are Franchisee under this Agreement regardless of whether they are partners or joint ventures or in another capacity or relation, their obligations shall be joint and several.
- (vi) If Franchisee or a transferee is a corporation or partnership, then the terms "Franchisee", "owner", and "transferee" mean, unless expressly made applicable to all shareholders and partners, any person who owns of record or beneficially ten percent (10%) or more of the equity or control of Franchisee.
- (vii) Franchisor and Franchisee are sophisticated parties acting on the advice of competent legal counsel in entering into this Agreement. Thus, Franchisee agrees that any common law or statutory provision providing that an ambiguous or uncertain term will be construed against the drafting party is waived and shall not apply to the construction of this Agreement.
- (viii) Nothing in this Franchise Agreement or in any related agreement is intended to disclaim Franchisor's representations made in the Franchise Disclosure Document.

**26. MULTIPLE ORIGINALS.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement shall become effective and binding immediately upon its execution by all signatories and consists of (i) \_\_\_\_\_ (\_\_\_) consecutively numbered pages including signature pages; and (ii) Exhibits \_\_\_\_\_ and \_\_\_\_\_ attached hereto which are \_\_\_ pages in length, respectively.

**27. NOTICES AND PAYMENTS.** Written notices and reports that this Agreement or the Brand Standards Manual permit or require to be delivered shall be deemed so delivered when delivered by hand, or one (1) business day after transmission by facsimile, email, or other electronic system, or three (3) business days after placement in the United States Mail by registered or certified mail, return receipt requested, postage prepaid and addressed to the party to be notified at the address first written above or its most current principal business address of which the notifying party has been notified. Payments and reports required by this Agreement shall be directed to Franchisor at the address first written above or at the address of which Franchisor from time to time notifies Franchisee, or to such other persons and places as Franchisor may from time to time direct. Any required payment or report not actually received by Franchisor during regular business hours on the date due or postmarked by postal authorities at least two (2) days prior to the date due shall be deemed delinquent.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement effective as of the day and year first written above.

**"FRANCHISOR"  
HQ FRANCHISING CORPORATION**

By: \_\_\_\_\_

Name: John McAnnar

Title: Chief Legal Officer

**"FRANCHISEE"**

By: \_\_\_\_\_

Name:

Title:

**EXHIBIT "A"**

**INITIAL FRANCHISE FEE**

**MSA/CMSA/CITY**

**STATE**

**INITIAL FEE**

\$

**EXHIBIT "B"**

**FRANCHISE LOCATIONS**

**Territory**

**Location of Offices**

**EXHIBIT "C"**  
**MINIMUM PERFORMANCE STANDARDS**

**Territory**                      **Succeeding Calendar Years**      **Annual Gross Billings**

\*            Initial year shall commence on January 1<sup>st</sup> of the year of this Agreement and shall end on December 31<sup>st</sup> of that year.

**EXHIBIT "D"**

**DESCRIPTION OF TERRITORY**

**County/City**

**State**

**EXHIBIT "D-1**

**MAP OF TERRITORY**

**[See attached on the following page]**



**EXHIBIT "E"**

**NONDISCLOSURE AND NONCOMPETITION AGREEMENT (FRANCHISEE)**

In consideration of the execution by HQ Franchising Corporation of a Franchise Agreement with \_\_\_\_\_ relating to an SNELLING Staffing Center franchise, the undersigned, who are the Beneficial Owners and/or Principal Officers and Directors of \_\_\_\_\_ (the "FRANCHISEE"), agree individually and jointly to comply with and be bound by all provisions of the Franchise Agreement in any way related to nondisclosure and non-competition, including but not limited to Sections 9, 13 and 24 of the Franchise Agreement.

This Nondisclosure and Non-competition Agreement shall be executed by all persons and other legal entities who are now and who shall from time-to-time be such Beneficial Owners and/or Principal Officers and Directors of the Franchisee, and the execution hereof by all such persons and legal entities shall be the responsibility of the undersigned.

SIGNATURE OF BENEFICIAL  
OFFICERS  
OWNERS

SIGNATURES OF PRINCIPAL  
AND DIRECTORS

\_\_\_\_\_  
% of Ownership  
Name  
Title:

\_\_\_\_\_  
Name

**EXHIBIT "F"**

**COMPUTER SERVICES AGREEMENT**

**(SEE ATTACHED)**

## COMPUTER SERVICES AGREEMENT

**THIS AGREEMENT**, effective this \_\_\_\_ day of \_\_\_\_\_, 2022, is entered into by and between HQ Franchising Corporation (“Hire Quest”), a Delaware corporation having principal offices at Goose Creek, South Carolina, and the undersigned entity (“Client”). Client is a franchisee of Hire Quest pursuant to a separate written franchise agreement between the parties.

**1. Engagement.** Client retains Hire Quest or its Affiliate to host and process Client’s Data on a non-exclusive basis in accordance with the services identified in **Exhibit A** (the “Services”).

**2. Service Fees and Taxes.**

(a) The fees for the Services shall be Hire Quest's then current fees and rates for the Services in effect on the effective date of this Agreement, as set forth in the attached **Exhibit B**, which is incorporated herein by reference. Such fees may be periodically adjusted by Hire Quest. Any rate changes deemed necessary by Hire Quest will become effective on the first day of July following the notification of said changes. Hire Quest will notify Client of any rate changes at least thirty (30) days prior to the effective date of any such changes.

(b) Client shall pay all applicable taxes based on or in any way measured by this Agreement, the Services, or any portion thereof, or any services related thereto, excluding taxes based on Hire Quest's net income, but including personal property taxes and sales taxes, if any. If Client challenges the applicability of any such tax, it shall pay such tax to Hire Quest and Client may thereafter challenge such tax and seek refund thereof.

**3. Term of Agreement**

(a) Unless otherwise terminated or cancelled as provided herein, the term of this Agreement shall be for the term of the separate written franchise agreement between the parties.

(b) The effective date of this Agreement shall be the later of the effective date of the written franchise agreement between the parties or the first business day after Hire Quest notifies the Client by e-mail that the Services are available for use by Client.

**4. Protection of Trade Secrets.**

(a) Client acknowledges and agrees that software maintained and used by Hire Quest and the domain names utilized in the provision of the Services are Hire Quest's exclusive property and constitutes a valuable trade secret of Hire Quest. Hire Quest will not disclose or make available the proprietary software to Client.

(b) Client acknowledges and agrees that software and documentation provided to the Client to permit Client to access the Services is Hire Quest's exclusive property, and constitutes a valuable trade secret of Hire Quest. Upon any termination, cancellation or expiration hereof, Client shall immediately return the software and documentation and all copies thereof to Hire Quest.

**5. Delivery of the Services.**

(a) Hire Quest shall deliver the Services via the Internet. Documentation shall be provided as an “on line help” resource and shall be a computer file which can be read by Client's applications.

(b) Client warrants that it has the ability to download executable files via the Internet. Client also warrants that it will provide the ability to connect to, and download from Hire Quest's password protected FTP Internet server in order to receive the Services.

(c) Client shall inform Hire Quest within ten days (10) after notification that the Services are available should Client be unable to properly use the Services.

## **6. Responsibility of Client.**

(a) The Client shall provide the hardware necessary to meet the minimum hardware requirements of the Services.

(b) The Client shall provide training for all of its personnel on any currently supported versions of Microsoft Windows, with adequate hardware, before the Services are initiated.

(c) The Client shall provide the necessary personnel who are knowledgeable and trained in the job they will be performing using the Services.

(d) The Client shall provide Hire Quest with one main contact person at to act as a communication liaison between the staff of Client and Hire Quest's support staff concerning any support issues that need to be addressed.

(e) The Client shall provide Hire Quest with an e-mail address, and will provide a broadband Internet connection. The Client or their designated computer hardware provider will be responsible for the setup of the Internet connection and e-mail services.

(f) The Client will provide Hire Quest with remote access to the Client's desk top via "PC Anywhere."

**7. Hosting/Maintenance Warranties.** Hire Quest exercises no control whatsoever over the content of the information passing to Hire Quest through the Internet or through Client's network. Hire Quest makes no warranties or representations of any kind for the Services being offered. The Services are provided on an "as is" and "as available" basis without warranties of any kind, either express or implied, including but not limited to warranties of title, non-infringement, or implied warranties of merchantability or fitness for a particular purpose. No advice or information given by Hire Quest or its agents or employees shall create a warranty. Hire Quest offers no warranty that the Services will be uninterrupted or error free or that any data, information, software or other material accessible on the Services is free from viruses or other harmful components. Hire Quest makes no guarantee of end-to-end bandwidth.

Hire Quest reserves the right to monitor any and all communications through or with Hire Quest's facilities. Client agrees that Hire Quest is not considered a "secure communications medium", and that no expectation of privacy is afforded.

Under no circumstances shall Hire Quest be liable for any direct, indirect, special, punitive, or consequential damages that result in any way from Client use of, misuse of or inability to use the Services, or for third parties' use of the Services to access Client data, or to access the Internet or any part thereof, or Client or any third parties' reliance on or use of information, services, or merchandise provided on or through the service, or that result from mistakes, omissions, interruptions, deletion of files, errors, defects, delays in operation or transmission, or any failure of performance.

Further, it is understood and agreed that all information, data, text, messages or other materials ("content"), is the sole responsibility of the Client, from whom such content originated. Hire Quest does not control the content transmitted to it and, as such, does not guarantee the accuracy, integrity or quality of such content. Under no circumstances shall Hire Quest be liable in any way for any content, including, but not limited to, for any errors or omissions in any content, or for any loss or damage of any kind incurred as a result of the use of any content emailed, transmitted or otherwise made available via Hire Quest's Services.

Client acknowledges that Hire Quest may or may not pre-screen data or information, but that Hire Quest and its designees shall have the right (but not the obligation) in their sole determination to refuse, or move any data or information that is transmitted as part of the Services. Without limiting the foregoing, Hire Quest and its designees shall have the right to remove any content that violates the Franchise Agreement or is otherwise objectionable in Hire Quest's sole judgment. This includes, but is not limited to, data that the Client does not have a right to make available under any law or under contractual or fiduciary relationships (such as inside information, proprietary and confidential information learned or disclosed as part of employment relationships or under nondisclosure agreements) and/or content infringes any patent, trademark, trade secret, copyright or other proprietary rights of any party.

If Client is dissatisfied with Hire Quest Services or any of its terms, conditions, rules, policies, guidelines, or practices, Client's sole and exclusive remedy is to discontinue using the Services. Client assumes total responsibility and risk for use of Hire Quest's servers and the Internet.

**8. Limitations of Service.** Computers need routine maintenance and sometimes break down. Hire Quest cannot control the timing or volume of attempts to access Hire Quest's server. As a result, Hire Quest does not guarantee that Client will be able to access data at any particular time. Hire Quest's Services are provided on an "as-is, as-available" basis. Client agrees that its use of the Services and the Internet is solely at Client's risk and is subject to all applicable local, state, national, and international laws and regulations. Hire Quest assumes no responsibility for any commercial transactions attempted or completed involving the Services. Hire Quest does not own or control all the facilities and communication lines through which access may be provided. Accordingly, Hire Quest assumes no responsibility for security of Client's data. It is Hire Quest's policy to cooperate with law enforcement authorities and to notify such authorities if it suspects that Client is engaged in illegal activities. Client acknowledges and understands that anyone, including a minor, who has access to Client's user identification and password, can access Client's data. For purposes of network maintenance, Hire Quest may use, copy, display, store, transmit, translate, view, and distribute the content to multiple domestic and international servers. Client agrees that access to the content will not prohibit or prevent Hire Quest from developing or marketing any offering or product. Hire Quest is not responsible for transmission errors, disclosure, erasure, or corruption or security of data or content.

**9. No Interference With Operation Of System.** Client agrees not to maliciously or intentionally interfere with the proper operation of the system, including but not limited to defeating identification procedures, obtaining access beyond that which Client is authorized, and impairing the availability, reliability, or quality of service for other clients. Client further agrees not to interfere with the proper operation of other systems reachable through the Internet, including any attempt at unauthorized access. Client agrees to follow the policies of any network or service connected. Client agrees to adhere to system policies as published online by Hire Quest, including restrictions on services available with each account type, restrictions on certain features, and all other policies designed to protect and enhance the quality and reliability of service at Hire Quest. Client agrees to abide by any and all future Hire Quest policy decisions.

**10. Prohibition Against Spam.** Client will not send spam to Hire Quest. Client is prohibited from using Hire Quest's network to transmit spam messages. Client will not link to any part of Hire Quest's network, directly or indirectly (including Client's Web site), any spam message Client may send from any source, and Client will not send any spam from any source that contains any e-mail or network address that is part of Hire Quest's network. For purposes of this Agreement, "spam" means Internet messages sent to a large number of people similar to junk mail. Any violation of this Section shall result in immediate termination of the Client's right to use the Hire Quest network, provide grounds for the immediate termination of this Agreement by Hire Quest, and subject Client to liquidated damages.

**11. Source and Object Code.** The Parties agree that Hire Quest has previously developed, and may further develop, source and object code for purposes of providing the Services (collectively, the "Source Code"); that such Source Code is owned by Hire Quest; and that the Parties have no intention to convey any rights or licenses of such Source Code to Client based upon this Agreement. "Development" includes modification of source codes provided to Hire Quest by Client. Furthermore, there is no agreement for Hire Quest to provide a sublicense to Client for any software to which Hire Quest is a customer.

**12. Negation of Warranty.** Hire Quest shall not be liable for the loss of data or for any losses resulting from the interruption of service unless such loss of data or interruption in service is caused by Hire Quest's gross negligence or willful misconduct.

THE SERVICES AND THE HARDWARE AND SOFTWARE USED IN PROVIDING THE SERVICES IS PROVIDED ON AN "AS-IS" BASIS, AND THERE ARE NO WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTY OF MERCHANTABILITY OF THE COMPUTER PROGRAM, ACCURACY OF INFORMATIONAL CONTENT, FITNESS FOR CLIENT'S PURPOSE OR SYSTEM INTEGRATION. CLIENT SHALL BE SOLELY RESPONSIBLE FOR THE

SELECTION, USE, EFFICIENCY AND SUITABILITY OF THE SERVICES AND HIRE QUEST SHALL HAVE NO LIABILITY THERE FOR.

**13. *Negation of Proprietary Rights Indemnity.*** THERE IS NO WARRANTY AGAINST INTERFERENCE WITH YOUR QUIET ENJOYMENT OF THE SERVICES OR AGAINST INFRINGEMENT, AND HIRE QUEST SHALL HAVE NO LIABILITY TO CLIENT FOR THE INFRINGEMENT OF PROPRIETARY RIGHTS BY THE SERVICES OR ANY PORTION THEREOF.

**14. *Termination/Cancellation.***

(a) Hire Quest may terminate/cancel this Agreement and its obligation to provide Services to Client hereunder if:

(1) Client fails to pay Hire Quest any fee, maintenance fee or any other amounts due and owing to Hire Quest hereunder;

(2) Client is in default of any other provision hereof and such default is not cured within 30 (thirty) days after Hire Quest gives Client written notice thereof; or

(3) Client becomes insolvent or seeks protection, voluntarily or involuntarily, under any bankruptcy law.

(4) Client ceases to be a Franchisee of Client for any reason, whether due to terminating, canceling, expiration or other wise. Client's continued participation in Hire Quest's franchise program is material to this Agreement, and cessation to the franchise relationship shall result in termination of this Agreement.

(b) Either party may terminate this contract on thirty (30) days prior written notice.

(c) Hire Quest's foregoing rights and remedies shall be cumulative and in addition to all other rights and remedies available to Hire Quest in law and in equity.

**15. *Limitation of Liability.***

(a) IN NO EVENT SHALL HIRE QUEST BE LIABLE TO CLIENT FOR ANY DAMAGES RESULTING FROM OR RELATED TO THE PROVISION OF SERVICES PURSUANT TO THIS AGREEMENT, INCLUDING, BUT NOT LIMITED TO LOSS OF DATA, OR DELAY OF HIRE QUEST IN THE DELIVERY OF THE LICENSED PRODUCT, OR IN THE PERFORMANCE OF SERVICES HEREUNDER.

(b) IN NO EVENT SHALL HIRE QUEST BE LIABLE TO CLIENT FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES OR LOST PROFITS ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE PERFORMANCE OR BREACH THEREOF, EVEN IF HIRE QUEST HAS BEEN ADVISED OF THE POSSIBILITY THEREOF. HIRE QUEST'S LIABILITY TO CLIENT HEREUNDER, IF ANY, SHALL IN NO EVENT EXCEED THE TOTAL OF THE FEES PAID HEREUNDER TO HIRE QUEST.

(c) Hire Quest will not be liable for delays, damages, or failures in performance due to events of force majeure (causes beyond Hire Quest's reasonable control), including, but not limited to, acts of a governmental body, acts of God, acts of third parties, fires, floods, strikes, other labor-related disputes, an inability to obtain necessary equipment or services, the severing of off-site communication lines by a third party, or other events of force majeure.

**16. *Mediation.*** Except as precluded by applicable law, prior to instituting any suit or action in a court of law, any controversy or claim that arises out of or relates to this Agreement, or any breach of this Agreement, including, without limitation, any claim that any of this Agreement is invalid, illegal, voidable or void, shall be submitted to mediation in Goose Creek, South Carolina, as voluntary non-binding mediation, to be conducted in accordance with the process set forth in the South Carolina Circuit Court Alternative Dispute Resolution Rules or any similar successor rules.

**17. *General***

(a) Any claim arising out of or related to this Agreement must be brought no later than one year after it has accrued.

(b) This Agreement and the attached Exhibit A is the sole agreement between the parties relating to the subject matter hereof and supersedes all prior understandings, writings, proposals,

representations or communications, oral or written, of either party. This Agreement and Schedule A may be amended only by a writing executed by the authorized representatives of both parties.

(c) This Agreement hereunder may not be transferred or assigned by Client without the prior written consent of Hire Quest.

(d) This Agreement shall be interpreted in accordance with the substantive laws of the State of South Carolina.

**IN WITNESS WHEREOF**, the parties have set their hands and seals this \_\_\_\_\_ day of \_\_\_\_\_, 2022.

WITNESSES:

**HQ Franchising Corporation**

\_\_\_\_\_  
\_\_\_\_\_  
By: \_\_\_\_\_  
John McAnnar  
Its: Chief Legal Officer

**CLIENT :**

\_\_\_\_\_  
\_\_\_\_\_  
By: \_\_\_\_\_  
\_\_\_\_\_  
Its: \_\_\_\_\_

Address:

## **EXHIBIT A**

- Storage and data retrieval of branch information through the HQ WebConnect User Interface
- Access to Snelling.com email addresses/accounts



**EXHIBIT B**

None.

**EXHIBIT "G"**

**Payroll Funding Agreement**

[See attached]

## FRANCHISE PAYROLL FUNDING AGREEMENT

The following FRANCHISE PAYROLL FUNDING AGREEMENT (hereafter, "Agreement"), dated this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_. is executed between HQ Franchising Corporation (together with its affiliates "Hire Quest") and \_\_\_\_\_ (\_\_\_\_\_) ("Franchisee"); and hereby acknowledges the following terms and conditions:

### RECITALS

WHEREAS, pursuant to that certain Franchise Agreement executed by and between Franchisor and Franchisee dated [DATE] (the "Franchise Agreement"), Franchisee utilizes Hire Quest's proprietary software for processing payroll and invoices; and

WHEREAS, Hire Quest relies on the accuracy of the information received from Franchisee in order to process payroll and invoices; and

WHEREAS, pursuant to the Franchise Agreement, Franchisee is ultimately responsible for obligations related to payroll, taxes and invoicing or such other economic considerations which generate during day-to-day business practices; and

WHEREAS, Franchisee may utilize Hire Quest's proprietary Direct Deposit system/software and Hire Quest may facilitate use of Payroll Solutions Cards; and

WHEREAS, Hire Quest funds the Direct Deposit system and Payroll Solutions Cards;

THEREFORE, the following Agreement is entered into by Franchisee and Hire Quest in exchange for good and valuable consideration, including mutual reciprocal promises, receipt of which is expressly acknowledged by the parties, and for other mutual promises as set forth in the Franchise Agreement.

### AGREEMENT TERMS

#### 1. Payroll Funding Agreement:

- a. During the term of the Franchise Agreement, Hire Quest will provide Franchisee and certain members of Franchisee's internal staff access to proprietary software which Franchisee shall utilize to convey confidential information and figures to Hire Quest ("Proprietary Software"). Such information shall be utilized by Hire Quest for processing payroll, taxes, liens, garnishments, invoices and other economic obligations for the benefit of Franchisee. The information entered into the Proprietary Software by Franchisee shall be reviewed by Franchisee prior to submission. Franchisee warrants that such information will be accurate and complete. Hire Quest, shall not be held responsible for funding economic obligations (including taxes, payroll, liens, garnishments or other monies) which are entered into the Proprietary Software incorrectly by Franchisee or its agent(s). Hire Quest may, at its election, choose not to fund any tax, payroll, lien, garnishment or economic obligation which it perceives, in its sole discretion, to be

entered incorrectly by Franchisee; or which, in fact, is inaccurate, incomplete or wrong.

- b. Should Hire Quest overpay, overfund or disperse monies on Franchisee's behalf because of inaccurate information received from Franchisee or Franchisee's employees, Franchisee expressly agrees to refund, reimburse and make whole, Hire Quest for the monies which were dispersed.
  - c. Franchisee expressly acknowledges that Hire Quest is not responsible for payment of workers, government institutions or third parties beyond the actual hours worked by an employee or for taxes, garnishments, liens or other figures derived therefrom. Franchisee expressly agrees that accurate data entry is essential to the orderly operation of business and any failure on the part of Franchisee or Franchisee's employees, agents, representatives or workers is Franchisee's responsibility. If Hire Quest is required to reimburse a third-party due to inaccurate, incomplete or wrong information entered by Franchisee, Franchisee shall indemnify, defend, reimburse and hold harmless Hire Quest for the full amount of any such reimbursement.
2. Direct Deposit Obligations: During the term of the Franchise Agreement, Hire Quest may provide direct deposit services for payment of Franchisee's workers/employees ("Direct Deposit Services"). Franchisee may elect to utilize Hire Quest's Direct Deposit Services. Given the likely total volume of direct deposits required by Franchisee, and the banking expenses, labor and administrative costs associated therewith, Hire Quest shall charge a minimum monthly fee of \$25.00; assessable at the beginning of each month ("Direct Deposit Service Fee."). Franchisee agrees to pay and/or allow the Direct Deposit Service Fee to be deducted from any payments or disbursements by Hire Quest to Franchisee should Franchisee utilize Direct Deposit Services.

3. Pay Card Obligations:

- a. During the term of the Franchise Agreement, Hire Quest may facilitate electronic payroll card services ("Pay Card Services"). These Pay Card Services will be facilitated by Hire Quest in association with third party independent contractors. Franchisee may elect to utilize Pay Card Services. Franchisee is ultimately liable for any payment of workers/employees on Pay Cards and for obligations arising in relation thereto. However, to indemnify Hire Quest from potential or temporary losses, and in exchange for providing Pay Card Services, Franchisee shall issue a good faith, indemnity deposit to Hire Quest ("Indemnity Deposit"). The Indemnity Deposit shall amount to the average of one day's payroll for the branch, during the first quarter of the calendar year in which Pay Card Services

are being provided. If a branch has no payroll for the first quarter of the calendar year (e.g. a new Franchisee), then the Indemnity Deposit shall be based on the next full quarter of the calendar year in which payroll occurred but, in no event, shall the deposit amount be less than \$500. The Indemnity Deposit shall be issued to Hire Quest before Pay Card Services are provided. If Pay Card Services are provided prior to receipt of the deposit, Hire Quest may discontinue the services until the Indemnity Deposit is issued.

- b. Franchisee agrees that Hire Quest shall be entitled to utilize the Indemnity Deposit to cover funds which are improperly disbursed via Pay Card or for other indemnity purposes as may arise from abuse, misuse or negligent application of the Pay Card system; or for failures by Franchisee in upholding its obligations under the terms of this Agreement or obligations arising under the Franchise Agreement.
- c. The Indemnity Deposit shall be refundable to Franchisee upon completion or termination of the Pay Card Services program to the extent that such funds are not required to indemnify or reimburse Hire Quest.
- d. **In the event of a Franchisee's failure to pay any debt, fee, charge or obligation arising under this Agreement or any applicable Franchise Agreement, the Indemnity Deposit shall be assessable against Franchisee for Hire Quest's benefit. Hire Quest may elect to utilize the Indemnity Deposit to cover, reimburse or make whole, any obligation arising from the business relationship between the Parties, including those obligations unrelated to the use of the Pay Card Services program.**

#### **4. General Terms:**

- a. This Agreement shall be governed by the terms of the Franchise Agreement.
- b. The parties hereby acknowledge and represent, by affixing their hands and seals hereto, that said parties have not relied on any representation, assertion, guarantee, warranty, collateral contract or other assurance, made by, or on behalf of, any other party, person or entity, whatsoever, prior to the execution of this Agreement, except those set out expressly in this Agreement.
- c. If any provision of this Agreement is, or becomes, void or unenforceable, the remaining provisions shall be severable and will survive as valid and enforceable covenants.
- d. This Agreement shall be construed in accordance with the laws of the State of South Carolina.

- e. This Agreement may be signed in counterparts, which together, shall have the same force and effect as a single original Agreement signed by all parties. *Hire Quest retains the right to modify, continue, discontinue, alter or amend this Agreement at any time.*
- f. Any dispute relating to, or arising from, this Agreement, shall be subject to and resolved in accordance with the terms of the Franchise Agreement as set forth in Section 25; including, but not limited to, waiver of trial by jury.

Executed this \_\_\_\_ day of \_\_\_\_\_, 202\_\_\_\_\_.

**HQ FRANCHISING CORPORATION: FRANCHISE OWNER / FRANCHISEE:**

**By:** \_\_\_\_\_

**By:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**EXHIBIT "H"**

**GUARANTY AGREEMENT**

[See attached]

HQ Franchising Corporation

**GUARANTY AGREEMENT**

IN CONSIDERATION of the acceptance by HQ Franchising Corporation, a Delaware corporation having its principal place of business in Goose Creek, South Carolina (hereinafter called "Franchisor"), of an SNELLING® Franchise Agreement executed by John McAnnar as an officer of a Florida limited liability company (hereinafter called "Franchisee"), and for other good and valuable consideration, I, we and each of us jointly, severally, absolutely and unconditionally guarantee to Franchisor, (i) the payment and satisfaction of each and every claim, demand, default, liability, indebtedness, right or cause of action of every nature whatsoever, against said Franchisee, including expenses, damages and fees, now or hereafter existing, due or to become due, or held by Franchisor, its subsidiaries, affiliates or divisions, together with any interest as it may accrue and if this continuing guaranty is placed with an attorney or if collected by suit or through any probate, bankruptcy or other court, to pay all court costs and reasonable attorney's fees, together with any and all expenses incurred by Franchisor or its affiliate, subsidiary or division; and (ii) the timely performance of each term, covenant and obligation of the Franchisee set forth in the Franchise Agreement. This is a continuing guaranty that shall apply to the Franchise Agreement and any subsequent amendments or modifications thereof, and such modifications or amendments shall be conclusively presumed to be covered by this guaranty without further notice to or acceptance by the undersigned.

The undersigned acknowledge and agree that possession of this guaranty by Franchisor constitutes true and correct execution and actual and proper delivery of same to Franchisor and the undersigned waive notice of acceptance of this guaranty and of any liability to which it applies or may apply, and waive presentment thereof, collection thereof including any notice of default in payment thereof, collection thereof including any notice of default in payment thereof or other notice to, or demand of payment therefore on, any party. Payment by the undersigned shall be made at the office of Franchisor in Goose Creek, SC, or such other location as Franchisor may designate in writing.

Franchisor may, at its option, at any time without the consent of or notice to the undersigned, without incurring responsibility to the undersigned, and without impairing or releasing the obligations of the undersigned, upon or without any terms or conditions and in whole or in part, (1) change the manner, place or terms of payment or change or extend the time of payment of, renew, or alter any liability of the Franchisee under the franchise agreement hereby guaranteed, or any liabilities incurred directly or indirectly hereunder, and the guaranty herein made shall apply to the liabilities of the Franchisee, so changed, extended, renewed or altered; (2) exercise or refrain from exercising any rights against Franchisee or others, or otherwise act or refrain from acting, (3) settle or compromise any liabilities hereby guaranteed or hereby incurred, and may subordinate the payment of all or any part of such liabilities to the payment of such liabilities to the payment of any liabilities which any liability or liabilities of Franchisee to Franchisor regardless of what liability or liabilities of Franchisee to Franchisor remain unpaid. Franchisor may, at its option, without the consent of or notice to the undersigned, apply



to the payment of the liability created by this guaranty, at any time after such liability becomes payable, any monies, property, or other assets belonging to the undersigned in the possession, care, custody and control of Franchisor.

This Agreement shall not affect in any manner the right of Franchisor to terminate the Franchise Agreement pursuant to the terms thereof and this guaranty shall survive the termination, expiration, or cancellation of the Franchise Agreement. Franchisor may, at its option, elect to take no action pursuant to this guaranty or the franchise agreement without waiving any rights under either. The undersigned do further agree that it will not be necessary for Franchisor, in order to enforce the terms of this Agreement against them, to first institute suit or exhaust its remedies against the Franchisee or any others. The foregoing guaranty shall be non-revocable, except with the express written consent of the Franchisor.

The undersigned, if more than one, shall be jointly and severally liable hereunder and the term "undersigned" shall mean the undersigned or any one or more of them. Anyone signing this guaranty shall be bound thereto at any time. Any married person who signs this guaranty hereby expressly agrees that recourse may be had against him or her separate property for all obligations under this guaranty.

This guaranty shall bind and inure to the benefit of the heirs, executors, administrators, successors and assigns of Franchisor and the undersigned. This agreement in the possession of the Franchisor will be presumed that same has been executed and delivered by each of the undersigned for a valuable consideration.

Additionally, the undersigned agree they shall be individually bound by the provisions of the Franchise Agreement relating to non-competition and confidentially.

WITNESS our hands at \_\_\_\_\_, on this the \_\_\_ day of \_\_\_\_\_, 20\_\_.

Guarantor of Franchisee

By: \_\_\_\_\_

Name: \_\_\_\_\_

PROMISSORY NOTE

\$XXXXX.XX	LOCATION DATE
------------	------------------

FOR VALUE RECEIVED, [BORROWER], an XXXXX limited liability company/corporation (the "**Borrower**") hereby unconditionally promises to pay to the order of HQ FINANCIAL CORPORATION, a Delaware corporation (the "**Noteholder**") the principal amount of \$[LOAN AMOUNT] (\$\$\$) (the "**Loan**"), together with all accrued interest thereon, as provided in this Promissory Note (this "**Note**").

1. Payment Dates.

(a) Payment Dates. The Loan shall be payable in [NUMBER] equal consecutive weekly installments of \$[PAYMENT AMOUNT] (\$\$\$) beginning on the day that is five weeks immediately following the date this Note is executed and every week thereafter until [MATURITY DATE]. On [MATURITY DATE], all amounts outstanding under this Note, including principal, accrued and unpaid interest, and any unpaid fees, shall be due and payable.

(b) Prepayment. The Borrower may prepay the Loan in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment.

2. Interest.

(a) Interest Rate. Except as provided in Section 2(b), principal amounts outstanding under this Note shall bear interest at a rate of twelver percent (12%) per annum (the "**Interest Rate**").

(b) Default Interest. If any amount payable hereunder is not paid when due (without regard to any applicable grace period), whether at stated maturity, by acceleration, or otherwise, such overdue amount shall bear interest at the Interest Rate plus six percent (6%) (the "**Default Rate**").

(c) Computation of Interest. All computations of interest hereunder shall be made on the basis of a year of 365 days, and the actual number of days elapsed. Interest shall begin to accrue on the Loan on the date of this Note. On any portion of the Loan that is repaid, interest shall not accrue on the date on which such payment is made.

(a) Interest Rate Limitation. If at any time the interest rate payable on the Loan shall exceed the maximum rate of interest permitted under applicable law, such interest rate shall be reduced automatically to the maximum rate permitted.

3. Payment Mechanics.

(a) Manner of Payment. Weekly payments will be made out of the Franchisee Share, for any Franchise operated by Borrower. Borrower hereby authorizes Noteholder or its affiliate, including Hire Quest, L.L.C., to deduct the amount of said weekly payments directly from the Franchisee Share, to be reflected on Franchisee's Settlement Statements. In addition, Noteholder shall be entitled to apply toward satisfaction of the indebtedness, the entirety of any amount earned by the Franchisee pursuant to the Risk Management Incentive Program ("**RMIP**"). All payments made hereunder shall be applied foirst to the payment of any fees or charges outstanding hereunder, second, to accrued interest, and third to the payment of the principal amount outstanding under the Note.

4. Events of Default. The occurrence and continuance of any of the following shall constitute an "**Event of Default**" hereunder:

(a) Failure to Pay. The Borrower fails to pay (i) any principal amount of the Loan when due; (ii) any interest on the Loan within five (5) days after the date such amount is due; or (iii) any other amount due hereunder within five (5) days after such amount is due.

(b) Bankruptcy; Insolvency.

(i) The Borrower institutes a voluntary case seeking relief under any law relating to bankruptcy, insolvency, reorganization, or other relief for debtors.

(ii) An involuntary case is commenced seeking the liquidation or reorganization of the Borrower under any law relating to bankruptcy or insolvency, and such case is not dismissed or vacated within thirty (30) days of its filing.

(iii) The Borrower makes a general assignment for the benefit of its creditors.

(iv) The Borrower is unable, or admits in writing its inability, to pay its debts as they become due.

(v) A case is commenced against the Borrower or its assets seeking attachment, execution, or similar process against all or a substantial part of its assets, and such case is not dismissed or vacated within thirty (30) days of its filing.

(c) Failure to Give Notice. The Borrower fails to give the notice of Event of Default specified in Section 5.

(d) Borrower Misconduct/Violation of Franchise Agreement. Borrower, or any individual in their employ or individual acting at their direction or inducement, engages in misconduct (including but not limited to acts of fraud/deceit, material misrepresentations to Noteholder, criminal acts, or other acts of dishonesty or moral turpitude) related to the operation of the Franchised Business or materially violates a term of the Franchise Agreement.

5. Notice of Event of Default. As soon as possible after it becomes aware that an Event of Default has occurred, and in any event within two

(2) Business Days, the Borrower shall notify the Noteholder in writing of the nature and extent of such Event of Default and the action, if any, it has taken or proposes to take with respect to such Event of Default.

6. Remedies. Upon the occurrence and during the continuance of an Event of Default, the Noteholder may, at its option, by written notice to the Borrower declare the outstanding principal amount of the Loan, accrued and unpaid interest thereon, and all other amounts payable hereunder immediately due and payable; *provided, however*, if an Event of Default described in Sections 4(b) shall occur, the outstanding principal amount, accrued and unpaid interest, and all other amounts payable hereunder shall become immediately due and payable without notice, declaration, or other act on the part of the Noteholder.

7. Notices. All notices and other communications relating to this Note shall be in writing and shall be deemed given upon the first to occur of (x) deposit with the United States Postal Service or overnight courier service, properly addressed and postage prepaid; (y) transmittal by facsimile or e-mail properly addressed (with written acknowledgment from the intended recipient such as "return receipt requested" function, return e-mail, or other written acknowledgment); or (z) actual receipt by an employee or agent of the other party. Notices hereunder shall be sent to the following addresses, or to such other address as such party shall specify in writing:

(a) If to the Borrower:

[BORROWER ADDRESS]

Attention: BORROWER

(b) If to the Noteholder:

HQ Financial Corporation  
111 Springhall Drive  
Goose Creek, SC 29445

Attention: John D. McAnnar

8. Governing Law. This Note and any claim, controversy, dispute, or cause of action (whether in contract, tort, or otherwise) based on, arising out of, or relating to this Note and the transactions contemplated hereby shall be governed by and construed in accordance with the laws of the State of South Carolina.

9. Disputes.

(a) Submission to Jurisdiction.

(i) The Borrower irrevocably and unconditionally (A) agrees that any action, suit, or proceeding arising from or relating to this Note may be brought in the courts of the State of South Carolina sitting in Berkeley County, and in the United States District Court for the District of South Carolina, and (B) submits to the exclusive jurisdiction of such courts in any such action, suit, or proceeding. Final judgment against the Borrower in any such action, suit, or proceeding shall be

conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(ii) Nothing in this Section 9(a) shall affect the right of the Noteholder to bring any action, suit, or proceeding relating to this Note against the Borrower or its properties in the courts of any other jurisdiction.

(iii) Nothing in this Section 9(a) shall affect the right of the Noteholder to serve process upon the Borrower in any manner authorized by the laws of any such jurisdiction.

(b) Venue. The Borrower irrevocably and unconditionally waives, to the fullest extent permitted by law, (i) any objection that it may now or hereafter have to the laying of venue in any action, suit, or proceeding relating to this Note in any court referred to in Section 9(a), and (ii) the defense of inconvenient forum to the maintenance of such action, suit, or proceeding in any such court.

(c) Waiver of Jury Trial. THE BORROWER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY RELATING TO THIS NOTE OR THE TRANSACTIONS CONTEMPLATED HEREBY, WHETHER BASED ON CONTRACT, TORT, OR ANY OTHER THEORY.

10. Successors and Assigns. This Note may be assigned or transferred by the Noteholder to any individual, corporation, company, limited liability company, trust, joint venture, association, partnership, unincorporated organization, governmental authority, or other entity.

11. Integration. This Note constitutes the entire contract between the Borrower and the Noteholder with respect to the subject matter hereof and supersedes all previous agreements and understandings, oral or written, with respect thereto.

12. Amendments and Waivers. No term of this Note may be waived, modified, or amended, except by an instrument in writing signed by the Borrower and the Noteholder. Any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given.

13. No Waiver; Cumulative Remedies. No failure by the Noteholder to exercise and no delay in exercising any right, remedy, or power hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, or power hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, or power. The rights, remedies, and powers herein provided are cumulative and not exclusive of any other rights, remedies, or powers provided by law.

14. Severability. If any term or provision of this Note is invalid, illegal, or unenforceable in any jurisdiction, such invalidity, illegality, or unenforceability shall not affect any other term or provision of this Note or render such term or provision invalid or unenforceable in any other jurisdiction.

15. Counterparts. This Note and any amendments, waivers, consents, or supplements hereto may be executed in counterparts, each of which shall

constitute an original, but all of which taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page to this Note by facsimile or in electronic ("pdf" or "tif") format shall be as effective as delivery of a manually executed counterpart of this Note.

16. Electronic Execution. The words "execution," "signed," "signature," and words of similar import in this Note shall be deemed to include electronic and digital signatures and the keeping of records in electronic form, each of which shall be of the same effect, validity, and enforceability as manually executed signatures and paper-based recordkeeping systems, to the extent and as provided for under applicable law, including the Electronic Signatures in Global and National Commerce Act of 2000 (15 U.S.C. § 7001 *et seq.*), the Electronic Signatures and Records Act of 1999 (N.Y. State Tech. Law §§ 301-309), and any other similar state laws based on the Uniform Electronic Transactions Act.

IN WITNESS WHEREOF, the Borrower has executed this Note as of February 3, 2020.

[BORROWER]

By \_\_\_\_\_

Name:

Title:

ACKNOWLEDGED AND ACCEPTED BY

HQ FINANCIAL CORPORATION

By \_\_\_\_\_

Name: John D. McAnnar

Title: General Counsel

**EXHIBIT "A"**  
**TO FRANCHISE DISCLOSURE DOCUMENT**  
**FOR HQ FINANCIAL CORPORATION**

**SECURITY AGREEMENT**

THIS SECURITY AGREEMENT ("Agreement") is made and entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between HQ FINANCIAL CORPORATION, a Delaware corporation ("Lender"), and \_\_\_\_\_, a \_\_\_\_\_ ("Borrower").

Recitals

The following provisions form the basis for, and are made a part of, this Agreement.

A. Borrower wishes to acquire from Lender's Affiliate HQ Franchising Corporation a non-exclusive franchise (the "Business") pursuant to a certain Franchise Disclosure Document dated \_\_\_\_\_ (the "Disclosure Document"), which is or is to be evidenced and governed by one or more Franchise Agreement(s) as more particularly described in Exhibit "A" hereto (whether one or more, collectively, the "Franchise Agreement").

B. In connection with its acquisition of the Business, and in support of its working capital requirements, Borrower has requested certain financing, and Lender has agreed to extend such financing to Borrower, in a principal amount of up to \$\_\_\_\_\_ (the "Loan"), to be evidenced by a Demand Promissory Note of even date herewith (the "Note").

C. As a condition precedent to the Loan, among other things Lender has required that Borrower grant to Lender a security interest in certain assets of Borrower as hereafter provided.

NOW, THEREFORE, in consideration of the premises, and in order to induce the Lender to make the Loan, Borrower, intending to be legally bound, hereby agrees as follows:

**Creation and Grant of Security Interest.** For value received, Borrower hereby grants, assigns and pledges in favor of Lender, a continuing security interest in, to and under all of Borrower's rights, title and interest, now existing or hereafter arising or acquired, in and with respect to following (collectively, the "Collateral"):

All of Borrower's right, title and interest under the Franchise Agreement, including as franchisee with respect to the Business, and all related goodwill, and all moneys or rights payable there under or deriving from the Business or under the Franchise Agreement;

All accounts, accounts receivable, promissory notes, instruments, rights to payment of money, patents, trademarks, trade names, licenses, franchises, general intangibles, contract rights, chattel paper, and other obligations of any kind, whether now owned or hereafter acquired by Borrower and all proceeds of the foregoing (collectively, "Receivables"), including without limitation, all rights now or hereafter existing in and to all security agreements, leases and other contracts securing or otherwise relating to any Receivables (all such leases, security agreements and other contracts being called the "Assigned Contracts"), and all proceeds, profits, deposits, products and accessions of and to, and substitutions or renewals for, all of the foregoing;

All insurance and policies of insurance relating to any of the foregoing, and all issues, deposits, products, rents, profits and proceeds derived of and from any and all of the foregoing Collateral and to the extent not otherwise included, all payments under insurance (whether or not the Lender is the loss payee thereof) or any indemnity, warranty or guaranty, chose in action or judgment payable by reason of loss or damage to or otherwise with respect to any of the Collateral.

**Security for Obligations.** This Agreement secures the payment of the Loan and any and all indebtedness, obligations and liabilities of any kind whatsoever of Borrower to the Lender, now or hereafter existing, of every kind and description, whether matured or unmatured, direct or contingent, including obligations in respect to future advances (all such obligations of Borrower being referred to as the "Obligations").

**Borrower to Remain Liable.** Anything herein to the contrary notwithstanding, (a) Borrower shall remain liable under the Franchise Agreements, and the Assigned Contracts, Leases and other documents, instruments and agreements included in the Collateral to the extent set forth therein, to perform all of its duties and obligations there under to the same extent as if this Agreement had not been executed; (b) the exercise by Lender of any of the rights hereunder shall not release Borrower from any of its duties or obligations under or with respect to any Collateral; and (c) Lender shall not have any obligation or liability under or with respect to any Collateral, including any contracts, leases, policies and agreements included in the Collateral, by reason of this Agreement, nor shall Lender be obligated to perform any of the obligations or duties of Borrower there under, or to take any action to collect or enforce any claim for payment assigned hereunder.



## **Borrower's Covenants, Warranties and Representations.**

Borrower covenants, warrants and represents the following:

Borrower is a \_\_\_\_\_, duly organized and in current good standing under the laws of \_\_\_\_\_. The sole \_\_\_\_\_ of Borrower are \_\_\_\_\_ (the "Owners"). The respective ownership interests of the Owners are reflected on Schedule 4.1.

Borrower has full rights, power and authority to enter into the Franchise Agreement, the Note and this Agreement, and to perform its obligations there under and hereunder, and to own and operate the Business.

Borrower will pay the Loan, and perform its Obligations hereunder, and under the Franchise Agreement, and operate the Business in accordance with the Franchise Agreement and applicable laws. Borrower will take all actions necessary to prevent a default hereunder or under the Franchise Agreement. Borrower will comply with all laws, ordinances or regulations of any governmental authority applicable to Borrower or the Business.

Borrower is the sole owner of the Collateral, which is free of any other liens, security interest or encumbrance, except for the security interest granted hereby, and Borrower will defend the Collateral against all claims or demands of any person at any time claiming the same or any other interest therein. None of the Collateral shall be subject to a security interest other than that of Lender.

This Agreement creates a valid and perfected first priority security interest in the Collateral, securing the payment of the Loan and Obligations and, simultaneously herewith, Borrower is executing such UCC-1 financing statements as have been required by Lender such that all filings and other actions necessary or desirable to perfect or protect such security interest may be duly taken.

All Receivables are genuine and enforceable in accordance with its terms against the party obligated to pay the same ("Account Debtor").

The amount represented from time to time by Borrower to Lender as owing by each Account Debtor is the correct amount actually and unconditionally owing by such Account Debtor, except for normal cash discounts where applicable.

No Account Debtor has any defense, set-off, claim or counterclaim against Borrower which can be asserted against Lender in any proceeding to enforce the Receivables or otherwise.

Borrower will notify Lender promptly of any material default by any Account Debtor in payment or other performance of its obligations with respect to any Receivables.

Borrower, without Lender's prior written consent, will not make or agree to make any alteration, modification or cancellation of or substitution for or credits, adjustments or allowances on any of the Receivables except in the ordinary course of business where required by the exercise of sound business judgment.

Borrower will immediately notify Lender if any of Borrower's Receivables or Assigned Contracts arise out of contracts with the United States or any department, agency or instrumentality thereof, and will execute any instruments and take any steps required by Lender in order that all moneys due and to become due under any such Receivables and Assigned Contracts shall be assigned to Lender and notice thereof given to the Government under the federal Assignment of Claims Act.

All tangible Collateral, and all books and records pertaining to the Collateral, shall be kept at the principal executive office of Borrower, which is located at \_\_\_\_\_. Borrower shall not change its principal executive office, nor shall it remove the Collateral or books and records and other information related to the Collateral located at said location without the prior written consent of Lender. The Collateral will not be wasted, misused or abused or deteriorated, except to the extent of ordinary wear and tear, and will not be used in violation of any law, ordinance or regulation of any governmental authority.

Borrower shall pay promptly, when due, all debts, claims, taxes and any other assessment and governmental charges or levies imposed upon it, or with respect to the Business or any Collateral (including claims for labor, materials and supplies) except to the extent the validity thereof is being contested in good faith; provided that Borrower will upon Lender's request, post such surety or additional collateral security for such contested debts, claims, taxes, assessments, charges or levies as Lender may reasonably require.

At its option, and without any obligation to do so, Lender may discharge or pay any taxes, liens, security interests or other encumbrances at any time levied or placed on or against the Collateral or Borrower, and may pay for insurance on the Collateral and may pay for the Collateral's maintenance and preservation. Lender may exercise this right where reasonably necessary to protect its security interest. Borrower agrees to reimburse the Lender on demand for any such payment made or expense incurred pursuant to the foregoing authorizations, or, at the Lender's option, any payment made by the Lender may be added to the balance of the liability then owing.

No authorization, approval or other action by, and no notice to or filing with any governmental authority or regulatory body, or any other party is required either (i) for Borrower's entry into or performance under the Franchise Agreement or this Agreement, or (ii) for the grant by Borrower of the security interest granted hereby, or for the execution, delivery or performance of this

Agreement by Borrower; or (iii) for the perfection of or the exercise by Lender of its rights and remedies hereunder, excepting for the filing of UCC-1 financing statements with the appropriate public authorities.

The Collateral which is required to be insured shall be insured with such carriers and in such amounts and against such risks as shall be reasonably satisfactory to the Lender, with policies payable to the Lender as loss payee. All policies of insurance shall provide for ten days written notice of cancellation to the Lender, and the Lender shall be furnished with the original policies or duplicates thereof. The insurance provisions are further set forth in Section 6 herein.

The Collateral will not, without the prior written consent of the Lender, be sold, transferred, disposed of, or substantially modified, except in the usual and ordinary course of business.

Borrower will not change the location of its principal executive office without the prior written consent of Lender.

Borrower hereby authorizes the Lender to file such financing statement(s) or continuation statement(s) relating to the Collateral without Borrower's signature thereon, as Lender may deem appropriate. Borrower shall also execute from time to time along or with the Lender, any financing statement or statements or other documents, and do such other act or acts considered by the Lender to be necessary or desirable to perfect or protect the security interest hereby created, and shall pay all costs and expenses (including, without limitation, reasonable fees and expenses of counsel and filing fees) related to the preparation and filing of any financing statements, continuation statements, or other documents related to the perfection or protection of the security interest hereby created.

Borrower will not sell or convey any of its assets, except in the normal and ordinary course of business for good and valuable consideration, nor will Borrower enter into or consummate any merger, consolidation or reorganization unless consented to in writing in advance by Lender.

Borrower shall provide or cause to be provided to Lender such pro forma financial statements and other financial information and tax returns requested by Lender from time to time during the term of the Loan.

Borrower shall allow Lender, or Lender's designated agent, to enter upon Borrower's premises and inspect Borrower's property at reasonable intervals and times. Lender shall provide Borrower with twenty-four hours written notice, except where Borrower is in default under the Loan. All such inspections shall be at Borrower's cost and expense.

Borrower will maintain a solvent financial condition, and not permit a material deterioration in financial condition from that reflect in the financial statements approved by Lender from time to time.

There shall be no loans from Borrower to any shareholders, officers or directors, affiliates, subsidiaries or holding companies of Borrower during the term of the Obligations unless agreed to in writing by the Lender. Any such loans to which Lender may agree shall be subordinate in full to the Obligations secured hereby.

**Further Assurances.** Borrower agrees that from time to time, at its own expense, Borrower will promptly execute and deliver all further instruments and documents, and take all further actions that may be reasonably necessary or that the Lender may request in order to perfect and protect any security interest granted or purported to be granted hereby, or to enable the Lender to exercise and enforce its rights and remedies hereunder with respect to any of the Collateral. Without limiting the generality of the foregoing, Borrower shall: (a) mark conspicuously each chattel paper included in the Receivables and each Assigned Contract and, at the request of the Lender, each of its records pertaining to the Collateral with a legend, in form and substance satisfactory to the Lender, indicating that such chattel paper, Assigned Contract or Collateral is subject to the security interest granted hereby; (b) if any Receivable shall be evidenced by a promissory note or other instrument or chattel paper, deliver and pledge to the Lender hereunder such note, instrument or chattel paper duly indorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Lender; (c) will hold and preserve the books and records pertaining to the Collateral as set forth in Section 4(h) above, and, preserve any chattel papers related to the Receivables, and, will permit representatives of the Lender at any time during normal business hours to inspect and make abstracts from such books, records and chattel papers; and (d) furnish to the Lender from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Lender may reasonably request, all in reasonable detail.

All costs and expenses associated with any of the above set forth actions (including, without limitation, reasonable fees and expenses of counsel and filing fees) shall be the sole responsibility of the Borrower.

**Insurance.** Borrower shall maintain liability insurance, worker's compensation insurance and hazard insurance (with fire extended coverage, vandalism and mischief protection) in accordance with the following provisions:

Borrower shall, at its own expense, maintain insurance with respect to the Equipment and Inventory and all other personal property in such amounts against such risks, in such form and with such insurers, as shall be satisfactory to the Lender. Each policy for liability insurance shall name Lender as an additional insured. Each policy for property damage insurance shall name Lender as a loss payee and shall provide for all losses to be paid directly to the Lender upon the

request of the Lender. Each such policy shall also (i) contain an agreement by the insurer that any loss there under shall be payable to the Lender notwithstanding any action, inaction or breach of representation or warranty by Borrower, (ii) provide that there shall be no recourse against the Lender for payment of premiums or other amounts with respect thereto, (iii) provide that at least ten (10) days prior written notice of cancellation or of lapse shall be given to the Lender by the insurer, and (iv) provide that upon notification from the Lender, all payments pursuant to such policies shall be paid directly to the Lender.

Borrower shall deliver to the Lender original or duplicate policies of such insurance as often as the Lender may reasonably request.

Reimbursement under any liability insurance maintained by Borrower pursuant to this Section 6 may be paid directly to the person who shall have incurred liability covered by such insurance. In case of any loss involving damage to Equipment, Inventory or any other personal property when subsection (c) of this Section 6 is not applicable, Borrower shall make or cause to be made the necessary repairs to or replacements of such Equipment, Inventory or other personal property, and any proceeds of insurance maintained by Borrower pursuant to this Section 6 shall be paid to Borrower as reimbursement for the costs of such repairs or replacements.

Upon the occurrence and during the continuance of any Event of Default, all insurance payments in respect of such Equipment, Inventory or personal property shall be paid to and applied by the Lender in accordance with the terms and provisions of Section 13 hereof.

**Lender Appointed Attorney-In-Fact.** Borrower hereby irrevocably appoints Lender Borrower's attorney-in-fact, effective upon the occurrence and continuance of an Event of Default with full authority in the place and stead of Borrower and in the name of Borrower, the Lender or otherwise, from time to time after default by Borrower hereunder, in the Lender's discretion, to take any action and to execute any instrument which the Lender may deem necessary or advisable to accomplish the purposes of this Agreement, including without limitation:

to obtain and adjust insurance required to be paid to the Lender pursuant to Section 6;

to ask, demand, collect, sue for, recover, compound, receive and give a quittance and receipt for moneys due and to become due under or in respect of any of the Collateral;

to receive, indorse, and collect any drafts or other instruments, documents and chattel paper, in connection with Section 7(a) or 7(b) above; and

to file any claims to take any action or institute any proceedings which the Lender may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Lender with respect to any of the Collateral.

**Lender May Perform.** If Borrower fails to perform any agreement contained herein, the Lender may itself perform, or cause performance of, such agreement, to the extent reasonably required to protect its interest in the Collateral, and the expenses of the Lender incurred in connection therewith shall be payable by Borrower under Section 12 (h) and 13 hereof.

**Lender's Duties.** Whenever a contrary standard is not expressly imposed with respect to the actions of Lender hereunder, a reasonable standard will be imposed. Nevertheless, it is acknowledged that the powers conferred on the Lender hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Lender shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral.

**Events of Default.** Borrower shall be in default under this Security Agreement upon the happening of any of the following events:

Failure by Borrower to pay all or any installment of interest or principal under the Note or any other obligation, liability or claim secured by the Security Agreement, on demand or otherwise as and when the same shall become due;

The occurrence of any default under any other term of this Agreement, the Note, the Franchise Agreement or any of the other agreements relating hereto or thereto;

If any representation or warranty of Borrower hereunder shall prove to be incorrect in any material respect and Borrower knew or should have known such representations or warranty was incorrect at the time it was made;

The commencement of levy, execution or attachment proceedings against Borrower or any Guarantor, or the application for or appointment of a liquidator, receiver, custodian, sequester, conservator, trustee, or other similar judicial officer (and such appointment continues for a period of thirty days);

The assignment for the benefit of creditors, or the admission in writing of any inability to pay any debts generally as they become due, or ordering the winding up or liquidation of its affairs, by Borrower or any Guarantor, or the commencement of a case by Borrower or any Guarantor, under any insolvency, bankruptcy, creditor adjustment, debtor rehabilitation or similar law, state or federal;

The commencement of a case against Borrower or any Guarantor under any insolvency, bankruptcy, creditor adjustment, debtor rehabilitation or similar law, state or federal, and the failure to have such proceedings discussed within a period of forty-five days;

The entry against Borrower or any Guarantor of one or more final non appealable judgments or decrees;

The occurrence of a default by Borrower or any Guarantor in the performance of its covenants or obligations under any other loan with Lender and/or any other lender;

The occurrence of any change or event which, in Lender's reasonable judgment, impairs any security for the Loan, increases Lender's risk in connection with the Loan or indicates that Borrower or any Guarantor of the Loan may be unable to perform his, her or its material obligations under any Loan Document;

The dissolution (either voluntary or involuntary), termination, liquidation or merger of Borrower or any Guarantor or the merger or consolidation of Borrower or any Guarantor into any other entity without the prior written consent of Lender;

If a change in the management or ownership should occur without the prior written consent of Lender, or which, in Lender's reasonable discretion, is deemed to materially adversely affect the Borrower, the Business, the Collateral or the Loan.

Upon the happening of any of the foregoing Events of Default, the Obligations secured hereby shall, at Lender's option, become immediately due and payable. Borrower expressly waives any presentment, demand, protest or other notice of any kind.

**Lender's Remedies and Additional Rights After Default.** Upon the occurrence of an Event of Default, the Lender shall have the rights and remedies of a secured party under the South Carolina Uniform Commercial Code, or any other applicable law. Without limiting the generality of the foregoing, Lender may exercise the following rights and remedies:

Lender may peaceably, or by its own means, to the extent permitted by Law, or with judicial assistance by injunction or otherwise, enter Borrower's premises and take possession of the Collateral, or render it unusable, or dispose of the Collateral on Borrower's premises, and Borrower will not resist or interfere with such action;

Lender may, with judicial assistance by injunction, or otherwise, require Borrower, at Borrower's expense, to assemble all or any part of the Collateral

and make it available to Lender at any place designated by Lender. Borrower hereby agrees that Borrower's principal place of business or any place designated by Lender within Charleston County, South Carolina is a place reasonably convenient to Borrower to assemble such Collateral;

Borrower hereby agrees that a notice to Borrower, at least five days before the time of any intended sale or of the time after which any public or private sale or other disposition of the Collateral is to be made, shall be deemed to be reasonable notice of such sale or other disposition;

In the event of sale or other disposition of any such Collateral, the Lender may apply the proceeds of any such sale or disposition to the satisfaction of its reasonable attorneys' fees, legal expenses, and other costs and expenses incurred in connection with its taking, re-taking, holding, preparing for sale and selling of the Collateral;

Without precluding any other methods of sale, the sale of Collateral shall have been made in commercially reasonable manner if conducted in conformity with reasonable commercial practices but, in any event, the Lender may sell on such terms as it may choose, without assuming any credit risk and without any obligation to advertise;

The Collateral need not be present at any public or private sale or in view of the purchaser or purchasers, and title shall pass upon such sale wherever the property or any part thereof is located with like effect as though all the property were present and in the possession of the person conducting the sale and were physically delivered to the purchaser or purchasers; the Lender may bid for and purchase at any public or private sale the Collateral offered for sale or any part thereof, and by such purchase shall become the owner thereof;

Any sale or other disposition of the Collateral, or any portion thereof, or of any other property of Borrower held by Lender or any portion thereof, made under or by virtue of this Agreement shall operate to divest all of the estate, right, title, interest, claim and demand whatsoever at law or in equity of Borrower and all persons claiming by, through or under Borrower in and to the properties and rights so sold, whether sold to Lender or to others. The receipt of Lender or its designated agent shall be a sufficient discharge to the purchaser or purchasers at any such sale or other disposition for his or their purchase money, and such purchaser or purchasers and their respective successors, assigns or personal representatives, shall not, after paying such purchase money and receiving such receipt of Lender or of such agent of Lender, be obligated to see to the application of such purchase money or be in any way answerable for any loss, misapplication or non-application thereof;

Lender may deduct from the gross proceeds of any public or private sale the expenses incurred by Lender in connection therewith, and any other expenses payable to or recoverable by Lender as set forth in this Agreement or the



Note, or the Franchise Agreement, including reasonable attorneys' fees and brokers' commissions, if any, and the net proceeds then remaining shall be applied first to the satisfaction of the amount owed to the Lender by Borrower, including payment of all of the Obligations, and, any amount then remaining shall be returned to Borrower;

Lender may (i) notify the Account Debtors under any and all of Borrower's accounts, including, without limitation, the Receivables and Assigned Contracts, of Lender's interest therein, and direct such Account Debtors to make payments due and to become due there under directly and solely to Lender, (ii) accept and take control of all payments and proceeds received from the Account Debtors, and, at the expense of Borrower, enforce collection of any such Receivables and Assigned Contracts and adjust, settle or compromise the amount for payment thereof in the same manner and to the same extent as Borrower might have done. Additionally, all amounts and proceeds (including instruments) received by Borrower in respect of the Receivables and Assigned Contracts shall be received in trust for the benefit of the Lender, shall be segregated from other funds of Borrower and shall be forthwith paid over to the Lender in the same form as so received (with any necessary endorsement) to be held as cash collateral and either (i) released to Borrower so long as no Event of Default shall be continuing or if Lender no longer deems itself insecure, or (ii) if any Event of Default shall have occurred and be continuing, or if Lender deems itself insecure, applied against Lender's reasonable attorneys' fees and expenses, and, all other expenses of Lender incurred in connection with this Agreement, and, then applied as provided in this Agreement, and, Borrower shall not adjust, settle or compromise the amount or payment of any Receivable or Assigned Contract, or release wholly or partly any Account Debtor or obligor thereof, or allow any credit or discount thereon. The above shall not be deemed to constitute a foreclosure by Lender or an election by Lender of any remedy limiting the right of Lender to recover the unpaid balance of the Obligations, such that Lender shall be entitled to all other remedies set forth herein;

Lender may proceed directly against Borrower and any Guarantor under the Note and/or the Obligations and obtain judgments against the same;

Lender may terminate the Franchise Agreement, and exercise any rights and remedies provided for therein;

No right, power, or remedy of Lender as provided in this Agreement, the Franchise Agreement, the Note and in any other agreement associated herewith, is intended to be exclusive of any other right, power, or remedy of Lender, but each and every such right, power and remedy shall be cumulative and concurrent and in addition to any other right, power or remedy available to Lender now or hereafter existing at law or in equity. The failure of Lender to exercise any such right, power or remedy shall in no event be construed as a waiver or release thereof.

**Indemnity and Expenses.** Borrower shall indemnify and hold harmless Lender as follows:

Borrower agrees to indemnify the Lender from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from the Lender's gross negligence or willful misconduct.

Borrower will, upon demand, pay to the Lender the amount of any and all reasonable expenses, including the reasonable fees and disbursements of its counsel, which the Lender may incur in connection with (i) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral, (ii) the exercise or enforcement of any of the rights of the Lender hereunder or (iii) the failure by Borrower to perform or observe any of the provisions hereof.

**Submission to Jurisdiction.** Borrower irrevocably and unconditionally (a) agrees that any suit, action or other legal proceeding arising out of or relating to this Agreement or any other associated loan document, may be brought, at the option of Lender, in a court of record in the State of South Carolina in Charleston County, in the United States District Court for the District of Charleston, or in any other court of competent jurisdiction; (b) consents to the jurisdiction of each such court in any such suit, action or proceedings; and (c) waives any objection which it may have to the laying of venue of any such suit, action, or proceeding in any of such courts.

**Addresses for Notices.** All notices and other communications provided for hereunder, if any, shall be in writing and, if to Borrower, mailed or delivered to it, addressed to it at the address of Borrower specified as follows: \_\_\_\_\_; if to the Lender, mailed or delivered to it, addressed to it at the address of the Lender specified as follows: \_\_\_\_\_, or as to either party at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section.

**Continuing Security Interest; Transfer of Note.** This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until payment in full of the Obligations, (b) be binding upon Borrower, its successors and assigns and (c) inure to the benefit of the Lender and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), the Lender may assign or otherwise transfer the Note held by it to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to the Lender herein or otherwise. Upon the payment in full of the Obligations, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to Borrower. Upon any such termination, the Lender will, at Borrower's expense, execute and deliver to Borrower such documents as Borrower shall reasonably request to evidence such termination.

**Amendments, Etc.** No amendment or waiver of any provision of this Agreement nor consent to any departure by Borrower here from shall in any event be effective unless the same shall be in writing and signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

**Waiver.** No failure on the part of Lender to exercise or delay in exercising any right or remedy hereunder shall operate as a waiver thereof, nor shall any singular or partial exercise by the Lender of any right or remedy hereunder preclude any other or future exercise thereof, or the exercise of any other right or remedy.

**Successors and Assigns.** All of the terms, conditions, and covenants of this Agreement shall inure to the benefit of and bind the heirs, personal representatives, successor and assigns of the respective parties hereto.

**Modification.** This Agreement may not be changed orally, but only by an instrument in writing, and signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

**Non-Judicial Process.** Lender may enforce its rights hereunder without resort to prior judicial process or judicial hearing, and, Borrower hereby waives any right Borrower may have to notice and a hearing before possession or sale of Collateral is effected by Lender by self-help, repletion, attachment or otherwise, such waiver being consistent with commercial necessity. Nothing herein is intended to prevent Lender from resorting to judicial process at its option.

**Governing Law.** This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of South Carolina.

LENDER AND BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ALL RIGHT TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT AND ANY AGREEMENT CONTEMPLATED OR TO BE EXECUTED IN CONJUNCTION HEREWITH, UNDER ANY OF THE LOAN DOCUMENTS, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN), OR ACTIONS OF EITHER PARTY.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

WITNESSES:

BORROWER:



STATE OF \_\_\_\_\_ )  
 ) SS:  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 20\_\_, by \_\_\_\_\_, the \_\_\_\_\_ of HQ FRANCHISING CORPORATION, a Delaware corporation, on behalf of the corporation, who is personally known to me or who has produced \_\_\_\_\_ as identification.

NOTARY PUBLIC

Sign: \_\_\_\_\_

Print: \_\_\_\_\_

My Commission Expires:

(SEAL)

**EXHIBIT "A"**  
**TO FRANCHISE DISCLOSURE DOCUMENT**  
**FOR HQ FRANCHISING CORPORATION**

**COLLATERAL ASSIGNMENT OF LEASE**

**THIS COLLATERAL ASSIGNMENT OF LEASE** ("Assignment") is made and entered into effective as of the effective date of the Lease (as defined below), by and between **HQ FRANCHISING CORPORATION**, a Delaware corporation, with its business address located at 111 Springhall Drive, Goose Creek, SC 29445 ("Franchisor"), and \_\_\_\_\_, a \_\_\_\_\_, whose current principal place of business is \_\_\_\_\_ ("Franchisee"). Franchisor and Franchisee are sometimes referred to collectively as the "parties" or individually as a "party".

**WITNESSETH:**

**WHEREAS**, Franchisor and Franchisee entered into that certain Franchise Agreement dated \_\_\_\_\_, 202\_\_ ("Franchise Agreement"), pursuant to which Franchisee shall own and operate a \_\_\_\_\_ franchised business ("Franchised Business") located at \_\_\_\_\_ ("Office"); and

**WHEREAS**, Franchisee has leased or shall lease certain premises containing the Office from \_\_\_\_\_ ("Lessor") pursuant to that certain Lease Agreement dated \_\_\_\_\_, 202\_\_, entered into between Franchisee and Lessor ("Lease"); and

**WHEREAS**, pursuant to Section 3.1 of the Franchise Agreement, Franchisee is required to deliver this Assignment to Franchisor.

**NOW, THEREFORE**, in consideration of the mutual promises and covenants contained herein, and for other good and valuable consideration the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

**1. RECITALS**

The foregoing recitals are true and correct in every respect and are incorporated by reference herein.

## **2. DEFINITION OF TERMS**

Terms not otherwise defined in this Assignment shall have the meaning as defined in the Lease or the Franchise Agreement.

## **3. COLLATERAL ASSIGNMENT**

Franchisee hereby grants to Franchisor a security interest in and to the Lease, all of the furniture, fixtures, inventory and supplies located in the Office and the franchise relating to the Franchised Business, and all of the Franchisee's rights, title and interest in and to the Lease as collateral for the payment of any obligations, liabilities or other amounts owed by Franchisee or its affiliates to the Lessor arising under the Lease and for any default or breach of any of the terms and provisions of the Lease, and for any default or breach of any of the terms and provisions of the Franchise Agreement. In the event of a breach or default by Franchisee under the terms of the Lease, or, in the event Franchisor makes any payment to the Lessor as a result of Franchisee's breach of the Lease, then such payment by Franchisor, or such breach or default by Franchisee, shall, at Franchisor's option, be deemed to be an immediate default under the Franchise Agreement, and Franchisor shall be entitled to possession of the Office and to all of the rights, title and interest of the Franchisee in and to the Lease and to all other remedies described herein or in the Franchise Agreement or at law or in equity, without prejudice to any other rights or remedies of Franchisor under any other Agreements or under other applicable laws or equities. This Assignment shall constitute a lien on the interest of Franchisee in and to the Lease until satisfaction in full of all amounts owed by Franchisee to Franchisor. In addition, the rights of the Franchisor to assume all obligations under the Lease provided in this Assignment are totally optional on the part of Franchisor, to be exercised in its sole discretion. Franchisee agrees to execute any and all Uniform Commercial Code financing statements and all other documents and instruments deemed necessary by Franchisor to perfect the interests and assignments granted herein.

## **4. INDEMNIFICATION OF FRANCHISOR**

Franchisee agrees to indemnify and hold Franchisor and its affiliates, stockholders, directors, officers, agents and representatives (collectively, the "Indemnified Parties") harmless from and against any and all losses, liabilities, claims, proceedings, demands, damages, judgments, injuries, attorneys' fees, costs and expenses that any of the Indemnified Parties incur as a result of any claim brought against any of the Indemnified Parties or any action which any of the Indemnified Parties are named as a party or which any of them may suffer, sustain or incur by reason of, or arising out of, Franchisee's breach of any of the terms and conditions of the Lease, including, without limitation, the Franchisee's failure to pay rent or any other amounts due under the Lease.

## **5. NO SUBORDINATION**

Franchisee shall not permit the Lease to become subordinate to any lien (other than the lien created by this Assignment or under the Franchise Agreement, the Lessor's lien under the Lease, any liens securing bank financing for Franchisee's operation of the Franchised Business at the Office, and any liens created under the agreements and other instruments referenced herein) without first obtaining Franchisor's prior written consent. Franchisee shall not terminate, modify or amend any of the provisions or terms of the Lease without the prior written consent of the Franchisor. Any attempt by Franchisee to terminate, modify or amend any of the terms of the Lease without such prior written consent of Franchisor shall be null and void.

## **6. EXERCISE OF REMEDIES**

In the event of any default by Franchisee under the terms of the Lease or under the Franchise Agreement, Franchisor shall be entitled to exercise any one or more of the following remedies in its sole and absolute discretion:

(a) to take possession of the Office, or any part thereof, personally, or by its agents or attorneys;

(b) to, in its sole and absolute discretion, without notice and with or without process of law, enter upon and take and maintain possession of all or any part of the Office, together with all furniture, fixtures, inventory, books, records, papers and accounts of the Franchisee;

(c) to exclude the Franchisee, its agents or employees from the Office;

(d) as attorney-in-fact for the Franchisee, or in its own name, and under the powers herein granted, to hold, operate, manage and control the Franchised Business and conduct said business, either personally or by its agents, with full power to use such measures, legally rectifiable, as in its sole and absolute discretion may be deemed proper or necessary to cure such default, including actions of forcible entry or detainer and actions in distress of rent, hereby granting full power and authority to the Franchisor to exercise each and every of the rights, privileges and powers herein granted at any and all times hereafter;

(e) to cancel or terminate any unauthorized agreements or subleases entered into by Franchisee, for any cause or ground which would entitle the Franchisor to cancel the same;

(f) to disaffirm any unauthorized agreement, sublease or subordinated lien, to make all necessary or proper repairs, decorating, renewals, replacements, alterations, additions, betterments and improvements to the Office or the Office that may seem judicious, in the sole and absolute discretion of the Franchisor; and



(g) to insure and reinsure the same for all risks incidental to the Franchisor's possession, operation and management thereof; and/or

(h) notwithstanding any provision of the Franchise Agreement to the contrary, to declare all of Franchisee's rights but not obligations under the Franchise Agreement to be immediately terminated as of the date of Franchisee's default under the Lease.

## **7. POWER OF ATTORNEY**

Franchisee hereby irrevocably appoints the Franchisor as Franchisee's true and lawful attorney-in-fact in its name and stead and hereby authorizes Franchisor, upon any default under the Lease or under the Franchise Agreement, with or without taking possession of the Office, to rent, lease, manage and operate the Office to any person, firm or corporation upon such terms and conditions in Franchisor's sole and absolute discretion as it may determine, and with the same rights and powers and immunities, exoneration of liability and rights of recourse and indemnity as Franchisor would have upon taking possession of the Office pursuant to the provisions set forth in the Lease. The power of attorney conferred upon Franchisor pursuant to this Assignment is a power coupled with an interest and cannot be revoked, modified or altered without the prior written consent of Franchisor.

## **8. ELECTION OF REMEDIES**

It is understood and agreed that the provisions set forth in this Assignment shall be deemed a special remedy given to the Franchisor and shall not be deemed to exclude any of the remedies granted in the Franchise Agreement or any other agreement between the Franchisor and the Franchisee, but shall be deemed an additional remedy and shall be cumulative with the remedies therein and elsewhere granted to Franchisor, all of which remedies shall be enforceable concurrently or successively. No exercise by the Franchisor or any of the rights hereunder shall cure, waiver or affect any default hereunder or default under the Franchise Agreement. No inaction or partial exercise of rights by the Franchisor shall be construed as a waiver of any of its rights and remedies and no waiver by the Franchisor of any such rights and remedies shall be construed as a waiver by Franchisor of any future rights and remedies.

## **9. BINDING EFFECT**

This Assignment and all provisions hereof shall be binding upon Franchisor and Franchisee, their successors, assigns and legal representatives and all other persons or entities claiming under them or through them, or either of them, and the words "Franchisor" and "Franchisee" when used herein shall include all such persons and entities and any others liable for payment of amounts under the Lease or the Franchise Agreement. All individuals executing on behalf of corporate entities hereby represent and warrant that such execution has been duly authorized by all necessary corporate and shareholder authorizations and approvals.

## **10. ASSIGNMENT TO CONTROL**

This Assignment shall govern and control over any conflicting provisions in the Lease.

## **11. ATTORNEYS' FEES AND COSTS**

In any action or dispute, at law or in equity, that may arise under or otherwise relate to this Assignment, the prevailing party shall be entitled to recover its attorneys' fees, costs and expenses relating to any trial or appeal (including, without limitation, paralegal fees) or arbitration or bankruptcy proceeding from the non-prevailing Party.

## **12. SEVERABILITY**

If any of the provisions of this Assignment or any section or subsection of this Assignment shall be held invalid for any reason, the remainder of this Assignment or any such section or subsection shall not be affected thereby and shall remain in full force and effect in accordance with its terms.

## **13. GOVERNING LAW AND VENUE**

This Assignment shall be governed by and construed and enforced in accordance with the laws of the state of South Carolina. The parties will not institute any action against any of the other parties in this Assignment except in the state or federal courts of general jurisdiction in Charleston County, South Carolina, and they irrevocably submit to the jurisdiction of such courts and waive any objection they may have to either the jurisdiction or venue of such court.

14. **NOTICES**

All notices provided for herein shall be in writing and shall be deemed duly given if delivered personally or sent by certified mail or registered mail, return receipt requested, to the parties at the above addresses or at such other addresses as a party may theretofore have specified by notice in writing as aforesaid. Any such notices which are given by mail shall be deemed effective as of the third business day following the date of mailing of such notice(s).

15. **FURTHER ASSURANCES**

The parties will execute and deliver such further documents and take such further actions as may reasonably be requested in order to more fully carry out the intentions of this Assignment.

**IN WITNESS WHEREOF**, the parties have caused this Assignment to be executed as of the day and year first above written.

**FRANCHISOR:**

**HQ FRANCHISING CORPORATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT "A"**  
**TO FRANCHISE DISCLOSURE DOCUMENT**  
**FOR HQ FRANCHISING CORPORATION**

**COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS AND LISTINGS**

**THIS COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS AND LISTINGS** ("Assignment") is made and entered into effective as of \_\_\_\_\_, 200\_\_, by and between **HQ FRANCHISING CORPORATION**, a Delaware corporation, with its principal business address located at 111 Springhall Drive, Goose Creek, SC 29445 ("Franchisor") and \_\_\_\_\_, whose current place of business is \_\_\_\_\_ ("Franchisee"). Franchisor and Franchisee are sometimes referred to collectively as the "parties" or individually as a "party".

**WITNESSETH:**

**WHEREAS**, Franchisor and Franchisee entered into that certain Franchise Agreement dated \_\_\_\_\_, 20\_\_ ("Franchise Agreement"), pursuant to which Franchisee shall own and operate a \_\_\_\_\_ franchised business ("Franchised Business"); and

**WHEREAS**, the Franchised Business uses certain proprietary knowledge, procedures, formats, systems, forms, printed materials, applications, methods, specifications, standards and techniques authorized or developed by Franchisor (collectively, the "\_\_\_\_\_ System"); and

**WHEREAS**, Franchisor identifies \_\_\_\_\_ Businesses and various components of the \_\_\_\_\_ System by certain trademarks, trade names, service marks, trade dress and other commercial symbols (collectively, the "Marks"); and

**WHEREAS**, in order to protect its interest in the \_\_\_\_\_ System and the Marks, Franchisor desires to have the right to control the telephone numbers and listings of the \_\_\_\_\_ Business if the Franchise Agreement is terminated.

**NOW, THEREFORE**, in consideration of the mutual promises and covenants contained herein, and for other good and valuable consideration the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

**1. RECITALS**

The foregoing recitals are true and correct in every respect and are incorporated by reference herein.

## **2. DEFINITION OF TERMS**

Terms not otherwise defined in this Assignment shall have the meaning as defined in the Franchise Agreement.

## **3. COLLATERAL ASSIGNMENT**

Franchisee hereby assigns to Franchisor all of Franchisee's right, title and interest in and to those certain telephone numbers and regular, classified or other telephone directory listings (collectively, the "Numbers and Listings") associated with the Marks and used from time-to-time in connection with the operation of the Franchised Business. This Assignment is for collateral purposes only. Franchisor will have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment, unless Franchisor notifies the telephone company and/or the listing agencies with which Franchisee has placed telephone directory listings (collectively, the "Telephone Company") to effectuate the assignment of the Numbers and Listings to Franchisor. Upon termination or expiration of the Franchise Agreement, Franchisor will have the right and authority to ownership of the Numbers and Listings. In such event, Franchisee will have no further right, title or interest in the Numbers and Listings and will remain liable to the Telephone Company for all past-due fees owing to the Telephone Company on or before the date on which the assignment is effective. As between Franchisor and Franchisee, upon termination or expiration of the Franchise Agreement, Franchisor will have the sole right to and interest in the Numbers and Listings.

## **4. POWER OF ATTORNEY**

Franchisee hereby irrevocably appoints the Franchisor as Franchisee's true and lawful attorney-in-fact to: (a) direct the Telephone Company to effectuate the assignment of the Numbers and Listings to Franchisor; and (b) sign on Franchisee's behalf such documents and take such actions as may be necessary to effectuate the assignment. Notwithstanding anything herein to the contrary, Franchisee will immediately notify and instruct the Telephone Company to effectuate the assignment described in this Assignment to Franchisor when, and only when: (i) the Franchise Agreement is terminated or expires; and (ii) Franchisor instructs Franchisee to so notify the Telephone Company. If Franchisee fails to promptly direct the Telephone Company to effectuate the assignment of the Numbers and Listings to Franchisor, Franchisor will direct the Telephone Company to do so. The Telephone Company may accept Franchisor's written direction, the Franchise Agreement or this Assignment as conclusive proof of its exclusive rights in and to the Numbers and Listings upon such termination or expiration. The assignment will become immediately and automatically effective upon the Telephone Company's receipt of such notice from Franchisee or Franchisor. If the Telephone Company requires that Franchisee and/or Franchisor sign the Telephone Company's assignment forms or other documentation at the time of termination or expiration of the Franchise Agreement, Franchisor's signature of such forms or documentation on Franchisee's behalf will effectuate the consent and agreement of Franchisee to the assignment. At any time, the parties hereto will perform such acts and sign and deliver such documents as may be necessary to assist in or accomplish the

assignment described herein upon termination or expiration of the Franchise Agreement. The power of attorney conferred upon us pursuant to the provisions set forth in this Assignment is a power coupled with an interest and cannot be revoked, modified or altered without Franchisor's prior written consent.

#### **5. INDEMNIFICATION OF FRANCHISOR**

Franchisee agrees to indemnify and hold Franchisor and its affiliates, stockholders, directors, officers, agents and representatives (collectively, the "Indemnified Parties") harmless from and against any and all losses, liabilities, claims, proceedings, demands, damages, judgments, injuries, attorneys' fees, costs and expenses that any of the Indemnified Parties incur as a result of any claim brought against any of the Indemnified Parties or any action which any of the Indemnified Parties are named as a party or which any of the Indemnified Parties may suffer, sustain or incur by reason of, or arising out of, Franchisee's breach of any of the terms of any agreement or contract or the nonpayment by Franchisee of any debt or obligation it has with the Telephone Company.

#### **6. BINDING EFFECT**

This Assignment is binding upon and inures to the benefit of the parties and their respective successors-in-interest, heirs and successors and assigns.

#### **7. ASSIGNMENT TO CONTROL**

This Assignment will govern and control over any conflicting provision in any agreement or contract which Franchisee may have with the Telephone Company.

#### **8. ATTORNEYS' FEES AND COSTS**

In any action or dispute, at law or in equity, that may arise under or otherwise relate to this Assignment, the prevailing party shall be entitled to recover its attorneys' fees, costs and expenses relating to any trial or appeal (including, without limitation, paralegal fees) or arbitration or bankruptcy proceeding from the non-prevailing Party.

#### **9. SEVERABILITY**

If any of the provisions of this Assignment or any section or subsection of this Assignment shall be held invalid for any reason, the remainder of this Assignment or any such section or subsection shall not be affected thereby and shall remain in full force and effect in accordance with its terms.

## **10. GOVERNING LAW AND VENUE**

This Assignment shall be governed by and construed and enforced in accordance with the laws of the state of South Carolina. The parties will not institute any action against any of the other parties in this Assignment except in the state or federal courts of general jurisdiction in Berkeley County, South Carolina, and they irrevocably submit to the jurisdiction of such courts and waive any objection they may have to either the jurisdiction or venue of such court.

## **11. NOTICES**

All notices provided for herein shall be in writing and shall be deemed duly given if delivered personally or sent by certified mail or registered mail, return receipt requested, to the parties at the above addresses or at such other addresses as a party may theretofore have specified by notice in writing as aforesaid. Any such notices which are given by mail shall be deemed effective as of the third business day following the date of mailing of such notice(s).

## **12. FURTHER ASSURANCES**

The parties will execute and deliver such further documents and take such further actions as may reasonably be requested in order to more fully carry out the intentions of this Assignment.

**IN WITNESS WHEREOF**, the parties have caused this Assignment to be executed as of the day and year first above written.

**FRANCHISOR:  
HQ FRANCHISING CORPORATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

THIS COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS AND LISTINGS is accepted and agreed to by:

\_\_\_\_\_  
(TELEPHONE COMPANY)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_



**HQ FRANCHISING CORPORATION  
FRANCHISE DISCLOSURE DOCUMENT**

**EXHIBIT B**

**LIST OF ACTIVE AND DEPARTED FRANCHISEES**

## SNELLING LIST OF FRANCHISEES AS OF 12/31/22

<u>STATE</u>	<u>CITY</u>	<u>OWNER</u>	<u>ADDRESS</u>	<u>PHONE NUMBER</u>
<b><u>Alabama</u></b>				
	Huntsville	Paul Brashier	4910 Corporate Drive, Suite H, Huntsville, AL 35805	256-382-4000
<i>Legacy Franchise</i>	Mobile	George Huth	1760 West I-65 S. Service Rd., Mobile, AL 36693	251-473-1001
<i>Legacy Franchise</i>	Homewood	David & Stephanie Howard	1 Independence Plaza, Suite 702, Homewood, AL 35209	205-879-9950
<b><u>Arizona</u></b>				
<b><u>Arkansas</u></b>				
<i>Legacy Franchise</i>	Bentonville	Neal Click & Bob Alberson	1801 Forest Hills Blvd., Suite 123, Bentonville, AR 72903	479-782-4911
<i>Legacy Franchise</i>	Fort Smith	Tammy O'Dell	3901 Rogers Ave, Suite B, Fort Smith, AR 72903	479-782-4911
<b><u>Colorado</u></b>				
<i>Legacy Franchise</i>	Loveland	Trish Bowen	1615 Foxtrail Dr., Suite 260, Loveland, CO 80538	970-685-4745
<b><u>District of Columbia</u></b>				
<b><u>Florida</u></b>				
	Clearwater	James & Kellie Merchant	1717 Hamlin St. NE, Washington, DC 20018	727-539-6000
	Jacksonville	Amanda Rodriguez	2177 Kingsley Ave, Suite 7, Orange Park, FL 32073	904-539-5465
	Lakeland	James & Kellie Merchant	120 East Pine St., Suite 2, Lakeland, FL 33801	863-682-5465
	Orlando	Chris & Nancy Stubbs	6100 S. Orange Ave, Suite K, Orlando, FL 32809	407-438-5465
	Sanford	Chris & Nancy Stubbs	4029 West State Rd 46, Sanford, FL 32771	407-935-1536
	Tampa	James & Kellie Merchant	3904 Corporex Park Dr., Suite 101, Tampa, FL 33619	813-621-3330
<i>Legacy Franchise</i>	Panama City	Ruth & Larry Burton	1420 Airport Rd, Panama City, FL 32405	850-769-1441
	Miami	Ben Rasmussen	12137 NW 7th Ave., N. Miami, FL 33168	305-688-8997
<b><u>Georgia</u></b>				
	Atlanta	Michael Hairston & Ben Rasmussen	4333 Lynburn Drive, Tucker, GA	770-414-9071
	Augusta	Dale & Angie LaPorte	1961 Kissingbower Rd., Augusta, GA	843-723-7400
<i>HireQuest</i>	Savannah	Mike McCormack	109 Minus Ave., Suite C5, Savannah, GA	912-966-0901
<b><u>Iowa</u></b>				

<b>Legacy Franchise</b>	Bettendorf Des Moines	Doug Ryan Ben Rasmussen	2217 Hogan Court N, Bettendorf, IA 52722 3701 E. 14th St., Des Moines, IA 50313	563-355-4411 515-261-0000
<b>Illinois</b>	Arlington Heights	Mike McCormack	2340 S. Arlington Hts Rd., Ste 101, Arlington Hts., IL 60005	847-640-6618
<b>Indiana</b>	Griffith Indianapolis (HireQuest)	Kevin Semerad Scott Bryan	1935 W. Glen Park Ave., Griffith, IN 46319 3850 S. Emerson Ave. # E Indianapolis, IN 46107	219-924-1094 317-982-7111
<b>Kentucky</b>	Louisville Lexington	Mary Kay Hitchings Sharon Gordon	6100 Dutchmans Lane, Suite 301, Louisville, KY 40502 1025 Dove Run Rd., Suite 310, Lexington, KY 40502	502-814-9800 859-233-0583
<b>Louisiana</b>	Baton Rouge Crowley-Lafayette	Kerry Simon Betty & John Benenfield	12097 Old Hammond Hwy, Suite E1, Baton Rouge, LA 70816 576 N. Parkerson Ave STE 102, Crowley, LA 70526	225-275-7272 337-785-1885
<b>Legacy Franchise</b>	Baton Rouge Shreveport	Marsha Graham Jarrett Lindon	7742 Office Park Blvd., Suite C-1, Baton Rouge, LA 70809 2205 E Texas St., Bossier City, LA 71111	225-927-0550 318-742-9766
<b>Massachusetts</b>	Leominster	Amanda Rodriguez	76 Summer St., Suite 200, Fitchburg, MA 32073	978-400-5027
<b>Maryland</b>				
<b>Michigan</b>	Grand Rapids Kalamazoo Roseville	Steve Ueland Steve Ueland Ron Daiza	2850 Shaffer Ave, Grand Rapids, MI 43512 6772 S. Westnedge Ave, Suite A, Portage, MI 49024 18600 Florence St, Suite C-6, Roseville, MI 48066	616-957-1616 616-957-1616 586-447-9690
<b>Minnesota</b>				
<b>Mississippi</b>	Tupelo	Carolyn Taylor	108 East Main St, Suite B, Tupelo, MS 38804	662-842-1045
<b>Missouri</b>	Maryland Heights	Chuck Vogel	188 Weldon Parkway, Maryland Heights, MO 63043	314-993-7800
<b>Legacy Franchise</b>	St. Louis	David Langsam	1034 S. Brentwood Blvd. , Suite 778, St. Louis MO 63117	314-993-7800
<b>HireQuest</b>	St. Louis/Maryland Heights	Mike McCormack	11705 Dorsett Road, Suite 100, St. Louis, MO	314-291-7575
<b>Nebraska</b>	Omaha	Joni Hunt	12100 West Center Rd., Suite 1201, Omaha, NE 68144	402-330-0100

**New Jersey**

	Northfield	Jim Taylor	1915 New Road, Suite 201, Northfield, NJ 82250	609-646-6470
	East Windsor	Kelley Geraty	50 Millstone Rd. Building 400, Ste. 130, East Windsor, NJ 85200	609-750-1820
<i>Legacy Franchise</i>	Middlesex	Anthony Sirena Carnevale	906 Oak Tree Rd, Suite Q, South Plainfield, NJ 07080	732-200-1506
	Mountainside	Pam Cooper	1111 Route22 East, Mountainside, NJ 79020	908-273-6500

**New Mexico**

	Clovis-Portales	Lexie Meyers	813 Llano Estacado, Clovis, NM 88101	575-762-4246
	Albuquerque	Ben Rasmussen	2100 Osuna Rd. NE, Suite 100, Albuquerque, NM 87113	505-262-1871

**New York**

	New York, NY	Benjamin Ramussen	25 West 45th St., 7th Floor, NY,NY 10036	800-852-2602
--	--------------	-------------------	--	--------------

**Nevada****North Carolina**

	Charlotte	Barry & Mary Paradis	9124-C South Tryon St., Charlotte, NC 28202	704-525-4555
--	-----------	----------------------	---	--------------

**North Dakota****Ohio**

<i>Legacy Franchise</i>	Akron	John Carpenter	3250 West Market St., Suite 102, Akron, OH 44333	330-458-1030
<i>Legacy Franchise</i>	Canton	Ken White	1901 Fulton Rd., Canton, OH 44709	330-458-1030

**Oklahoma****South Carolina**

	Charleston	Jarrett Lindon	1731 N Main St., Suite F, Summerville, SC 29483	
	Columbia	Elizabeth Trenbeath	6941 N. Trenholm Rd. # G-1, Columbia SC 29206	803-790-7171
	Greenville	Sharon Gordon	406 N. Pleasantburg Drive, Greenville, SC 29607	864-331-2079

**Tennessee**

	Knoxville	Amy Solis	10805 Kingston Pike, Suite 110, Knoxville, TN 37934	865-777-2150
	Nashville	Janice Bobbitt	2 International Plaza, Suite 612, Nashville, TN 37217	615-329-0223

**Texas**

	Austin	Mark & Pam Penick	6103 Sheridan, Austin, TX 78723	512-302-5465
	Arlington	Kevin Roberts	2500 East Randol Mill Rd., Suite 107, Arlington, TX 76011	817-649-5465

	Dallas	Monica Santoyo	711 Sunset Ave., Dallas, TX 75208	214-941-5465
	Houston	Ben Bonnell	15340 Vantage Parkway East, Suite 250, Houston, TX 77032	832-781-5374
	SW Houston	Zachary Collard and Matthew Trimble	54 Sugar Creek Center Blvd, Suite 307, Sugarland, TX 77478	
	Katy-Bryan	Zachary Collard and Matthew Trimble	1716 Briarcrest Dr., Suite 606, Bryan, TX 77802	979-775-5465
	Denton-Sherman	April Vaughn	5452 Texoma Parkway, Sherman, TX 75090	210-734-6288
	Lewisville	Pat James & Yolanda Simpson	2305 S. Highway 121, #205, Lewisville, TX 75067	972-434-5465
	McAllen-Brownsville	Lexie Myers	5240 N. 10th St., Suite 9, McAllen, TX 78504	956-686-5465
	Odessa	Jane Williams	4001 Penbrook Ave, Suite 1002, Odessa, TX 79762	432-367-7066
	San Antonio - Rohus	Roger & Andrea Rohus	5835 Callaghan Rd., San Antonio, TX 78216	210-734-6288
	San Antonio - Sharp	Jan Sharp	815 E. Rector St., Suite 103, San Antonio, TX 78216	210-523-8000
	Waco-Temple	Zachary Collard and Matthew Trimble	801 Washington Ave., Suite 602, Waco, TX 76701	254-655-5465
<i>Legacy Franchise</i>	Lubbock	Gene Crites	2222 Indiana Ave., Lubbock, TX 79410	806-797-3281
<i>Legacy Franchise</i>	Tyler	Megan & Greg Adcock	1225 West SW Loop,323, Tyler, TX 75701	903-561-1181
	El Paso - Las Cruces	Benjamin Rasmussen	4900 N Mesa St., El Paso, TX 79912	915-532-9400

#### Utah

	Salt Lake City	Ryan Reburn	838 W N. Temple, Suite C, Salt Lake City, UT 84116	801-521-9675
--	----------------	-------------	--	--------------

#### Virginia

	Norfolk	Sharon Gordon	7433 Sewells Point Rd., Norfolk, VA 23513	757-351-6323
--	---------	---------------	---	--------------

#### Washington

#### Wisconsin

	Fox Cities	Ben Rasmussen	2161 West Wisconsin Ave., Appleton, WI 54914	920-720-0830
	Milwaukee	Ben Rasmussen	7447 W. Greenfield Ave., Milwaukee, WI 53214	414-810-3738

#### Wyoming

## **SNELLING® DEPARTED FRANCHISEES**

The following is a list of every franchisee who has ceased to do business under the franchise agreement or had an outlet terminated, cancelled, not renewed, or transferred during 2022, or who has not communicated with the franchisor within 10 weeks of the date of this franchise disclosure document.

1. Ben Rasmussen- Corpus Christi, TX (Transfer). This franchise transferred to new ownership following a sale of the business. Franchisees still operate other Snelling franchises.
2. Ben Rasmussen – Atlanta, GA (Transfer). This franchise transferred to new ownership pursuant to a partnership development. These franchisees continue to own and operate this franchise under the new entity.
3. Leela Von Behren – Lexington, KY (Transfer). This location transferred to new ownership following the franchisee’s sale of her business. This franchise operated under a “Legacy” Snelling agreement assigned to Franchisor in 2021. The transferee now operates under a new Snelling® franchise agreement.
4. Jim Taylor – Omaha, NE (Transfer). This location transferred to new ownership following the franchisee’s sale of his business.

**HQ FRANCHISING CORPORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**  
**EXHIBIT C**  
**STATE SPECIFIC INFORMATION**

**ILLINOIS ADDENDUM TO  
THE HQ FRANCHISING CORPORATION DISCLOSURE DOCUMENT, and  
THE SNELLING STAFFING CENTER FRANCHISE AGREEMENT  
(the “Franchise Agreement”)**

Illinois law governs the Franchise Agreements.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.

Your rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

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.

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

IN WITNESS WHEREOF, HQ FRANCHISING CORPORATION and Franchisee have signed this Illinois Addendum on the dates indicated below.

WITNESS

\_\_\_\_\_

**HQ FRANCHISING  
CORPORATION**

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date Signed: \_\_\_\_\_

WITNESS

\_\_\_\_\_

**FRANCHISEE**

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date Signed: \_\_\_\_\_



**HQ FRANCHISING CORPORATION  
FRANCHISE DISCLOSURE DOCUMENT**

**NEW YORK ADDENDUM**

1. The following information is added to the cover page of the Franchise Disclosure Document:

**THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.**

2. The following is added at the end of Item 3:

Except as provided above, with regard to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

A. No such party has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust, or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations.

B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.

C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10-year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud, or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.

D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State, or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to

a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

3. The following is added to the end of the “Summary” sections of Item 17(c), titled “**Requirements for franchisee to renew or extend**,” and Item 17(m), entitled “**Conditions for franchisor approval of transfer**”:

However, to the extent required by applicable law, all rights you enjoy 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 shall 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.

4. The following language replaces the “Summary” section of Item 17(d), titled “**Termination by franchisee**”:

You may terminate the agreement on any grounds available by law.

5. The following is added to the end of the “Summary” sections of Item 17(v), titled “**Choice of forum**”, and Item 17(w), titled “**Choice of law**”:

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York.

**HQ FRANCHISING CORPORATION  
FRANCHISE DISCLOSURE DOCUMENT  
MARYLAND APPENDIX**

In accordance with the requirements of the state of Maryland the following disclosure should be read in conjunction with the franchise disclosure document. This disclosure supplements the information contained in the corresponding sections of the disclosure document. Any inconsistency with the information contained in the disclosure document will be resolved in favor of this Maryland Disclosure.

**ITEM 17**

**RENEWAL, TERMINATION, TRANSFER  
AND DISPUTE RESOLUTION**

**Termination by the Franchisor**

The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. 101 et seq.).

**Choice of Forum/ Choice of Law**

Under the Maryland Franchise Registration and Disclosure Law, the franchisee may file suit in Maryland.

**Assignment and Renewal**

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.

**Limitation of Claims**

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

**Maryland Franchise Registration and Disclosure Act**

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.

**AMENDMENT TO THE HQ FRANCHISING  
CORPORATION  
FRANCHISE AGREEMENT REQUIRED BY  
THE STATE OF MARYLAND**

In recognition of the requirements of the Maryland Franchise Registration and Disclosure Law, the parties to the attached the SNELLING® and/or HIREQUEST DIRECT™ Franchise Agreement (the “Agreement”) agree as follows:

1. 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.

2. Section 4, "Term and Renewal" of the Agreement, Paragraph 4.2. “Successive Terms – Franchisee’s Option" shall be supplemented by the following additional sentence, which shall be considered an integral part of the Agreement:

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.

3. Section 23.2, "Termination With No Opportunity to Cure" shall be supplemented by the following new Subparagraph xvii., which shall be considered an integral part of the Agreement:

This agreement provides for termination upon bankruptcy of the Franchisee. This provision may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 et seq.).

4. Section 25, "Enforcement," Paragraph 25.7 "Dispute Resolution” shall be supplemented by the following new sentence which shall be considered an integral part of the Agreement:

Under the Maryland Franchise Registration and Disclosure Law, the franchisee may file suit in Maryland alleging a violation of the Maryland Franchise Law.

5. Section 25 (“Enforcement”), Paragraph 25.7 (“Dispute Resolution”) shall be supplemented by the following new subparagraph, which shall be considered an integral part of the Agreement:

25.7. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

[Signatures are on the following page.]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

**“FRANCHISOR”**

**HQ FRANCHISING**

**CORPORATION**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**“FRANCHISEE”**

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**HQ FRANCHISING CORPORATION  
FRANCHISE DISCLOSURE DOCUMENT  
SOUTH DAKOTA DISCLOSURE**

The following South Dakota Disclosure is provided in compliance with the requirements of the South Dakota Codified Law, Chapter 37-5B. This disclosure supplements the information contained in the corresponding sections of the disclosure document. Any inconsistency with the information contained in the disclosure document will be resolved in favor of this South Dakota Disclosure.

**ITEM 17**

**RENEWAL, TERMINATION, TRANSFER  
AND DISPUTE RESOLUTION**

Jurisdiction and Choice of Law

Provisions in the Franchise Agreement that allow jurisdiction of courts outside of South Dakota or make a choice of applicable law other than that of South Dakota are generally unenforceable in the State of South Dakota, except in certain instances as provided by law.

**AMENDMENT TO THE SNELLING Staffing Center  
AND THE HIRE QUEST DIRECT  
FRANCHISE AGREEMENTS REQUIRED BY  
THE STATE OF SOUTH DAKOTA**

In recognition of the requirements of the South Dakota Codified Law, Chapter 37-5B, the parties to the attached Hire Quest Franchise Agreement (the "Agreement") agree as follows:

1. Section 25.7, "Dispute Resolution" of the Agreement shall be supplemented by the addition of the following provision:

The foregoing provisions regarding jurisdiction and venue are void with respect to any cause of action that is otherwise enforceable in South Dakota.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR: HQ FRANCHISING CORPORATION**

By: \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

**FRANCHISEE NAME:** \_\_\_\_\_

By: \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

**HQ FRANCHISING CORPORATION  
ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT  
REQUIRED BY THE STATE OF NORTH DAKOTA**

In accordance with the North Dakota General Business Law, the following Addendum should be read in conjunction with the franchise disclosure document and the Franchise Agreement. This disclosure supplements the information contained in the corresponding sections of the disclosure document. Any inconsistency with the information contained in the disclosure document will be resolved in favor of this North Dakota disclosure.

**ITEM 17**

**17 c - Renewal or Termination of the Franchise**

To the extent the provisions of the Franchise Agreement regarding renewal or termination are inconsistent with the requirements of North Dakota statutes, Section 51-19-09 of the North Dakota Franchise Investment Law, which among other things prohibits the execution of a general release upon renewal or termination of a franchise agreement, the Franchise Agreement renewal and termination provisions described in the disclosure document will be superseded by the Law's requirements.

**17 r – Restrictions on Competition**

Covenants not to compete such as those summarized in FDD Item 17.r. are generally considered unenforceable in the State of North Dakota.

**17 u – Dispute Resolution by Arbitration and Mediation**

The Franchise Agreement provides that any dispute must be submitted to mediation in Goose Creek, South Carolina. The North Dakota Commissioner of Securities has determined that dispute resolution provisions in which the parties agree to resolve disputes at a location that is remote to the site of the franchisee's business are "unfair, unjust, or inequitable" under applicable North Dakota law. In compliance with this position, the dispute resolution provision shall not be enforced as presented, and mediation is not required to take place in Goose Creek, South Carolina. The parties may agree on the location of any mediation, and the location of the mediation shall not be remote from the franchisee's business location without the franchisee's agreement.

**17 v – Jurisdiction of the Courts**

To the extent the provisions of the Franchise Agreement regarding consent of franchisee to the jurisdiction of the courts of South Carolina are inconsistent with the intent of North Dakota statutes, Section 51-19-09 of the North Dakota Franchise Investment Law, as determined by The Securities Commissioner, the Franchise Agreement jurisdiction provisions described in the disclosure document shall be deleted in their entirety and shall have no force or effect.



## **17 w – Choice of Law**

To the extent the provisions of the Franchise Agreement regarding choice of law are inconsistent with the intent of North Dakota statutes, Section 51-19-09 of the North Dakota Franchise Investment Law, as determined by The Securities Commissioner, the Franchise Agreement choice of law described in the disclosure document shall be deleted in its entirety and shall have no force or effect.

**AMENDMENT TO THE HQ FRANCHISING CORPORATION  
FRANCHISE AGREEMENTS REQUIRED BY  
THE STATE OF NORTH DAKOTA**

In recognition of the requirements of the North Dakota Franchise Investment Law and the policies of the office of the State of North Dakota Securities Commission, the parties to the attached HIRE QUEST DIRECT Franchise Agreement or the SNELLING Staffing Center Franchise Agreement (either contract, the “Agreement”) agree as follows:

1. Section 4.2 of the Agreement states: “Subject to the conditions of this Section 4, so long as the Franchisee has fully complied with this Agreement and is in full compliance with this Agreement when the Initial Term expires, and contingent upon the Franchisee's execution of general releases, in form satisfactory to Franchisor, of all claims against Franchisor and its officers, directors, employees and agents, Franchisee shall have the option to enter into a Successive Agreement(s).” The phrase “...contingent upon the Franchisee's execution of general releases, in form satisfactory to Franchisor, of all claims against Franchisor and its officers, directors, employees and agents...” shall be deleted in its entirety and shall have no force or effect.

2. Section 13.2 of the Agreement (“Noncompetition”) shall be amended with the following additional provision:

Covenants not to compete such as are set forth in this Section 13.2 are generally considered unenforceable in the State of North Dakota.

3. Section 25.7, “Dispute Resolution” of the Agreement shall be supplemented by the addition of the following provision:

The foregoing provisions regarding jurisdiction and venue are void with respect to any cause of action that is otherwise enforceable in North Dakota.

4. Section 25.8, “Mediation,” of the Agreement shall be supplemented by the addition of the following provision:

The parties may agree to any location for the mediation and it shall not be remote from the location of the franchisee’s business without the franchisee’s agreement.

**IN WITNESS WHEREOF**, the parties have executed and delivered this Agreement as of the later signature date shown below.

**FRANCHISOR: HQ FRANCHISING CORPORATION**

By: \_\_\_\_\_  
President  
Date: \_\_\_\_\_

Attest: \_\_\_\_\_  
Secretary

**FRANCHISEE NAME:** \_\_\_\_\_

By: \_\_\_\_\_  
President  
Date: \_\_\_\_\_

Attest: \_\_\_\_\_  
Secretary

**HQ FRANCHISING CORPORATION  
FRANCHISE DISCLOSURE DOCUMENT  
VIRGINIA DISCLOSURE**

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for HQ FRANCHISING CORPORATION for use in the Commonwealth of Virginia shall be amended as follows:

Additional Disclosure

The following statements are added to Item 17.h.:

Under Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Hire Quest Staffing Franchise Agreement or the Hire Quest Direct Franchise Agreement does not constitute “reasonable cause,” as that term maybe defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

HQ FRANCHISING CORPORATION  
FRANCHISE DISCLOSURE DOCUMENT  
MICHIGAN DISCLOSURE

**The fact that there is a notice of this offering on file with the Attorney General does not constitute approval, recommendation, or endorsement by the Attorney General.**

The State of Michigan prohibits certain unfair provisions that are sometimes in franchise documents. If any of the following provisions are in these franchise documents, the provisions are void and cannot be enforced against you.

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
  - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
  - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

HQ FRANCHISING CORPORATION  
FRANCHISE DISCLOSURE DOCUMENT  
MICHIGAN DISCLOSURE

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

Any questions regarding this notice should be directed to the Department of the Attorney General:

**Mailing Address**

G. Mennen Williams Building  
525 W. Ottawa Street  
P.O. Box 30212  
Lansing, MI 48909  
(517)335-7622

**Detroit Office**

Cadillac Place, 10th Floor  
3030 W. Grand Blvd., Ste 10-200  
Detroit, MI 48202  
Phone: 313-456-0240  
Fax: 313-456-0243

**AMENDMENT TO THE  
HIRE QUEST DIRECT and SNELLING Staffing Center  
FRANCHISE AGREEMENTS REQUIRED BY  
THE STATE OF MINNESOTA**

In recognition of the Minnesota Franchises Law, Minn. Stat., Chapter 80C, Sections 80C.01 through 80C.22, and of the Rules and Regulations promulgated pursuant thereto by the Minnesota Commission of Securities, Minnesota Rule 2860.4400, et. seq., the parties to the attached Hire Quest Direct and Hire Quest Franchise Agreements (the "Franchise Agreements") agree as follows:

1. Section 4.2, "Successive Terms – Franchisee’s Option”, shall be supplemented by the addition of the following new sentence, which shall be considered an integral part of the Franchise Agreements:

The general release shall exclude only such claims as the Franchisee or its owner(s) may have under the Minnesota Franchises Law, Minn. Stat. 80C.1-80C.22, and the Rules and Regulations promulgated thereunder by the Commissioner of Commerce.

2. Section 2 of the Franchise Agreements, under the heading “Grant of Franchise”, shall be supplemented by the addition of the following new Section 2.5, which shall be considered an integral part of the Franchise Agreements:

2.5 Minnesota law provides franchisees with certain termination, non-renewal, and transfer rights. Minn. Stat. Sec. 80C.14, Subd. 3, 4 and 5 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 of non-renewal of the Franchise Agreement, and that consent to the transfer of the franchise not be unreasonably withheld.

3. Section 10 of the Franchise Agreements, under the heading “Marks”, Section 10.7 shall be supplemented by the following new sentence, which shall be considered an integral part of the Franchise Agreement:

As required by the Minnesota Franchise Act, Minn. Stat. Sec. 80C.12(g), Hire Quest will reimburse the Franchisee for any costs incurred by Franchisee in the defense of the Franchisee’s right to use the marks, so long as Franchisee was using the Marks in the manner authorized by Hire Quest, and so long as Hire Quest is timely notified of the claim and is given the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.

4. Section 23 of the Franchise Agreements (“Termination”) shall be supplemented by the following new sentence, which shall be considered an integral part of the Franchise Agreements:

Minnesota law provides franchisees with certain termination, non-renewal, and transfer rights. Minn. Stat. Sec. 80C.14, Subd. 3, 4 and 5 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 of non-renewal of the Franchise Agreement, and that consent to the transfer of the franchise not be unreasonably withheld.

5. Section 25.7 of the Franchise Agreements titled “Dispute Resolution”, shall be supplemented by the addition of the following new provision, which shall be considered an integral part of the Franchise Agreements:

Minn. Stat. §80C.21 and Minn. Rule 2860.4400J will void any provision requiring litigation to be conducted outside of Minnesota. In addition, nothing in the offering circular or 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. Further, Minn. Stat §80C.17. provides that “No action may be commenced pursuant to this section more than three years after the cause of action accrues,” which voids the one-year claims limitation in Section 25.7 of the Franchise Agreements.

[Signatures Appear on the Following Page.]



IN WITNESS WHEREOF, HQ FRANCHISING CORPORATION and Franchisee have signed this Amendment on the dates indicated below.

WITNESS

\_\_\_\_\_

**HQ FRANCHISING  
CORPORATION**

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date Signed: \_\_\_\_\_

WITNESS

\_\_\_\_\_

**FRANCHISEE**

Signature: \_\_\_\_\_

Date signed: \_\_\_\_\_

**HQ FRANCHISING CORPORATION  
FRANCHISE DISCLOSURE DOCUMENT  
MINNESOTA DISCLOSURE**

In accordance with the requirements of the state of Minnesota the following disclosure should be read in conjunction with the franchise disclosure document. This disclosure supplements the information contained in the corresponding sections of the franchise disclosure document. Any inconsistency with the information contained in the franchise disclosure document will be resolved in favor of this Minnesota Disclosure.

**ITEM 13 TRADEMARKS**

As required by the Minnesota Franchise Act, Minn. Stat. Sec. 80C.12(g), Hire Quest will reimburse you for any costs you incur in the defense of your right to use the marks, so long as you were using the Marks in the manner authorized by Hire Quest, and so long as Hire Quest is timely notified of the claim and is given the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.

**ITEM 17**

**RENEWAL, TERMINATION, TRANSFER  
AND DISPUTE RESOLUTION**

**Renewal, Termination, and Transfer of the Franchise**

Minnesota law provides franchisees with certain termination, non-renewal, and transfer rights. Minn. Stat. Sec. 80C.14, Subd. 3, 4 and 5 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 of non-renewal of the Franchise Agreement, and that consent to the transfer of the franchise not be unreasonably withheld.

Hire Quest has the right to require you and your owner(s) to execute a general release of all claims against Hire Quest and its affiliates, officers, directors, employees and agents as a condition of entering into a subsequent Hire Quest Agreement. This release will exclude only such claims as you and your owner(s) may have under the Minnesota Franchises Law, Minn. Stat. 80C.1-80C.22, and the Rules and Regulations promulgated thereunder by the Commissioner of Commerce.

Minn. Stat §80C.21 and Minn. Rule 2860.4400J prohibits us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the franchise disclosure document or 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. Further, Minn. Stat §80C.17. Subd.(5) provides that "No action may be commenced pursuant to this section more than three years after the cause of action accrues," which voids the one-year claims limitation in Section 25.7 of the Franchise Agreements.

**HQ FRANCHISING CORPORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**  
**INDIANA APPENDIX**

In accordance with the requirements of the state of Indiana the following disclosure should be read in conjunction with the franchise disclosure document. This disclosure supplements the information contained in the corresponding sections of the franchise disclosure document. Any inconsistency with the information contained in the franchise disclosure document will be resolved in favor of this Indiana Disclosure.

**COVER PAGE**  
**RISK FACTORS**

The risk factors state that the Franchise Agreement is to be interpreted and construed under the laws of the State of South Carolina. This provision shall not apply with respect to any cause of action which otherwise is enforceable in the state of Indiana pursuant to the Indiana Franchise Law and the Indiana Deceptive Franchise Practices Act.

**ITEM 3 LITIGATION**

The Franchisor is not involved in any pending arbitration and has not, during the ten-year period immediately preceding the date of this franchise disclosure document, been a party to any arbitration proceeding that must be disclosed under Item 3 Guidelines.

**ITEM 17 RENEWAL, TERMINATION, TRANSFER**  
**AND DISPUTE RESOLUTION**

**Renewal of the Franchise**

The Franchisor has the right to require the Franchisee and its owner(s) to execute a general release of all claims against the Franchisor as a condition of the assignment, excluding only such claims as the Franchisee may have under Indiana Code, Title 23, Article 2, Chapter 2.7 (Indiana Deceptive Franchise Practices Law).

**Termination by the Franchisor**

The Franchisor will comply with the requirements of Indiana Code 23-2-2.7-1(7), which prohibits the Franchisor from terminating the Franchise Agreement without good cause (including a material violation of the Franchise Agreement) or in bad faith.

### **Assignment by the Franchisee**

The Franchisor has the right to require the Franchisee and its owner(s) to execute a general release of all claims against the Franchisor as a condition of the assignment, excluding only such claims as the Franchisee may have under Indiana Code, Title 23, Article 2, Chapter 2.7 (Indiana Deceptive Franchise Practices Law)

### **Covenants Not to Compete After the Term of the Franchise**

In accordance with Indiana Code, Title 23, Article 2, Chapter 2.7 (Indiana Deceptive Franchise Practices Law), the non-compete area is limited to the sale or offering for sale, within the Territory, services similar to those offered by Hire Quest, LLC system Businesses.

### **Choice of Forum/Choice of Law**

The Franchise Agreement states that it is governed by and construed and enforced in accordance with the laws of the State of South Carolina. This provision shall not apply with respect to any cause of action which otherwise is enforceable in the state of Indiana pursuant to the Indiana Franchise Law and the Indiana Deceptive Franchise Practices Act.

The Franchisor may institute any action against the Franchisee arising out of or relating to the Franchise Agreement in any state of federal court of competent jurisdiction, except with respect to any cause of action which otherwise is enforceable in Indiana. In such cases, the Franchisee will have access to the Indiana courts and Indiana law. The Franchisee need not waive any objection to venue and jurisdiction of courts outside the jurisdiction of Indiana.

**HQ FRANCHISING CORPORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**

**EXHIBIT D**

**LIST OF STATE AGENCIES FOR SERVICE OF PROCESS**

**EXHIBIT "D"****TO HIRE QUEST FRANCHISE DISCLOSURE DOCUMENT****State Authorities/Agents for Service of Process**

<b>STATE</b>	<b>STATE AUTHORITY</b>	<b>AGENT FOR SERVICE OF PROCESS</b>
Delaware	Secretary of State	Corporation Service Company 251 Little Falls Drive, Wilmington, DE 19808
Wisconsin	Administrator, Division of Securities, DFI 4822 Madison Yards Way, Madison, WI 53705	Administrator, Division of Securities, DFI 4822 Madison Yards Way, Madison, WI 53705
Illinois	Office of the Attorney General Franchise Bureau 500 South Second St., Springfield, IL 62701	Officer of the Attorney General 500 South Second St., Springfield, IL 62701
Virginia	Virginia State Corporation Commission, Division of Securities and Retail Franchising P.O. Box 1197 Richmond, Virginia 23218	Clerk, Virginia State Corporation Commission 1300 E. Main St., Richmond, VA 23219
Michigan	Department of Attorney General Consumer Protection PO Box 30213 Lansing, MI 48909	Attorney General Franchise Section PO Box 30213 Lansing, MI 48909
Indiana	Secretary of State Securities Division 302 W. Washington St. Room E111 Indianapolis, IN 46204	Indiana Secretary of State 302 W. Washington St. Room E111 Indianapolis, IN 46204
Maryland	Office of the Attorney General, Securities Division, 200 St. Paul Place, Baltimore, Maryland 21202-2020	Maryland Securities Commissioner 200 St. Paul Place Baltimore, MD 21202

Minnesota	Minnesota Department of Commerce – Securities Section 85 7 <sup>th</sup> Place East, Suite 280 St. Paul, MN 55101	Minnesota Commissioner of Commerce 85 7 <sup>th</sup> Place East, Suite 280 Saint Paul, MN 55101
New York	Secretary of State  99 Washington Avenue Albany, NY 12231	NYS Department of Law Investor Protection Bureau 28 Liberty St., 21st Floor New York, NY 10005 212-414-8222
Rhode Island	State of Rhode Island DEPARTMENT OF BUSINESS REGULATION Securities Division 1511 Pontiac Avenue, Bldg. 69-2 Cranston, Rhode Island 02920	Director, Department of Business Regulation 1511 Pontiac Avenue, Bldg. 69-2 Cranston, RI 02902
North Dakota	North Dakota Securities Department  600 East Blvd., State Capitol, 5 <sup>th</sup> Floor Bismarck, ND 58505-0510	North Dakota Securities Commissioner 600 East Blvd., State Capitol, 5 <sup>th</sup> Floor Bismarck, ND 58505-0510
South Dakota	South Dakota Department of Labor and Regulation- Division of Insurance- Securities Regulation	124 S. Euclid Ave., 2 <sup>nd</sup> Floor, Pierre, SD 57501

If a state is not listed, HQ Franchising Corporation has not appointed an agent for service of process in that state in connection with the requirements of the franchise laws. There may be states in addition to those listed above in which HQ Franchising Corporation has appointed an agent for service of process.

Please send a copy of all formal notices to: HQ FRANCHISING CORPORATION, Attn.: John McAnnar, Chief Legal Officer, 111 Springhall Drive, Goose Creek, South Carolina 29445.

**HQ FRANCHISING CORPORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**

**EXHIBIT E**

**FINANCIAL STATEMENTS**

- **HIREQUEST, INC. 2020 Consolidated Financial Statements**
- **HIREQUEST, INC. 2021 Consolidated Financial Statements**
- **HIREQUEST, INC. 2022 Consolidated Financial Statements**
- **HIREQUEST, INC. FORM E GUARANTEE OF PERFORMANCE**



To the Stockholders and Board of Directors of HireQuest, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying balance sheets of HireQuest, Inc. (the "Company") as of December 31, 2020 and 2019, the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's 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 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

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

**Note Receivable Allowance for Losses— Refer to Notes 1 and 14 to the financial statements**

*Critical Audit Matter Description*

The Company's evaluation of the adequacy of its allowance for losses on notes receivable includes an assessment of the creditworthiness of individual note holders and the underlying collateral value. The Company reports notes receivables at the principal balance outstanding less an allowance for losses, with interest charged to individual note holders at a fixed rate over the life of the receivable. Notes are generally secured by the assets of each location and ownership interests in the franchise or operating entity. The Company monitors the financial condition of the note holders and records provisions for estimated losses when they believe it is probable that the franchisees will be unable to make required payments. The notes receivable balance as of December 31, 2020 was \$8,065,528, inclusive of an allowance for losses on notes receivable of \$1,598,672.

We identified the allowance for losses as a critical accounting matter because of the significant estimates and assumptions management makes to estimate the allowance for losses on notes receivables and the subjectivity of the calculation. As a result, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to a note holder's creditworthiness and estimates of future cash flows and collateral value required a high degree of auditor judgement and an increased extent of effort.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the evaluation of the reasonableness of the notes receivable allowance for losses included the following, among others:

- We obtained an understanding of the process and evaluated the design and implementation of controls relating to management's determination of the allowance for losses and impairment of notes receivable.
- We evaluated management's determination of quantitative and qualitative factor adjustments to the allowance, which included reviewing note holder financial projections and the consistency of application of quantitative and qualitative factors, and evaluation thereof.
- We assessed overall trends in credit quality of note holders and historical payment experience.
- We evaluated the accuracy and adequacy of the related financial statement disclosures.

**Workers' Compensation Claims Liability — Refer to Notes 1 and 6 to the financial statements**

*Critical Audit Matter Description*

The Company's workers' compensation claims liability is based on estimated future costs to be incurred by the Company. The liability includes claims that have been reported but not settled, as well as claims that have been incurred but not reported. Annually, the Company utilizes third party actuarial estimates of future costs of the claims discounted by a present value interest rate to estimate the amount of the reserves. If the actual costs of the claims exceed the amount estimated, additional reserves may be required. The workers' compensation claims liability balance as of December 31, 2020 was \$4,584,068.

We identified the workers' compensation claims liability as a critical accounting matter because of the significance of the assumptions used in the actuarial estimates of the liability for workers' compensation claims and consideration of the completeness of information provided to the third-party actuarial firm. As a result, performing audit procedures to evaluate the reasonableness of estimates and assumptions related to the adequacy of the workers' compensation liability required a high degree of auditor judgement and an increased extent of effort.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the evaluation of the reasonableness of the workers' compensation claim liability included the following, among others:

- We obtained an understanding of the process and evaluated the design and implementation of controls relating to management's determination of the workers' compensation claim liability.
- We assessed the professional qualifications of the third-party actuary including their independence, experience, and certifications.
- We obtained and reviewed the independent actuarial report and gained an understanding from the actuary of the objectives and scope of their work, and we evaluated the consistency of methods and assumptions used in the current year as compared to previous years.
- We discussed the valuation model, data inputs, assumptions, calculations, and results directly with the third-party actuary.
- We analytically considered balances in relation to prior years and activity that took place during the year.
- We tested the completeness, integrity, and accuracy of the underlying data used by the third-party actuary as part of the actuarial valuation.
- We evaluated adjustments made by management to the model.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2017.

Denver, Colorado

March 25, 2021

HireQuest, Inc.  
Consolidated Balance Sheets

ASSETS	December 31, 2020	December 31, 2019
<b>Current assets</b>		
Cash	\$ 13,667,434	\$ 4,187,450
Accounts receivable, net of allowance for doubtful accounts	21,344,499	28,201,279
Notes receivable	2,178,299	3,419,458
Prepaid expenses, deposits, and other assets	344,091	188,560
Prepaid workers' compensation	1,434,583	822,938
Other assets	-	201,440
Total current assets	<u>38,968,906</u>	<u>37,021,125</u>
Property and equipment, net	3,193,379	1,900,686
Workers' compensation claim payment deposit	623,452	-
Deferred tax asset	79,379	-
Intangible assets, net	342,697	-
Notes receivable, net of current portion and reserve	5,887,229	7,990,251
Total assets	<u>\$ 49,095,042</u>	<u>\$ 46,912,062</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 457,490	\$ 253,845
Other current liabilities	1,322,764	1,893,846
Accrued benefits and payroll taxes	743,431	1,113,904
Due to affiliates	67,398	-
Due to franchisees	3,228,777	3,610,596
Risk management incentive program liability	858,482	1,811,917
Workers' compensation claims liability	2,777,734	2,327,869
Total current liabilities	<u>9,456,076</u>	<u>11,011,977</u>
Workers' compensation claims liability, net of current portion	1,806,334	1,516,633
Franchisee deposits	1,468,359	1,412,924
Deferred tax liability	-	1,688,446
Total liabilities	<u>12,730,769</u>	<u>15,629,980</u>
Commitments and contingencies (Note 12)		
<b>Stockholders' equity</b>		
Preferred stock - \$0.001 par value, 1,000,000 shares authorized; none issued	-	-
Common stock - \$0.001 par value, 30,000,000 shares authorized; 13,628,675 and 13,518,036 shares issued, respectively	13,629	13,518
Additional paid-in capital	28,811,389	27,584,610
Treasury stock, at cost - 33,092 and -0- shares, respectively	(146,465)	-
Retained earnings	7,685,720	3,683,954
Total stockholders' equity	<u>36,364,273</u>	<u>31,282,082</u>
Total liabilities and stockholders' equity	<u>\$ 49,095,042</u>	<u>\$ 46,912,062</u>

See accompanying notes to consolidated financial statements.

HireQuest, Inc.  
Consolidated Statements of Operations

	Year ended	
	December 31, 2020	December 31, 2019
Franchise royalties	\$ 12,792,793	\$ 14,673,636
Service revenue	1,016,332	1,202,824
Total revenue	13,809,125	15,876,460
Selling, general and administrative expenses	8,700,446	12,692,297
Depreciation and amortization	129,182	400,132
Income from operations	4,979,497	2,784,031
Other miscellaneous income	1,170,619	751,077
Interest and other financing expense	(49,664)	(559,585)
Net income before income taxes	6,100,452	2,975,523
Provision for income taxes	741,038	3,480,996
Income (loss) from continuing operations	5,359,414	(505,473)
Income from discontinued operations, net of tax	-	215,494
Net income (loss)	<u>\$ 5,359,414</u>	<u>\$ (289,979)</u>
<b>Basic earnings (loss) per share</b>		
Continuing operations	\$ 0.40	\$ (0.05)
Discontinued operations	-	0.02
Total	<u>\$ 0.40</u>	<u>\$ (0.03)</u>
<b>Diluted earnings (loss) per share</b>		
Continuing operations	\$ 0.39	\$ (0.05)
Discontinued operations	-	0.02
Total	<u>\$ 0.39</u>	<u>\$ (0.03)</u>
<b>Weighted average shares outstanding</b>		
Basic	13,542,403	11,588,776
Diluted	13,654,128	11,588,776

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**

	Common stock		Treasury Stock	Additional paid-in	Retained	Total stockholders'
	Shares	Par value	Amount	capital	earnings	equity
Balance at December 31, 2018	9,939,668	\$ 9,940	\$ -	\$ 6,938,953	\$ 3,973,933	\$ 10,922,826
Net contributions	-	-	-	1,155,907	-	1,155,907
Merger with Command Center, Inc.	4,677,487	4,677	-	26,937,648	-	26,942,325
Stock-based compensation	-	-	-	683,639	-	683,639
Restricted common stock granted for services	250,000	250	(250)	-	-	-
Common stock issued for services	14,035	14	-	74,399	-	74,413
Common stock issued for the exercise of options	31,667	32	-	161,845	-	161,877
Common stock purchased and retired	(1,394,821)	(1,395)	-	(8,367,531)	-	(8,368,926)
Net loss for the year	-	-	-	-	(289,979)	(289,979)
Balance at December 31, 2019	13,518,036	13,518	-	27,584,610	3,683,954	31,282,082
Stock-based compensation	-	-	-	1,226,890	-	1,226,890
Cash dividends	-	-	-	-	(1,357,648)	(1,357,648)
Restricted common stock granted for services	110,639	111	-	(111)	-	-
Purchase of treasury stock	-	-	(146,465)	-	-	(146,465)
Net income	-	-	-	-	5,359,414	5,359,414
Balance at December 31, 2020	13,628,675	\$ 13,629	\$ (146,465)	\$ 28,811,389	\$ 7,685,720	\$ 36,364,273

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Consolidated Statement of Cash Flow**

	Twelve months ended	
	December 31, 2020	December 31, 2019
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 5,359,414	\$ (289,979)
Income from discontinued operations	-	(215,494)
Net income (loss) from continuing operations	5,359,414	(505,473)
Adjustments to reconcile net income to net cash used in operations:		
Depreciation and amortization	129,182	400,132
Allowance for losses on notes receivable	1,598,673	-
Stock based compensation	1,226,890	758,053
Deferred taxes	(1,767,825)	(1,242,501)
Gain on disposition of property and equipment	-	(174,626)
Changes in operating assets and liabilities:		
Accounts receivable	6,856,780	(7,476,109)
Prepaid expenses, deposits, and other assets	(778,983)	1,588,118
Prepaid workers' compensation	(611,645)	(334,177)
Due from affiliates	-	218,018
Accounts payable	203,645	200,411
Risk management incentive program liability	(953,435)	(40,411)
Other current liabilities	(571,082)	(203,153)
Accrued benefits and payroll taxes	(370,473)	(1,402,184)
Due to franchisees	(381,819)	1,180,148
Workers' compensation claim payment deposit	(623,452)	-
Workers' compensation claims liability	739,566	2,004,591
Net cash provided by (used in) operating activities - continuing operations	10,678,888	(5,029,163)
Net cash used in operating activities - discontinued operations	201,440	9,986,976
Net cash provided by operating activities	10,880,328	4,957,813
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(1,421,875)	(507,602)
Proceeds from the sale of property and equipment	-	735,537
Investment in intangible assets	(342,697)	-
Proceeds from payments on notes receivable	2,075,590	3,563,011
Cash acquired in acquisition	-	5,376,543
Cash issued for notes receivable	(330,082)	-
Net change in franchisee deposits	55,435	645,416
Net cash provided by investing activities	36,371	9,812,905
<b>Cash flows from financing activities</b>		
Net change in line of credit	-	712,354
Payments to affiliates	-	(5,535,797)
Proceeds from affiliates	67,398	-
Purchase of treasury stock	(146,465)	(8,368,926)
Payment of dividends	(1,357,648)	-
Net contributions by Legacy HQ members	-	1,155,907
Proceeds from the conversion of stock options	-	161,877
Net cash used in financing activities	(1,436,715)	(11,874,585)
<b>Net increase in cash</b>	9,479,984	2,896,133
<b>Cash, beginning of period</b>	4,187,450	1,291,317
<b>Cash, end of period</b>	\$ 13,667,434	\$ 4,187,450
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Stock issued for acquisition	-	26,942,325
Notes receivable issued for the sale of branches	-	14,887,220
Accounts receivable received for the sale of branches	-	2,204,286
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	49,664	559,585
Income taxes paid	2,815,745	1,819,344

See accompanying notes to consolidated financial statements.

**Note 1 – Overview and Summary of Significant Accounting Policies**

**Nature of Business**

HireQuest, Inc. ("HQI," the "Company," "we," "us," or "our") is a nationwide franchisor of offices providing on-demand labor solutions in the light industrial and blue-collar segments of the staffing industry. Our franchisees provide various types of temporary personnel through two business models operating under the trade names "HireQuest Direct," previously known as "Trojan Labor," and "HireQuest," previously known as "AcruX Staffing." HireQuest Direct specializes primarily in unskilled and semi-skilled industrial and construction personnel. HireQuest specializes primarily in skilled and semi-skilled industrial personnel as well as clerical and administrative personnel.

As of December 31, 2020 we had 139 franchisee-owned offices in 30 states and the District of Columbia. We are the employer of record to approximately 57,000 employees annually, who in turn provide services for thousands of clients in various industries including construction, recycling, warehousing, logistics, auctioneering, manufacturing, hospitality, landscaping, and retail. We provide staffing, marketing, funding, software, and administrative services to our franchisees. On September 29, 2019, we finalized the conversion of the last of our company-owned offices to franchisee-owned offices. Between July 15, 2019 and that date, we also owned and operated offices.

HQI is the product of a merger between Command Center, Inc. ("Command Center"), and Hire Quest Holdings, LLC, ("Hire Quest Holdings"). We refer to Hire Quest Holdings collectively with its wholly-owned subsidiary, Hire Quest, LLC, as "Legacy HQ." We refer to this merger, which closed on July 15, 2019, as the "Merger." Upon the closing of the Merger, all of the ownership interests in Legacy HQ were converted into the right to receive an aggregate number of shares representing 68% of the total shares of the Company's common stock outstanding immediately after the Merger. Because the Legacy HQ security holders received a majority of the equity securities and voting rights of the combined company upon the closing of the Merger, Legacy HQ is considered to be the accounting acquirer. This means that Legacy HQ will allocate the purchase price to the fair value of Command Center's assets acquired and liabilities assumed on the acquisition date. This also means that Legacy HQ's historical financial statements replace Command Center's historical financial statements following the completion of the Merger, and the results of operations of both companies are included in our financial statements for all periods subsequent to the Merger. For additional information related to the Merger, see *Note 2 – Acquisitions*.

**Basis of Presentation**

We have prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of management, the accompanying consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the periods presented.

**Consolidation**

The consolidated financial statements include the accounts of HQI and all of its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

U.S. GAAP requires the primary beneficiary of a variable interest entity (a "VIE"), to consolidate that entity. To be the primary beneficiary of a VIE, an entity must have both the power to direct the activities that most significantly impact the VIE's economic performance, and the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it. We provide acquisition financing to some of our franchisees that results in some of them being considered a VIE. We have reviewed these franchisees and determined that we are not the primary beneficiary of any of these entities, and accordingly, these entities have not been consolidated.

**COVID-19 Pandemic**

In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19's ultimate effect on our operational and financial performance and the collectability of our notes receivable will depend on future developments, including the duration, spread, and intensity of the pandemic, and the efficacy, availability and distribution of vaccines, all of which are uncertain and difficult to predict. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on our business. However, the pandemic has so far had a material adverse effect on our business and results of operations. If the pandemic continues to be a severe worldwide health crisis, it could continue to have a material adverse effect on our future business, results of operations, financial condition, and cash flows.

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

Significant estimates and assumptions underlie our workers' compensation claim liabilities, our workers' compensation Risk Management Incentive Program, our deferred taxes, and estimated fair value of assets and liabilities acquired.

**Revenue Recognition**

Our primary source of revenue comes from royalty fees based on the operation of our franchised offices. Royalty fees from our HireQuest Direct business line are based on a percentage of sales for services our franchisees provide to customers and usually range from 5% to 8%. Royalty fees from our HireQuest business line are 4.5% of the payroll we fund plus 18% of the gross margin for the territory. Revenue is presented on a net basis as agent as opposed to a gross basis as principal, and recognized when we satisfy our performance obligations. Our performance obligations take the form of a franchise license and promised services. Promised services consist primarily of paying temporary employees, completing all payroll related statutory obligations, and providing workers' compensation insurance. Because these performance obligations are interrelated, we do not consider them to be individually distinct and therefore account for them as a single performance obligation. Because our franchisees receive and consume the benefits of our services simultaneously, our performance obligations are satisfied when our services are provided. Franchise royalties are billed on a weekly basis. We also offer various incentive programs for franchisees including royalty incentives and other support initiatives. Royalty fees are reduced to reflect any royalty incentives earned or granted under these programs. Additionally, we provide franchise royalty credits and incentives. These credits and incentives are provided to drive new location development, organic growth, and to limit workers' compensation exposure. Franchise royalty fees are presented net of these credits and incentives.

Service revenue consists of interest we charge our franchisees on overdue customer accounts receivable and other miscellaneous fees for optional services we provide. Interest income is recognized based on the effective interest rate applied to the outstanding principal balance. Revenue for optional services is recognized as services are provided.

Below are summaries of our revenue disaggregated by brand:

	Year ended	
	December 31, 2020	December 31, 2019
HireQuest Direct	\$ 12,063,963	\$ 13,644,786
HireQuest	728,829	1,028,850
Total	\$ 12,792,792	\$ 14,673,636

**Workers' Compensation Claims Liability**

We maintain reserves for workers' compensation claims based on their estimated future cost. These reserves include claims that have been reported but not settled, as well as claims that have been incurred but not reported. Annually, we engage an independent actuary to estimate the future costs of these claims. Quarterly, we use development factors provided by an independent actuary to estimate the future costs of these claims. We make adjustments as necessary. If the actual costs of the claims exceed the amount estimated, we may incur additional charges.

**Workers' compensation Risk Management Incentive Program ("RMIP")**

Our RMIP is designed to incentivize our franchisees to keep our temporary employees safe and control exposure to large workers' compensation claims. We accomplish this by paying our franchisees an amount equivalent to a percentage of the amount they pay for workers' compensation insurance if they keep their workers' compensation loss ratios below specified thresholds.

**Notes Receivable**

Notes receivable consist primarily of amounts due to us related to the financing of franchised locations. We report notes receivable at the principal balance outstanding less an allowance for losses. We charge interest at a fixed rate and interest income is calculated by applying the effective rate to the outstanding principal balance. Notes receivable are generally secured by the assets of each location and the ownership interests in the franchise. We monitor the financial condition of our franchisees and record provisions for estimated losses when we believe it is probable that our franchisees will be unable to make their required payments. We evaluate the potential impairment of notes receivable based on various analyses, including estimated discounted future cash flows, at least annually and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When a note receivable is deemed impaired, we discontinue accruing interest and only recognize interest income when payment is received. Our allowance for losses on notes receivable was approximately \$1.6 million and \$-0- at December 31, 2020 and December 31, 2019, respectively.

**Stock-Based Compensation**

Periodically, we issue restricted common shares or options to purchase our common shares to our officers, directors, or employees. We measure compensation costs for equity awards at their fair value on their grant date and expense these costs over the service period on a straight-line basis. The fair value of stock awards is based on the quoted price of our common stock on the grant date. The fair value of option awards is determined using the Black-Scholes valuation model.

**Intangible Assets – Internal Use Software**

We capitalize costs to develop or purchase computer software for internal use which are incurred during the application development stage. These costs include fees paid to third parties for development services and payroll costs for employees' time spent developing the software. We expense costs when incurred during the preliminary project stage and the post-implementation stage.

Capitalized development costs will be amortized on a straight-line basis over the estimated useful life of the software. The capitalization and ongoing assessment of recoverability of development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life.

**Provision for Income Taxes**

We account for provision (benefit) for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those deferred amounts. We record valuation allowances for deferred tax assets that more likely than not will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We have analyzed our filing positions in all jurisdictions where we are required to file returns and found no positions that would require a liability for unrecognized income tax positions to be recognized. If we are assessed penalties and/or interest, penalties will be charged to selling, general, and administrative expense and interest will be charged to interest expense.

The Work Opportunity Tax Credit ("WOTC") is a source of fluctuation in our effective income tax rate. The WOTC is designed to encourage the hiring of workers from certain disadvantaged targeted categories and is generally calculated as a percentage of wages over a twelve month period up to worker maximum by targeted category. We estimate the amount of WOTC we expect to receive based on wages certified in the current period.

**Business Combinations**

We account for business acquisitions under the acquisition method of accounting by recognizing identifiable tangible and intangible assets acquired, liabilities assumed, and non-controlling interests in the acquired business at their fair values. We record the portion of the purchase price that exceeds the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed as goodwill. We expense acquisition related costs as we incur them.



**Earnings per Share**

We calculate basic earnings (loss) per share by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding. We do not include the impact of any potentially dilutive common stock equivalents in our basic earnings (loss) per share calculations. Diluted earnings per share reflect the potential dilution of securities that could share in our earnings through the conversion of common shares issuable via outstanding stock options and unvested restricted shares, except where their inclusion would be anti-dilutive. Outstanding common stock equivalents at December 31, 2020 and December 31, 2019 totaled approximately 308,000 and 244,000, respectively.

Diluted common shares outstanding were calculated using the treasury stock method and are as follows:

	Year ended	
	December 31, 2020	December 31, 2019
Weighted average number of common shares used in basic net income per common share	13,542,403	11,588,776
Dilutive effects of stock options and unvested restricted stock	111,725	-
Weighted average number of common shares used in diluted net income per common share	13,654,128	11,588,776

**Property and Equipment**

We record property and equipment at cost. We compute depreciation using the straight-line method over the estimated useful lives. Land is not depreciated. Repairs and maintenance are expensed as incurred. When assets are sold or retired, we eliminate cost and accumulated depreciation from the consolidated balance sheet and reflect a gain or loss in the consolidated statement of income. The estimated useful lives of property and equipment are as follows:

- Buildings – 40 years
- Building improvements – 15 years
- Computers, furniture, and equipment – 5 to 7 years.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable consist of amounts due for labor services from customers of franchises and of previously company-owned offices. At December 31, 2020 and December 31, 2019, substantially all of our accounts receivable were due from franchises.

We own the accounts receivable from labor services provided by our franchisees. Accounts receivable that age beyond 84 days are charged back to our franchisees. Accordingly, we do not record an allowance for doubtful accounts on these accounts receivable.

For labor services provided by previously company-owned offices, we record accounts receivable at face value less an allowance for doubtful accounts. We determine the allowance for doubtful accounts based on historical write-off experience, the age of the receivable, other qualitative factors and extenuating circumstances, and current economic data which represents our best estimate of the amount of probable losses on these accounts receivable, if any. We review the allowance for doubtful accounts periodically and write off past due balances when it is probable that the receivable will not be collected. Our allowance for doubtful accounts on accounts receivable generated by company-owned offices was approximately \$77,000 and \$168,000 at December 31, 2020 and December 31, 2019, respectively.

**Advertising and Marketing Costs**

We expense advertising and marketing costs as we incur them. These costs were \$33,000 and \$449,000 in 2020, and 2019, respectively. The expense in 2019 included rebranding expenses incurred in relation to the Merger. These costs are included in general and administrative expenses.

**Fair Value Measures**

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an ordinary transaction between market participants on the measurement date. Our policy on fair value measures requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The policy establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The policy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1: Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2: Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and all other current liabilities approximate fair values due to their short-term nature. The fair value of notes receivable approximates the outstanding principal balance and are reviewed for impairment at least annually. The fair value of impaired notes receivable are determined based on estimated future payments discounted back to present value using the notes effective interest rate.

	Level	Fair value	
		December 31, 2020	December 31, 2019
Cash	1	\$ 13,667,434	\$ 4,187,450
Notes receivable	2	7,618,494	11,409,709
Notes receivable - impaired	3	447,034	-
Accounts receivable	2	21,344,499	28,201,279

For the Level 3 assets measured at fair value on a non-recurring basis at December 31, 2020, the significant unobservable inputs include the notes effective interest rate of 10%.

**Discontinued Operations**

During the quarter ended September 29, 2019, we sold substantially all of the offices acquired in the Merger. Accordingly, the assets and liabilities, operating results, and cash flows for these businesses are presented as discontinued operations, separate from our continuing operations, for all periods presented in our consolidated financial statements and footnotes, unless indicated otherwise.

**Savings Plan**

We have a savings plan that qualifies under Section 401(k) of the Internal Revenue Code. Under our 401(k) plan, eligible employees may contribute a portion of their pre-tax earnings, subject to certain limitations. As a benefit, we match 100% of each employee's first 3% of contributions, then 50% of each employee's contribution beyond 3%, up to a maximum match of 4% of the employee's eligible earnings. Matching expense related to our savings plan totaled approximately \$23,000 and \$0- during the years ended December 31, 2020 and December 31, 2019, respectively

**Recently Adopted Accounting Pronouncements**

There were no new accounting pronouncements, issued or effective during the year, adopted during the year.

**Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. This guidance is effective for annual periods beginning after December 15, 2022, and interim periods therein. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The standard was issued as a means to reduce the complexity of accounting for income taxes for those entities that fall within the scope of the accounting standard. The guidance is to be applied using a prospective method, excluding amendments related to franchise taxes, which should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. We are currently evaluating the impacts of adoption of the new guidance to our consolidated financial statements.

We do not expect other accounting standards that the FASB or other standards-setting bodies have issued to have a material impact on our financial position, results of operations, or cash flows.

## Note 2 – Acquisitions

On July 15, 2019, Command Center completed its acquisition of Legacy HQ. Upon the closing of the Merger, all of the membership interests in Hire Quest Holdings, LLC were converted into the right to receive 68% of the Company's common stock outstanding immediately after the closing, or 9,939,668 shares.

We accounted for the Merger as a reverse acquisition. As such, Legacy HQ is considered the accounting acquirer and Legacy HQ's historical financial statements replace Command Center's historical financial statements following the completion of the Merger. The results of operations of the combined company are included in our financial statements for all periods beginning July 15, 2019.

The fair value of the purchase consideration is calculated based on the Company's stock price on the NASDAQ exchange as it is considered to be more reliable than the fair value of the membership interests a private company, Legacy HQ. Consideration is calculated based on the Company's closing share price of \$5.76 on July 15, 2019.

The following table summarizes the estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date:

Closing share price on July 15, 2019	\$	5.76
Common stock		4,677,487
Stock consideration	\$	<u>26,942,325</u>
Accounts receivable	\$	10,480,907
Cash and cash equivalents		5,376,543
Identifiable intangible assets		17,015,857
Other current assets		725,453
Property, plant and equipment, net		281,186
Right-of-use asset		1,642,695
Current liabilities		(3,124,081)
Lease liabilities		(1,624,461)
Deferred tax liability		(2,930,947)
Other liabilities		(900,827)
Purchase price allocation	\$	<u>26,942,325</u>

The following table presents the unaudited pro forma information assuming the Merger occurred on January 1, 2018. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place on that date.

	Year ended	
	December 31, 2020	December 31, 2029
Royalty revenue	\$ 12,792,793	\$ 16,176,219
Net income	5,359,414	5,090,045
Basic earnings per share	\$ 0.40	\$ 0.38
Basic weighted average shares outstanding	13,542,403	13,294,201
Diluted earnings per share	\$ 0.39	\$ 0.38
Diluted weighted average shares outstanding	13,654,128	13,294,736

**Note 3 – Discontinued Operations**

Prior to October 2019, we operated a number of company-owned offices which were acquired in the Merger with Command Center. All of these company-owned offices were sold in the third quarter of 2019, the vast majority becoming franchisees, and we now no longer operate any company-owned offices. We also made the strategic decision to sell the assets of Command Center's four California offices outside of our franchise system to an unaffiliated third party, and we no longer conduct business in the state of California. A summary of total consideration received, and assets sold is as follows:

Notes receivable	\$	14,884,620
Accounts receivable		2,204,286
Cash		221,845
Consideration received	\$	<u>17,310,751</u>
Customer lists	\$	17,015,857
Lease and utility deposits		100,009
Fixed assets		57,448
Gain		137,437
Sale price allocation	\$	<u>17,310,751</u>

Operating results from company-owned offices are included in our consolidated financial statements as discontinued operations. The income from discontinued operations as reported on our consolidated statements of operations was comprised of the following amounts:

	Year ended	
	December 31, 2020	December 31, 2019
Revenue	\$ -	\$ 13,932,769
Cost of staffing services	-	9,946,836
Gross profit	-	3,985,933
Gain on sale	-	137,437
Selling, general and administrative expense	-	(3,836,045)
Net income before tax	-	287,325
Provision for income taxes	-	71,831
Net income	<u>\$ -</u>	<u>\$ 215,494</u>

We continue to be involved with the offices we sold through franchise agreements. The term of our franchise agreement is five years, subject to renewal at the end of the current term. Franchise royalties from sold locations that subsequently became franchisees were approximately \$3.0 million and \$1.4 million, for the years ended December 31, 2020 and December 31, 2019, respectively.

**Note 4 – Related Party Transactions**

Some significant shareholders of HQL also own portions of Hire Quest Financial, LLC; Hirequest Insurance Company; Brave New World Services, LLC, formerly known as Hire Quest LTS, LLC; Jackson Insurance Agency, Bass Underwriters, Inc.; Insurance Technologies, Inc.; and a number of our franchisees.

**Hire Quest Financial LLC ("HQF")**

Richard Hermanns, our CEO, Chairman of our Board, and most significant stockholder, and Edward Jackson, a member of our Board and a significant stockholder, own a majority of HQF, a financial services entity. HQF liquidated in 2020.

On July 14, 2019, Legacy HQ conveyed approximately \$2.2 million of accounts receivable to HQF. These transfers were used to pay down intercompany debt obligations. The intercompany debt was entirely extinguished prior to the Merger. At December 31, 2020 and December 31, 2019, HQI was not indebted to HQF for any amount. We do not have any current or planned business dealings with HQF.

**Hirequest Insurance Company ("HQ Ins.")**

Mr. Hermanns, his wife, his adult daughter, a trust established for the benefit of his children, and Mr. Jackson, collectively own a majority of HQ Ins., a North Carolina protected cell captive insurance company. HQ Ins. is currently running off all existing claims and has no intention of continuing business thereafter.

Effective March 1, 2010, Hire Quest, LLC purchased a deductible reimbursement insurance policy from HQ Ins. to cover losses up to the \$500,000 per claim deductible on the Hire Quest, LLC high-deductible workers' compensation policy. Hire Quest, LLC terminated its policy with HQ Ins. on July 15, 2019 upon the closing of the Merger.

Premiums invoiced by HQ Ins. to HQI and Legacy HQ for workers compensation deductible reimbursement insurance during the years ended December 31, 2020 and December 31, 2019 were \$-0- and approximately \$3.6 million, respectively. We do not have any current or planned business dealings with HQ Ins. other than cooperating to close Legacy HQ's workers' compensation claims.

**Brave New World Services, LLC, formerly known as Hire Quest LTS ("BNW")**

Mr. Jackson and an immediate family member of Mr. Hermanns collectively own a majority of BNW.

Historically, BNW employed the personnel at Legacy HQ headquarters. HQI terminated this relationship on July 15, 2019 upon the closing of the Merger. Amounts invoiced by BNW to HQI and Legacy HQ for payroll services during the years ended December 31, 2020 and December 31, 2019 were approximately \$-0- and \$19,000, respectively. We do not have any current or planned business dealings with BNW which now serves as a management company for the Worlds Franchisees (defined below), other than interactions as franchisor and franchisee representative.

**Jackson Insurance Agency ("Jackson Insurance") and Bass Underwriters, Inc. ("Bass")**

Mr. Jackson and an immediate family member own Jackson Insurance. Mr. Jackson, Mr. Hermanns, and irrevocable trusts set up by each of them, collectively own a majority of Bass, a large managing general agent.

Jackson Insurance and Bass brokered Legacy HQ's property, casualty, general liability, and cybersecurity insurance prior to the Merger. Since July 15, 2019, they have continued to broker these same policies for HQI. Jackson Insurance also brokers certain insurance policies on behalf of some of our franchisees, including the Worlds Franchisees (defined below).

Premiums, taxes, and fees invoiced by Jackson Insurance and Bass to HQI and Legacy HQ for these insurance policies during the years ended December 31, 2020 and December 31, 2019 were approximately \$726,000 and \$613,000, respectively. Jackson Insurance and Bass do not retain the majority of the premiums invoiced to HQI and Legacy HQ, but they do retain a commission of approximately 9% - 15% of premiums.

**Insurance Technologies, Inc. ("Insurance Technologies")**

Mr. Jackson, Mr. Hermanns, and irrevocable trusts set up by each of them, collectively own a majority of Insurance Technologies, an IT development and security firm. On October 24, 2019, HQI entered into an agreement with Insurance Technologies to add certain cybersecurity protections to our existing information technology systems and to assist in developing future information technology systems within our HQ Webconnect software. This arrangement was reviewed and approved by the Audit Committee of our Board of Directors and is monitored by the Audit committee on an ongoing basis.

During the years ended December 31, 2020 and December 31, 2019, Insurance Technologies invoiced HQI approximately \$188,000 and \$60,000 for services provided pursuant to this agreement, respectively.

**The Worlds Franchisees**

Mr. Hermanns and Mr. Jackson have direct or indirect ownership interests in certain of our franchisees (the "Worlds Franchisees"). There were 21 Worlds Franchisees at December 31, 2020 that operated 49 of our 139 offices. There were 20 Worlds Franchisees that operated 57 of our 147 offices at December 31, 2019.

Balances regarding the Worlds Franchisees are summarized below:

	December 31, 2020	December 31, 2019
Due to franchisee	\$ 435,072	\$ 993,495
Risk management incentive program liability	499,199	1,027,960

Transactions regarding the Worlds Franchisees are summarized below:

	Year ended	
	December 31, 2020	December 31, 2019
Franchisee royalties	\$ 4,897,445	\$ 6,964,690

**Note 5 – Line of Credit**

In July 2019, we entered into an agreement with Truist, for a \$30 million line of credit with a \$15 million sublimit for letters of credit. At December 31, 2020, approximately \$9.1 million was utilized by outstanding letters of credit that secure our obligations to our workers' compensation insurance carrier, \$500,000 was utilized by a letter of credit that secures our paycard funding account, leaving \$20.4 million available under the agreement for potential additional borrowings. For additional information related to the letter of credit securing our workers' compensation obligations see *Note 6 – Workers' Compensation Insurance and Reserves*.

This line of credit is scheduled to mature on May 31, 2024. The current agreement bears interest at a variable rate equal to the Daily One Month London Interbank Offering Rate, or LIBOR, plus a margin between 1.25% and 1.75%. The margin is determined based on the value of our net collateral, which is equal to our total collateral plus unrestricted cash less the outstanding balance, if any, under the loan agreement. At December 31, 20 the effective interest rate was 1.6%. A non-use fee of between 0.125% and 0.250% will accrue on the unused portion of the line of credit. As collateral for repayment of any and all obligations under this agreement, we granted Truist a security interest in substantially all of our operating assets and the operating assets of our subsidiaries. This agreement, and other loan documents, contain customary events of default and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes, transactions with affiliates, and sales of assets. This agreement requires us to comply with a fixed charge coverage ratio of at least 1.10:1.00, tested quarterly on a rolling four quarter basis. At December 31, 2020 we were in compliance with this covenant. Our obligations under this agreement are subject to acceleration upon the occurrence of an event of default as defined in the loan agreement.

**Note 6 – Workers' Compensation Insurance and Reserves**

Beginning in March 2014, Legacy HQ obtained its workers' compensation insurance through Chubb Limited and ACE American Insurance Company (collectively, "ACE"), in all states in which it operated, other than monopolistic jurisdictions. The ACE policy was a high deductible policy pursuant to which Legacy HQ had primary responsibility for all claims with ACE providing insurance for covered losses and expenses in excess of \$500,000 per incident. In addition to the ACE policy, Legacy HQ purchased a deductible reimbursement insurance policy from HQ Ins. to cover losses up to the \$500,000 deductible with ACE. This resulted in Legacy HQ effectively being fully insured during this time period. Effective July 15, 2019, we terminated our deductible reimbursement policy with HQ Ins. and have assumed the primary responsibility for all claims up to the deductible occurring on or after July 15, 2019. The primary responsibility of all claims occurring before July 15, 2019 remains with HQ Ins. We assumed the Legacy HQ policy with ACE.

Command Center also obtained its workers' compensation insurance through ACE. Pursuant to Command Center's policy, ACE provides insurance for covered losses and expenses in excess of \$500,000 per incident. Command Center's ACE policy in effect as of the date of the Merger includes a one-time obligation for the Company to pay any single claim filed under the Command Center policy within a policy year that exceeds \$500,000 (if any), but only up to \$750,000 for that claim. All other claims within the policy year are subject to the \$500,000 deductible. Effective July 15, 2019, in connection with the Merger, we assumed all of the workers' compensation claims of Command Center. We also assumed Command Center's workers' compensation policy with ACE.

Under these high deductible programs, HQI is effectively self-insured. Per our contractual agreements with ACE, we must provide collateral deposits of approximately \$9.1 million, which we accomplished by providing letters of credit under our agreement with Truist.

For workers' compensation claims originating in the monopolistic jurisdictions of Washington, North Dakota, Ohio, and Wyoming, we pay workers' compensation insurance premiums and obtain full coverage under mandatory state administered programs. Our liability associated with claims in these jurisdictions is limited to premium payments based upon the amount of payroll paid within each jurisdiction. Accordingly, our consolidated financial statements reflect only the mandated workers' compensation insurance premium liability for workers' compensation claims in these jurisdictions.

The following table reflects the changes in our workers' compensation claims liability:

	December 31, 2020	December 31, 2019
Estimated future claims liabilities at the beginning of the period	\$ 3,844,501	\$ -
Claims paid during the period	(3,779,286)	(1,237,977)
Additional future claims liabilities recorded during the period	4,518,853	5,082,478
Estimated future claims liabilities at the end of the period	<u>\$ 4,584,068</u>	<u>\$ 3,844,501</u>

#### Note 7 – Analysis of Franchised and Company-Owned Offices

Below is a summary of changes in the number of offices:

Franchised offices, December 31, 2018	97
Closed in 2019	(10)
Opened in 2019	60
Franchised offices, December 31, 2019	147
Closed in 2020	(13)
Opened in 2020	5
Franchised offices, December 31, 2020	<u>139</u>

#### Note 8 – Stockholders' Equity

##### Dividend

On September 15, 2020 we declared and paid a \$0.05 per common share dividend to shareholders of record as of the close of business on September 1, 2020 which amounted to an aggregate cash payment of approximately \$678,000. Then, on December 15, 2020 we declared and paid a \$0.05 per common share dividend to shareholders of record as of the close of business on December 1, 2020 which amounted to an aggregate cash payment of approximately \$680,000. We intend to continue to pay this dividend on a quarterly basis, based on our business results and financial position.

##### Treasury Stock

Effective July 2020, our Board of Directors authorized a one-year repurchase plan for up to 1 million shares of our common stock at a cost not to exceed \$100,000 per month. During the year ended December 31, 2020, we purchased 23,638 shares of our common stock at an aggregate cost of approximately \$146,000 resulting in an average price of \$6.20 per share. These shares are held in treasury. The table below summarized our common stock purchased during 2020 in more detail:

	Total shares purchased	Average price per share	Total number of shares purchased as part of publicly announced plan	Approximate dollar value of shares that may be purchased under the plan
July, 2020	675	\$ 6.21	675	\$ 1,200,000
August, 2020	22,963	6.20	23,638	1,000,000
Total	23,638			

Additionally, there were 9,454 restricted shares that did not meet the vesting criteria. These shares are also held in treasury.

**Issuance of Common Stock**

In October 2019, we issued 8,750 shares of stock pursuant to the exercise of 8,750 common stock options with a strike price of \$5.50 for a total purchase price of \$48,125. In December 2019, we issued 22,917 shares of stock pursuant to the exercise of 22,917 common stock options with weighted average strike price of \$4.96 for a total purchase price of \$113,752.

**Tender Offer**

In June 2019, we commenced an issuer tender offer to purchase up to 1,500,000 shares of our common stock at a fixed price of \$6.00 per share. This tender offer expired on July 25, 2019, and we accepted for purchase approximately 1.4 million shares for an aggregate cost of approximately \$8.4 million, excluding fees and expenses.

**Note 9 – Stock Based Compensation**

**Employee Stock Incentive Plan**

Our 2008 Stock Incentive Plan (the "2008 Plan"), which permitted the grant of up to 533,333 equity awards, expired in January 2016. In November 2016, our stockholders approved a new stock incentive plan, the 2016 Plan, under which were authorized to grant awards for up to 500,000 shares of our common stock over the 10 year life of the plan.

In 2019, we issued 160,000 shares of restricted common stock to certain key employees pursuant to the 2016 Plan valued at approximately \$1.1 million for services and to encourage retention. These shares vest over four years, with 50% vesting on September 1, 2021, and 6.25% vesting each quarter thereafter for the next eight quarters. Also in 2019, we issued 90,000 shares of restricted common stock pursuant to the 2016 Plan valued at \$648,000 for services to non-employee members of our Board of Directors. One third of these shares vested on June 14, 2020, and the remainder will vest in equal proportions on the first two anniversaries of that date. Also in 2019, we issued 9,833 shares of restricted common stock pursuant to the 2016 Plan valued at approximately \$59,000 to certain members of our Board of Directors for their services in lieu of cash compensation. Of these, 8,194 shares vested equally over the following three months. The remaining 1,639 shares were issued pursuant to our share purchase match program (described below). Also in 2019, we issued 4,202 shares of restricted common stock pursuant to the 2016 Plan valued at \$25,000 to an employee in lieu of cash for a bonus, which vested equally over the following three months.

In September 2019, our Board approved a share purchase match program to encourage ownership and further align the interests of key employees and directors with those of our shareholders. Under this program, we will match 20% of any shares of our common stock purchased on the open market or granted in lieu of cash compensation by key employees and directors up to \$25,000 in aggregate value per individual within any calendar year. These shares vest on the second anniversary of the date on which the matched shares were purchased if the individual is still with the Company. During 2020, we issued approximately 22,000 shares valued at approximately \$147,000 under this program. During 2019, we issued approximately 2,000 shares valued at approximately \$10,000 under this program.



In December 2019, our Board approved the 2019 HireQuest, Inc. Equity Incentive Plan (the "2019 Plan"), intended to replace the 2016 Plan with respect to future grants. Subject to adjustment in accordance with the terms of the 2019 Plan, no more than 1,500,000 shares of common stock are available in the aggregate for the grant of awards under the 2019 Plan. No more than 1,000,000 shares may be issued in the aggregate pursuant to the exercise of incentive stock options. In addition, no more than 250,000 shares may be issued in the aggregate to any employee or consultant, and no more than 50,000 shares may be issued in the aggregate to any non-employee director in any twelve-month period. Shares of common stock available for distribution under the Plan may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares reacquired by the Company in any manner. The 2019 Plan was approved by our shareholders in June 2020 and became effective as of that date. Pursuant to the terms of the 2019 Plan, any award already granted under the 2016 Plan as of June 15, 2020 remained in full force and effect, as if the 2016 Plan had not been amended or terminated.

In 2020, we issued 83,283 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$547,000 to members of our Board of Directors for their services in lieu of cash compensation. Of these, 61,868 shares vested equally over the following three months. The remaining 21,415 shares were issued pursuant to our share purchase match program.

Also in 2020, we issued 25,000 shares of restricted common stock to an employee pursuant to the 2019 Plan valued at approximately \$179,000 for services, and to encourage retention. These shares vest over four years, with 50% vesting on September 11, 2021, and 6.25% vesting each quarter thereafter for the next eight quarters. Also in 2020, we issued 402 shares of restricted common stock to certain employees pursuant to our share purchase match program valued at approximately \$3,000.

The following table summarizes our restricted stock outstanding at December 31, 2018, and changes during the years ended December 31, 2019 and December 31, 2020.

	Shares	Weighted average grant date price
Non-vested, December 31, 2018	-	-
Granted	264,035	7.15
Vested	<u>(8,264)</u>	<u>6.19</u>
Non-vested, December 31, 2019	255,771	7.18
Granted	110,639	6.71
Forfeited	(9,454)	7.14
Vested	<u>(73,500)</u>	<u>6.56</u>
Non-vested, December 31, 2020	<u>283,456</u>	<u>7.19</u>

Stock options that were outstanding at Command Center were deemed to be issued on the date of the Merger. Outstanding awards continue to remain in effect according to the terms of the 2008 Plan, the 2016 Plan, and the corresponding award documents. There were approximately 15,000 and 24,000 stock options vested at December 31, 2020 and December 31, 2019, respectively.

The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. Expected volatilities are based on the Company's historical data and implied volatility. The Company uses historical data to estimate expected employee forfeitures of stock options. The expected life of options granted is management's best estimate using recent and expected transactions. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no options granted in 2020. The weighted-average assumptions used in the model were as follows:

	2019
Expected term (years)	2.3 - 8.9
Expected volatility	46.8% - 63.1%
Dividend yield	0.0%
Risk-free rate	1.7% - 2.4%
Weighted average grant date fair value	\$ 3.18

The following table summarizes our stock options outstanding at December 31, 2018, and changes during the years ended December 31, 2020 and December 31, 2019.

	Number of shares underlying options	Weighted average exercise price per share	Weighted average grant date fair value
Outstanding, December 31, 2018	-	\$ -	\$ -
Granted	160,831	5.86	3.18
Forfeited	(100,000)	5.70	3.16
Exercised	(31,666)	5.11	2.71
Outstanding, December 31, 2019	29,165	7.20	3.76
Forfeited	(12,083)	8.76	4.34
Outstanding, December 31, 2020	17,082	6.10	3.36

The following table summarizes our non-vested stock options outstanding at December 31, 2018, and changes during the years December 31, 2020 and December 31, 2019:

	Number of shares underlying options	Weighted average exercise price per share	Weighted average grant date fair value
Non-vested, December 31, 2018	-	\$ -	\$ -
Granted	84,523	5.56	3.05
Forfeited	(57,857)	5.70	3.16
Vested	(21,250)	5.21	2.73
Non-vested, December 31, 2019	5,417	5.48	3.01
Vested	(3,229)	5.47	2.98
Non-vested, December 31, 2020	2,188	5.50	3.05

The following table summarizes information about our outstanding stock options, and reflects the intrinsic value recalculated based on the closing price of our common stock of \$10.22 on December 31, 2020:

	Number of shares underlying options	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding	17,082	\$ 6.10	5.67	\$ 82,496
Exercisable	14,894	6.18	5.41	60,135

At December 31, 2020, there was unrecognized stock-based compensation expense totaling approximately \$845,000 relating to non-vested options and restricted stock grants that will be recognized over the next 2.7 years.

#### Note 10 – Property and Equipment

The following table summarizes the book value of our assets and accumulated depreciation.

	December 31, 2020	December 31, 2019
Land	\$ 472,492	\$ 472,492
Buildings and improvements	1,027,631	1,023,231
Furniture and fixtures	599,901	598,417
Construction in progress	1,648,640	270,828
Accumulated depreciation	(555,285)	(464,282)
Total property and equipment, net	\$ 3,193,379	\$ 1,900,686

Construction in progress consists primarily of capitalized costs related to an addition to our corporate headquarters.

Depreciation expense related to property and equipment totaled approximately \$129,000 and \$400,000 during the years ended December 31, 2020 and December 31, 2019, respectively.

#### Note 11 – Intangible Assets

The following table reflects our finite-lived intangible assets.

	December 31, 2020		
	Gross	Accumulated amortization	Net
Finite-lived intangible assets:			
Internal-use software development	\$ 342,697	-	\$ 342,697
Total finite-lived intangible assets	\$ 342,697	\$ -	\$ 342,697

We did not recognize any amortization expense related to intangible assets during the year ended December 31, 2020 as we are still in the development stage.

#### Note 12 – Commitments and Contingencies

##### Consulting Agreement

As contemplated by the Merger Agreement, on July 15, 2019, we entered into a consulting arrangement with Dock Square. Pursuant to this consulting arrangement, Dock Square introduces prospective customers and expands relationships with our existing customers for which in return it is eligible to receive unregistered shares of our common stock, subject to certain performance metrics and vesting terms. The grant of any such shares by us would be based on our gross revenue generated from the services of Dock Square as measured over a 12 month period. Upon the grant of any such shares, 50% of such granted shares would vest immediately, and the remaining 50% of such granted shares would be subject to a vesting requirement linked to the gross revenue generated from the services of Dock Square measured over a 3 year period. We refer to any such shares as the "Performance Shares." We anticipate the maximum aggregate number of Performance Shares issuable under the consulting arrangement would not exceed 1.6 million shares. Any Performance Shares would be in addition to the pro rata portion of the shares of our common stock that Dock Square's members received as merger consideration at the closing of the Merger, along with the other investors in Legacy HQ. Dock Square would receive any declared and paid dividends on issued Performance Shares, including the unvested portion of such shares during the 3-year vesting measurement period, and the issued but unvested Performance Shares would vest upon a change of control. In addition, Dock Square received piggy-back registration rights with respect to its Performance Shares issued and vested at the time of such registration. To date, no shares have been issued to Dock Square as performance targets have not been met.

##### Franchise Acquisition Indebtedness

We financed the purchase of several offices by new franchises with notes receivable. In some instances, this financing resulted in certain franchises being considered VIE's. We have determined that we are not required to consolidate these entities because we do not have the power to direct these entities' daily operations. If these franchises default on these notes, we bear the risk of loss of the outstanding balance on these notes, less what we could recoup from the potential resale of the repossessed office. The balance due from the franchises determined to be VIE's on December 31, 2020 and December 31, 2019 was approximately \$2.1 million and \$2.5 million, respectively.

**Legal Proceedings**

From time to time, we are involved in various legal and administrative proceedings. Based on information currently available to us, we do not expect material uninsured losses to arise from any of these matters. We believe the outcome of these matters, even if determined adversely, will not have a material adverse effect on our business, financial condition or results of operations. There have been no material changes in our legal proceedings as of December 31, 2020.

**Note 13 – Income Tax**

The provision for income taxes is comprised of the following:

	December 31, 2020	December 31, 2019
Current		
Federal	\$ 1,812,710	\$ 3,551,418
State	696,154	996,510
Deferred		
Federal	(1,246,828)	(1,113,042)
State	(520,999)	46,110
Change in valuation allowance	-	-
Provision for income taxes	<u>\$ 741,038</u>	<u>\$ 3,480,996</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred taxes are as follows:

	December 31, 2020	December 31, 2019
<b>Deferred Tax Assets and Liabilities</b>		
Workers' compensation claims liability	\$ 1,131,695	\$ 947,023
Depreciation/amortization	205,987	279,990
Bad debt reserve	18,984	41,436
Accrued vacation	33,956	37,771
Cash to Accrual - 481 Adjustment	(1,888,302)	(3,000,216)
Impairment of notes receivable	394,674	-
Stock based compensation	182,385	5,550
Total deferred tax asset	<u>\$ 79,379</u>	<u>\$ (1,688,446)</u>

Management estimates that our effective tax rates was approximately 12.1% for 2020. The items accounting for the difference between income taxes computed at the statutory federal income tax rate and the income taxes reported on the statements of income are as follows:

	December 31, 2020		December 31, 2019	
Income tax expense based on statutory rate	\$ 1,281,095	21.0%	\$ 624,860	21.0%
Permanent differences	4,233	0.1%	(789,810)	(26.5)%
State income taxes expense net of federal taxes	138,375	2.3%	820,698	27.6%
WOTC	(712,891)	(11.7)%	(498,000)	(16.7)%
HQ Conversion to C Corp	-	0.0%	3,320,594	111.6%
Other	30,226	0.5%	2,654	0.1%
Total taxes on income	<u>\$ 741,038</u>	<u>12.1%</u>	<u>\$ 3,480,996</u>	<u>117.0%</u>

**Note 14 – Notes Receivable**

Some franchisees, as well as the purchaser of our previously owned California locations, have borrowed funds from us primarily to finance the initial purchase price of office assets. Notes outstanding net of allowance for losses were approximately \$8.1 million and \$11.4 million as of December 31, 2020 and December 31, 2019, respectively.

Notes receivable bear interest at a fixed rate between 6.0% and 10.0%. Notes are generally secured by the assets of each location and the ownership interests in the franchisee. Interest income on franchisee notes is reported in other miscellaneous income in our consolidated statements of operations and was approximately \$712,000 and \$280,000 in the years ended December 31, 2020 and December 31, 2019, respectively.

We estimate the allowance for losses for franchisees separately from the allowance for losses from non-franchisees because of the level of detailed sales information available to us with respect to the former.

Based on our review of the financial condition of the borrowers, the underlying collateral value, and the potential future impact of COVID-19 on certain borrowers' economic performance and estimated future cash flows, we have established an allowance of approximately \$1.6 million as of December 31, 2020 for potentially uncollectible notes receivable.

The following table summarizes changes in our notes receivable balance to franchisees:

	December 31, 2020	December 31, 2019
Note receivable	\$ 8,023,807	\$ 9,702,471
Allowance for losses	(405,313)	-
Notes receivable, net	<u>\$ 7,618,494</u>	<u>\$ 9,702,471</u>

During 2020, one of our note holders experienced significant economic hardships due to the impacts of COVID-19. As a result, we restructured one note receivable in an effort to increase the probability of repayment. We granted near-term payment concessions to help the debtor attempt to improve its financial condition so it may eventually be able to repay the amount due. We received recognized interest income of approximately \$174,000 and \$46,000 during the years ended December 31, 2020 and December 31, 2019, respectively.

The following table summarizes changes in our notes receivable balance that have been deemed impaired:

	December 31, 2020	December 31, 2019
Note receivable	\$ 1,640,393	\$ 1,707,238
Allowance for losses	(1,193,359)	-
Notes receivable, net	<u>\$ 447,034</u>	<u>\$ 1,707,238</u>

**Note 15 – Unaudited Quarterly Results of Operations**

The following table displays our unaudited consolidated statement of operations for the fourth quarter ended December 31, 2020 and December 31, 2019:

	Three months ended	
	December 31, 2020	December 31, 2019
Franchise royalties	\$ 3,229,658	\$ 5,396,922
Service revenue	175,817	475,748
Total revenue	3,405,475	5,872,670
Selling, general and administrative expenses	2,158,276	3,131,312
Depreciation and amortization	32,528	324,502
Income (loss) from operations	1,214,671	2,416,856
Other miscellaneous income	238,365	(616)
Interest and other financing expense	(10,490)	(37,748)
Net income before income taxes	1,442,546	2,378,492
Provision (benefit) for income taxes	86,446	(1,399,406)
Income (loss) from continuing operations	1,356,100	3,777,898
Income from discontinued operations, net of tax	-	(315,067)
Net income (loss)	\$ 1,356,100	\$ 3,462,831
<b>Basic earnings per share</b>		
Continuing operations	\$ 0.10	\$ 0.28
Discontinued operations	-	(0.02)
Total	\$ 0.10	\$ 0.26
<b>Diluted earnings per share</b>		
Continuing operations	\$ 0.10	\$ 0.28
Discontinued operations	-	(0.02)
Total	\$ 0.10	\$ 0.26

#### Note 16 - Subsequent Events

##### Link Staffing Acquisition

On March 22, 2021, we completed our acquisition of the franchise relationships and certain other assets of Link Staffing in accordance with the terms of the Asset Purchase Agreement dated February 12, 2021 (the "Link Agreement"). Link Staffing is a family-owned staffing company headquartered in Houston, TX. Pursuant to the Link Agreement, HQ Link Corporation ("HQ Link"), our wholly-owned subsidiary, acquired approximately 35 franchised offices, customer lists and contracts, and other assets of Link Staffing for a purchase price of \$11.1 million (the "Link Acquisition"). We funded this acquisition with existing cash on hand. We did not receive working capital and expect to satisfy future working capital needs related to the Link Acquisition with existing cash on hand and a line of credit with Truist. The initial acquisition accounting of Link has not been completed as the transaction was only recently completed.

**Snelling Staffing Acquisition**

On March 1, 2021, we completed our acquisition of certain assets of Snelling Staffing in accordance with the terms of the Asset Purchase Agreement dated January 29, 2021 (the "Snelling Agreement"). Snelling Staffing is a 67-year-old staffing company headquartered in Richardson, TX. Pursuant to the Snelling Agreement, HQ Snelling Corporation ("HQ Snelling"), our wholly-owned subsidiary, acquired substantially all of the operating assets and assumed certain liabilities of the sellers for a purchase price of \$17.3 million, subject to customary adjustments for net working capital plus further adjustment in an amount equal to the collateral released to the sellers by their workers' compensation insurer which Hire Quest, LLC will replace with the insurer. Also on March 1, 2021, HQ Snelling entered into the First Amendment to the Purchase Agreement, pursuant to which HireQuest, Inc. agreed to advance \$2.1 million to be paid to the sellers at closing to be used to pay accrued payroll liabilities that HQ Snelling assumed pursuant to the Snelling Agreement. The initial acquisition accounting of Snelling has not been completed as the transaction was only relatively recently completed.

We funded this acquisition with existing cash on hand and a draw on our existing line of credit with Truist.

**Note Purchase Agreement**

On March 1, 2021, HQ Financial Corporation ("HQ Financial"), a wholly-owned subsidiary of HireQuest, Inc., entered into a definitive note purchase agreement (the "Note Purchase Agreement") with Bass Underwriters, Inc. ("Bass"), whereby HQ Financial sold and conveyed existing notes receivable due from franchisees to Bass for their current principal value of approximately \$5.3 million. Bass is a related party to HireQuest, Inc., owned in part by Richard Hermanns, Edward Jackson, and trusts they have established. The transaction was reviewed and approved unanimously by all of the disinterested members of the board of directors of HireQuest, Inc. The Note Purchase Agreement provides that Bass will have no recourse against HQ Financial in the event of a default under any of the notes subject to the agreement.

**Item 8. Financial Statements and Supplementary Data**

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors of HireQuest, Inc.

***Opinion on the Financial Statements***

We have audited the accompanying balance sheets of HireQuest, Inc. (the “Company”) as of December 31, 2021 and 2020, the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2021; and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (the “PCAOB”) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

***Critical Audit Matters***

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

***Workers' Compensation Claims Liability — Refer to Notes 1 and 5 to the financial statements***

***Critical Audit Matter Description***

The Company's workers' compensation claims liability is based on estimated future costs to be incurred by the Company. The liability includes claims that have been reported but not settled, as well as claims that have been incurred but not reported. Annually, the Company utilizes third party actuarial estimates of future costs of the claims discounted by a present value interest rate to estimate the amount of the reserves. If the actual costs of the claims exceed the amount estimated, additional reserves may be required. The workers' compensation claims liability balance as of December 31, 2021 was \$8,249,152.

We identified the workers' compensation claims liability as a critical accounting matter because of the significance of the assumptions used in the actuarial estimates of the liability for workers' compensation claims and consideration of the completeness of information provided to the third-party actuarial firm. As a result, performing audit procedures to evaluate the reasonableness of estimates and assumptions related to the adequacy of the workers' compensation liability required a high degree of auditor judgement and an increased extent of effort.



*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the evaluation of the reasonableness of the workers' compensation claim liability included the following, among others:

- We obtained an understanding of the process and evaluated the design and implementation of controls relating to management's determination of the workers' compensation claim liability.
- We assessed the professional qualifications of the third-party actuary including their independence, experience, and certifications.
- We obtained and reviewed the independent actuarial report and gained an understanding from the actuary of the objectives and scope of their work, and we evaluated the consistency of methods and assumptions used in the current year as compared to previous years.
- We discussed the valuation model, data inputs, assumptions, calculations, and results directly with the third-party actuary.
- We analytically considered balances in relation to prior years and activity that took place during the year.
- We tested the completeness, integrity, and accuracy of the underlying data used by the third-party actuary as part of the actuarial valuation, including confirmation with third party data providers.

***Acquisitions — Refer to Note 2 to the financial statements***

*Critical Audit Matter Description*

The Company completed the acquisition of Snelling Staffing for total consideration of \$17.9 million on March 1, 2021. The Company accounted for this transaction under the acquisition method of accounting for business combinations. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values, including identified intangible assets of \$12.7 million and resulting bargain purchase gain of \$5.6 million. Of the identified intangible assets acquired, the most significant is the franchise agreements. The Company estimated the fair value of the franchise agreements using the multi-period excess earnings method (income approach), which is a specific application of the discounted-cash-flow-method that required management to make significant estimates and assumptions related to forecasts of revenue growth projections, including growth rates over the estimated life of the franchise agreements, and selection of royalty rates, discount rates, and methodologies utilized in the valuation model.

We identified the valuation of the franchise agreements as a critical audit matter because of the significant estimates and assumptions management made to fair value this asset for purposes of recording the acquisition. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures, including the need to involve fair value specialists, evaluation of the reasonableness of management's forecasts of future revenue, as well as the selection of the royalty rates, discount rates and methodologies utilized in the valuation models.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to testing the valuation of franchise agreements included the following, among others:

- We tested the Company's process over the valuation of the franchise agreements, including management's forecasts of revenue growth projections, the selection of the royalty rates, discount rates, and attrition rates as well as the methodologies utilized in the valuation models.
- We evaluated the reasonableness of management's forecast of revenue growth projections by comparing the projections to historical results.
- With the assistance of fair value specialists, we evaluated the reasonableness of the revenue growth projections, royalty rates, discount rates, attrition rates and valuation methodologies by:
  - Testing the source information underlying the determination of revenue growth projections, specifically the long-term growth rate, royalty rates, and discount rates, and testing the mathematical accuracy of the calculations.
  - Reviewed the reconciliation of the internal rate of return, the weighted average return on assets and the weighted average cost of capital noting that the reconciliation fell within an acceptable range.
  - Reviewed the sensitivity analysis related to the discount rate and growth rate used for estimating the fair value.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2017.  
Boulder, Colorado  
March 15, 2022

**HireQuest, Inc.**  
**Consolidated Balance Sheets**

	December 31, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 1,255,520	\$ 13,667,434
Accounts receivable, net of allowance for doubtful accounts	38,239,036	21,344,499
Notes receivable	1,481,200	2,178,299
Prepaid expenses, deposits, and other assets	659,403	344,091
Prepaid workers' compensation	369,215	1,434,583
Total current assets	42,004,374	38,968,906
Property and equipment, net	4,454,145	3,193,379
Workers' compensation claim payment deposit	947,650	623,452
Deferred tax asset	-	79,379
Franchise agreements, net	18,847,590	-
Intangible assets, net	8,077,948	342,697
Other assets	334,081	-
Notes receivable, net of current portion and reserve	2,685,779	5,887,229
Total assets	<u>\$ 77,351,567</u>	<u>\$ 49,095,042</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,125,545	\$ 457,490
Line of credit	171,286	-
Term loan payable	210,233	-
Other current liabilities	2,658,217	1,390,162
Accrued wages, benefits and payroll taxes	3,687,431	743,431
Due to franchisees	7,496,466	3,228,777
Risk management incentive program liability	1,631,639	858,482
Workers' compensation claims liability	4,490,652	2,777,734
Total current liabilities	21,471,469	9,456,076
Workers' compensation claims liability, net of current portion	3,758,500	1,806,334
Deferred tax liability	472,946	-
Term loan payable, net of current portion	2,855,670	-
Franchisee deposits	2,058,051	1,468,359
Total liabilities	30,616,636	12,730,769
Commitments and contingencies (Note 12)		
<b>Stockholders' equity</b>		
Preferred stock - \$0.001 par value, 1,000,000 shares authorized; none issued	-	-
Common stock - \$0.001 par value, 30,000,000 shares authorized; 13,745,096 and 13,628,675 shares issued, respectively	13,745	13,629
Additional paid-in capital	30,472,597	28,811,389
Treasury stock, at cost - 40,423 shares and 33,092 shares, respectively	(146,465)	(146,465)
Retained earnings	16,395,054	7,685,720
Total stockholders' equity	46,734,931	36,364,273
Total liabilities and stockholders' equity	<u>\$ 77,351,567</u>	<u>\$ 49,095,042</u>

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Consolidated Statements of Income**

	Year ended	
	December 31, 2021	December 31, 2020
Franchise royalties	\$ 21,317,045	\$ 12,792,793
Staffing revenue, owned locations	230,668	-
Service revenue	1,212,080	1,016,332
Total revenue	22,759,793	13,809,125
Cost of staffing revenue, owned locations	(170,548)	-
Gross profit	22,589,245	13,809,125
Selling, general and administrative expenses	13,363,957	8,700,446
Depreciation and amortization	1,563,088	129,182
Income from operations	7,662,200	4,979,497
Other miscellaneous income	4,570,575	458,973
Interest income	412,457	711,646
Interest and other financing expense	(157,234)	(49,664)
Net income before income taxes	12,487,998	6,100,452
Provision for income taxes	638,064	741,038
Net income	\$ 11,849,934	\$ 5,359,414
<b>Earnings per share</b>		
Basic	\$ 0.88	\$ 0.40
Diluted	\$ 0.87	\$ 0.39
<b>Weighted average shares outstanding</b>		
Basic	13,493,715	13,542,403
Diluted	13,605,667	13,654,128

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**

	Common stock		Treasury Stock Amount	Additional paid-in capital	Retained earnings	Total stockholders' equity
	Shares	Par value				
Balance at December 31, 2019	13,518,036	\$ 13,518	\$ -	\$ 27,584,610	\$ 3,683,954	\$ 31,282,082
Stock-based compensation	-	-	-	1,226,890	-	1,226,890
Cash dividends	-	-	-	-	(1,357,648)	(1,357,648)
Restricted common stock granted for services	110,639	111	-	(111)	-	-
Purchase of treasury stock	-	-	(146,465)	-	-	(146,465)
Net income	-	-	-	-	5,359,414	5,359,414
Balance at December 31, 2020	13,628,675	13,629	(146,465)	28,811,389	7,685,720	36,364,273
Stock-based compensation	-	-	-	1,627,718	-	1,627,718
Cash dividends	-	-	-	-	(3,140,600)	(3,140,600)
Restricted common stock granted for services	112,255	112	-	-	-	112
Common stock issued for the exercise of options	4,166	4	-	33,490	-	33,494
Net income	-	-	-	-	11,849,934	11,849,934
Balance at December 31, 2021	13,745,096	\$ 13,745	\$ (146,465)	\$ 30,472,597	\$ 16,395,054	\$ 46,734,931

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Consolidated Statement of Cash Flow**

	Twelve months ended	
	December 31, 2021	December 31, 2020
<b>Cash flows from operating activities</b>		
Net income	\$ 11,849,934	\$ 5,359,414
Adjustments to reconcile net income to net cash used in operations:		
Depreciation and amortization	1,563,088	129,182
Non-cash interest	47,725	-
Allowance for losses on notes receivable	307,440	1,598,673
Stock based compensation	1,627,829	1,226,890
Deferred taxes	(2,366,549)	(1,767,825)
Loss on disposition of intangible assets	1,222,546	-
Bargain purchase gain	(5,621,484)	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,476,972)	6,856,780
Prepaid expenses, deposits, and other assets	(119,283)	(155,531)
Prepaid workers' compensation	1,065,368	(611,645)
Accounts payable	348,799	203,645
Risk management incentive program liability	773,157	(953,435)
Other current liabilities	(206,236)	(571,082)
Accrued benefits and payroll taxes	844,000	(370,473)
Due to franchisees	3,872,240	(381,819)
Workers' compensation claim payment deposit	6,875,802	(623,452)
Workers' compensation claims liability	(1,225,846)	739,566
Net cash provided by operating activities - continuing operations	17,381,558	10,678,888
Net cash used in operating activities - discontinued operations	-	201,440
Net cash provided by operating activities	17,381,558	10,880,328
<b>Cash flows from investing activities</b>		
Purchase of acquisitions	(33,736,734)	-
Purchase of property and equipment	(1,401,597)	(1,421,875)
Proceeds from the sale of purchased locations	997,367	-
Proceeds from the sale of notes receivable	5,261,111	-
Proceeds from payments on notes receivable	669,435	2,075,590
Cash issued for notes receivable	(855,664)	(330,082)
Investment in intangible assets	(573,606)	(342,697)
Net change in franchisee deposits	193,389	55,435
Net cash (used in) provided by investing activities	(29,446,299)	36,371
<b>Cash flows from financing activities</b>		
Proceeds from term loan payable	3,153,500	-
Payment on term loan payable	(87,595)	-
Payments related to debt issuance	(477,258)	-
Proceeds from the exercise of stock options	33,494	-
Net proceeds from revolving line of credit	171,286	-
Proceeds from affiliates	-	67,398
Purchase of treasury stock	-	(146,465)
Payment of dividends	(3,140,600)	(1,357,648)
Net cash used in financing activities	(347,173)	(1,436,715)
<b>Net (decrease) increase in cash</b>	(12,411,914)	9,479,984
<b>Cash, beginning of period</b>	13,667,434	4,187,450
<b>Cash, end of period</b>	\$ 1,255,520	\$ 13,667,434
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Notes receivable issued for the sale of branches	1,247,040	-
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	109,509	49,664
Income taxes paid	890,719	2,815,745

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1 – Overview and Summary of Significant Accounting Policies**

***Nature of Business***

HireQuest, Inc. (together with its subsidiaries, “HQI,” the “Company,” “we,” “us,” or “our”) is a nationwide franchisor of offices providing direct-dispatch and commercial staffing solutions in the light industrial and blue-collar segments of the staffing industry and traditional commercial staffing. Our franchisees provide various types of temporary personnel through two business models operating under the trade names “HireQuest Direct,” “HireQuest,” “Snelling,” “LINK Staffing,” “DriverQuest,” and “HireQuest Health.” HireQuest Direct specializes primarily in unskilled and semi-skilled industrial and construction personnel. HireQuest, Snelling, and Link specialize primarily in skilled and semi-skilled industrial personnel, clerical and administrative personnel, and permanent placement services. DriverQuest specializes in commercial drivers serving a variety of industries and applications. HireQuest Health specializes in skilled personnel in the medical and dental industries. HQI is the product of a merger between Command Center, Inc. (“Command Center”), and Hire Quest Holdings, LLC, (“Hire Quest Holdings”). We refer to Hire Quest Holdings collectively with its wholly-owned subsidiary, Hire Quest, LLC, as “Legacy HQ.”

On March 1, 2021, we completed our acquisition of Snelling Staffing and affiliates (“Snelling”). We acquired substantially all of the operating assets and assumed certain liabilities of Snelling for a purchase price of approximately \$17.9 million. On March 22, 2021, we completed our asset acquisition of LINK Staffing and affiliates (“Link”) in which we acquired all of the franchise relationships and certain other assets of Link for a purchase price of approximately \$11.1 million. On October 1, 2021 we completed our acquisition of Recruit Media, Inc. (“Recruit Media”). We purchased all of the outstanding shares of Recruit Media for approximately \$4.4 million, subject to customary representations and warranties. On December 6, 2021 we completed the acquisition of the Dental Power Staffing division (“DPS”) from Dental Power International, Inc. (“Dental Power”) for \$1.9 million. For additional information related to these transactions, see *Note 2 - Acquisitions*.

As of December 31, 2021 we had 217 franchisee-owned offices in 36 states and the District of Columbia. We are the employer of record to approximately 73,000 employees annually, who in turn provide services to thousands of clients in various industries including construction, recycling, warehousing, logistics, auctioneering, manufacturing, hospitality, landscaping, and retail. We provide staffing, marketing, working capital funding, software, and administrative services to our franchisees.

***Basis of Presentation***

We have prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In the opinion of management, the accompanying consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the periods presented.

***Consolidation***

The consolidated financial statements include the accounts of HQI and all of its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

U.S. GAAP requires the primary beneficiary of a variable interest entity (a “VIE”), to consolidate that entity. To be the primary beneficiary of a VIE, an entity must have both the power to direct the activities that most significantly impact the VIE’s economic performance, and the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it. We provide acquisition financing to some of our franchisees that results in some of them being considered a VIE. We have reviewed these franchisees and determined that we are not the primary beneficiary of any of these entities, and accordingly, these entities have not been consolidated.

***Cost of Staffing Revenue***

Cost of staffing revenue at owned locations consists of temporary employee wages, the related payroll taxes, workers’ compensation expenses, and other direct costs of services

***Use of Estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

[Table of Contents](#)

Significant estimates and assumptions underlie our workers' compensation claim liabilities, our workers' compensation Risk Management Incentive Program, our deferred taxes, our allowance for losses on notes receivable, and estimated fair value of assets and liabilities acquired.

**Revenue Recognition**

Our primary source of revenue comes from royalty fees based on the operation of our franchised offices. Royalty fees from our HireQuest Direct business model are based on a percentage of sales for services our franchisees provide to customers, which ranges from 6% to 8%. Royalty fees from our HireQuest business line, including HireQuest franchisees, DriverQuest franchisees, and Snelling and Link franchisees who executed new franchise agreements upon closing, are 4.5% of the payroll we fund plus 18% of the gross margin for the territory. Royalty fees from the Snelling and Link franchise agreements assumed and not renegotiated at closing range from 5.0% to 8.0% of sales for services our franchisees provide to customers. Our franchisees are responsible for taking customer orders, providing customers with services, establishing the prices charged for services, and controlling other aspects related to providing service to customers prior to the service being transferred to the customer, such as determining which temporary employees to dispatch to the customer and establishing pay rates for the temporary employees. Accordingly, we present revenue from franchised locations on a net basis as agent as opposed to a gross basis as principal. With company owned locations, we control the conditions under which we provide services to customers. Accordingly, we present revenue from owned locations on a gross basis as principal. In addition to royalty fees, we also charge a license fee to some locations that utilize our intellectual property that are not franchisees. License fees are 9% of the gross margin for the location.

For franchised locations, we recognize revenue when we satisfy our performance obligations. Our performance obligations primarily take the form of a franchise license and promised services. Promised services consist primarily of paying temporary employees, completing all statutory payroll related obligations, and providing workers' compensation insurance on behalf of temporary employees. Because these performance obligations are interrelated, we do not consider them to be individually distinct and therefore account for them as a single performance obligation. Because our franchisees receive and consume the benefits of our services simultaneously, our performance obligations are satisfied when our services are provided. Franchise royalties are billed on a weekly basis. We also offer various incentive programs for franchisees including royalty incentives, royalty credits, and other support initiatives. These incentives and credits are provided to encourage new office development and organic growth, and to limit workers' compensation exposure. We present franchise royalty fees net of these incentives and credits.

For owned locations, we account for revenue when both parties to the contract have approved the contract, the rights and obligations of the parties are identified, payment terms are identified, and collectability of consideration is probable. Revenue derived from owned locations is recognized at the time we satisfy our performance obligation. Our contracts have a single performance obligation, which is the transfer of services. Because our customers receive and consume the benefits of our services simultaneously, our performance obligations are satisfied when our services are provided. Revenue from owned locations is reported net of customer credits, discounts, and taxes collected from customers that are remitted to taxing authorities. Our customers are invoiced every week and we do not require payment prior to the delivery of service. Substantially all of our contracts include payment terms of 30 days or less and are short-term in nature. Because of our payment terms with our customers, there are no significant contract assets or liabilities. We do not extend payment terms beyond one year.

We currently operate under a single segment. Below are summaries of our revenue disaggregated by brand:

	Year ended	
	December 31, 2021	December 31, 2020
HireQuest Direct	\$ 14,553,805	\$ 12,063,963
HireQuest and Snelling	6,763,240	728,830
HireQuest Health	230,668	-
Total	\$ 21,547,713	\$ 12,792,793

### ***Workers' Compensation Claims Liability***

We maintain reserves for workers' compensation claims based on their estimated future cost. These reserves include claims that have been reported but not settled, as well as claims that have been incurred but not reported. Annually, we engage an independent actuary to estimate the future costs of these claims. Quarterly, we use development factors provided by an independent actuary to estimate the future costs of these claims. We make adjustments as necessary. If the actual costs of the claims exceed the amount estimated, we may incur additional charges.

### ***Workers' compensation Risk Management Incentive Program ("RMIP")***

Our RMIP is designed to incentivize our franchisees to keep our temporary employees safe and control exposure to large workers' compensation claims. We accomplish this by paying our franchisees an amount equivalent to a percentage of the amount they pay for workers' compensation insurance if they keep their workers' compensation loss ratios below specified thresholds.

### ***Notes Receivable***

Notes receivable consist primarily of amounts due to us related to the financing of franchised locations. We report notes receivable at the principal balance outstanding less an allowance for losses. We charge interest at a fixed rate and interest income is calculated by applying the effective rate to the outstanding principal balance. Notes receivable are generally secured by the assets of each location and the ownership interests in the franchise. We monitor the financial condition of our debtors and record provisions for estimated losses when we believe it is probable that our debtors will be unable to make their required payments. We evaluate the potential impairment of notes receivable based on various analyses, including estimated discounted future cash flows, at least annually and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When a specific note receivable is deemed impaired, we discontinue accruing interest and only recognize interest income when payment is received. Our allowance for losses on notes receivable was approximately \$1.9 million and \$1.6 million at December 31, 2021 and December 31, 2020, respectively.

### ***Stock-Based Compensation***

Periodically, we issue restricted common shares to our officers, directors, or employees. Command Center previously issued options to purchase common shares and several of those remain in effect. We measure compensation costs for equity awards at their fair value on their grant date and expense these costs over the service period on a straight-line basis. The fair value of stock awards is based on the quoted price of our common stock on the grant date. The fair value of option awards is determined using the Black-Scholes valuation model.

### ***Debt Issuance Costs***

Debt issuance costs associated with our revolving lines of credit are capitalized and presented as prepaid expenses, deposits, and other assets. Because debt issuance costs are related to a line of credit, they are presented as an asset, rather than a decrease to debt. Debt issuance costs are amortized using the straight-line method over the term of the related agreement. Capitalized debt issuance costs were approximately \$430,000 and \$-0- at December 31, 2021 and December 31, 2020, respectively.

### ***Intangible Assets***

Intangible assets acquired are recorded at fair value. We test our finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. We test our indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If the carrying value exceeds the fair value, we recognize an impairment in an amount equal to the excess, not to exceed the carrying value. Management uses considerable judgment to determine key assumptions, including projected revenue, royalty rates and appropriate discount rates. There were no intangible asset impairment charges in 2021 or 2020.

Finite-lived intangible assets are amortized using the straight-line method over their estimated useful lives, which ranges from 7 to 15 years. Our finite-lived intangible assets include acquired franchise agreements, acquired customer lists, and purchased software. Our indefinite-lived intangible assets include an acquired domain name. For additional information related to significant additions to intangible assets, see Note 2 - Acquisitions.

### ***Intangible Assets – Internal Use Software***

We capitalize costs to develop or purchase computer software for internal use which are incurred during the application development stage. These costs include fees paid to third parties for development services and payroll costs for employees' time spent developing the software. We expense costs when incurred during the preliminary project stage and the post-implementation stage.

Capitalized development costs will be amortized on a straight-line basis over the estimated useful life of the software. The capitalization and ongoing assessment of recoverability of development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life.



**Provision for Income Taxes**

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those deferred amounts. We record valuation allowances for deferred tax assets that more likely than not will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We analyze our filing positions in all jurisdictions where we are required to file returns and identify any positions that would require a liability for unrecognized income tax positions to be recognized. If we are assessed penalties and/or interest, penalties will be charged to selling, general, and administrative expense and interest will be charged to interest expense.

The federal Work Opportunity Tax Credit (“WOTC”) is a source of fluctuation in our effective income tax rate. The WOTC is designed to encourage the hiring of workers from certain disadvantaged targeted categories and is generally calculated as a percentage of wages over a twelve-month period up to worker maximum by targeted category. We estimate the amount of WOTC we expect to receive based on wages certified in the current period and exclude all credits pending certification. WOTC is authorized until December 31, 2025.

**Business Combinations**

We account for business acquisitions under the acquisition method of accounting by recognizing identifiable tangible and intangible assets acquired, liabilities assumed, and non-controlling interests in the acquired business at their fair values. We record the portion of the purchase price that exceeds the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed, if any, as goodwill. Any gain on a bargain purchase is recognized immediately. We recognize identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized by the acquiree prior to the acquisition. We expense acquisition related costs as we incur them. Our acquisitions may include contingent consideration. Any contingent consideration is measured at fair value at the date of acquisition. Contingent consideration is remeasured at fair value each reporting period with subsequent changes in the fair value of the contingent consideration recognized during the period.

**Asset Acquisitions**

When we purchase a group of assets in a transaction that is not accounted for as a business combination, usually because the group of assets does not meet the definition of a business, we account for the transaction using a cost accumulation model, with the cost of the acquisition allocated to the acquired assets based on their relative fair values. Goodwill is not recognized. In an asset acquisition, direct transaction costs are treated as consideration transferred to acquire the group of assets and are capitalized as a component of the cost of the assets acquired. Our acquisitions may include contingent consideration. Any contingent consideration is measured at fair value at the date of acquisition. Contingent consideration is remeasured at fair value each reporting period with subsequent changes in the fair value of the contingent consideration recognized during the period.

**Earnings per Share**

We calculate basic earnings (loss) per share by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding. We do not include the impact of any potentially dilutive common stock equivalents in our basic earnings (loss) per share calculations. Diluted earnings per share reflect the potential dilution of securities that could share in our earnings through the conversion of common shares issuable via outstanding stock options and unvested restricted shares, except where their inclusion would be anti-dilutive. Outstanding common stock equivalents at December 31, 2021 and December 31, 2020 totaled approximately 209,000 and 308,000, respectively.

Diluted common shares outstanding were calculated using the treasury stock method and are as follows:

	Year ended	
	December 31, 2021	December 31, 2020
Weighted average number of common shares used in basic net income per common share	13,493,715	13,542,403
Dilutive effects of stock options and unvested restricted stock	111,952	111,725
Weighted average number of common shares used in diluted net income per common share	13,605,667	13,654,128

***Property and Equipment***

We record property and equipment at cost. We compute depreciation using the straight-line method over the estimated useful lives. Land is not depreciated. Repairs and maintenance are expensed as incurred. When assets are sold or retired, we eliminate cost and accumulated depreciation from the consolidated balance sheet and reflect a gain or loss in the consolidated statement of income. The estimated useful lives of property and equipment are as follows:

- Buildings – 40 years
- Building improvements – 15 years
- Computers, furniture, and equipment – 5 to 7 years.

***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable consist of amounts due for staffing services from customers of franchisees and of accounts receivable originating at company-owned locations. At December 31, 2021 and at December 31, 2020, substantially all of our net accounts receivable were due from customers of franchisees. We own the accounts receivable from staffing services provided by our employees on behalf of the franchisees until they age beyond a date agreed upon with each respective franchisee between 42 and 84 days. When accounts receivable age beyond the agreed-upon date, they are charged back to our franchisees. Accordingly, we do not record an allowance for doubtful accounts on these accounts receivable.

For staffing services provided by company-owned offices, we record accounts receivable at face value less an allowance for doubtful accounts. We determine the allowance for doubtful accounts based on historical write-off experience, the age of the receivable, other qualitative factors and extenuating circumstances, and current economic data which represents our best estimate of the amount of probable losses on these accounts receivable, if any. We review the allowance for doubtful accounts periodically and write off past due balances when it is probable that the receivable will not be collected. Our allowance for doubtful accounts on accounts receivable generated by company-owned offices was approximately \$26,000 and \$77,000 at December 31, 2021 and December 31, 2020, respectively.

***Advertising and Marketing Costs***

We expense advertising and marketing costs as we incur them. These costs were \$94,000 and \$33,000 in 2021, and 2020, respectively. The expense in 2021 included rebranding expenses incurred in relation to acquisitions. These costs are included in general and administrative expenses.

***Fair Value Measures***

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an ordinary transaction between market participants on the measurement date. Our policy on fair value measures requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The policy establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The policy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1: Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2: Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

[Table of Contents](#)

The carrying amounts of cash, accounts receivable, accounts payable and all other current liabilities approximate fair values due to their short-term nature. The fair value of notes receivable approximates the net book value and balances are reviewed for impairment at least annually. The fair of the term loan payable and the line of credit approximate their carrying value. The fair value of impaired notes receivable are determined based on estimated future payments discounted back to present value using the notes effective interest rate.

	Total	December 31, 2021		
		Level 1	Level 2	Level 3
Cash	\$ 1,255,520	\$ 1,255,520	\$ -	\$ -
Notes receivable	4,027,385	-	4,027,385	-
Accounts receivable	38,239,036	-	38,239,036	-
Notes receivable - impaired	139,594	-	-	139,594
Total assets at fair value	\$ 43,661,535	\$ 1,255,520	\$ 42,266,421	\$ 139,594
Term loan payable	\$ 3,065,903	\$ -	\$ 3,065,903	\$ -
Line of credit	171,286	-	171,286	-
Total liabilities at fair value	\$ 3,237,189	\$ -	\$ 3,237,189	\$ -

	Total	December 31, 2020		
		Level 1	Level 2	Level 3
Cash	\$ 13,667,434	\$ 13,667,434	\$ -	\$ -
Notes receivable	7,618,191	-	7,618,191	-
Accounts receivable	21,344,499	-	21,344,499	-
Notes receivable - impaired	447,034	-	-	447,034
Total assets at fair value	\$ 43,077,158	\$ 13,667,434	\$ 28,962,690	\$ 447,034

For additional information related to our impaired notes receivable, see *Note 13 – Notes Receivable*.

#### **Discontinued Operations**

Company-owned offices that have been disposed of by sale, disposed of other than by sale or are classified as held for Sale are reported separately as discontinued operations. In addition, a newly acquired business that on acquisition meets the held-for-sale criteria will be reported as discontinued operations. Accordingly, the assets and liabilities, operating results, and cash flows for these businesses are presented separate from our continuing operations, for all periods presented in our consolidated financial statements and footnotes, unless indicated otherwise. The assets and liabilities of a discontinued operation held for sale are measured at the lower of the carrying value or fair value less cost to sell.

#### **Savings Plan**

We have a savings plan that qualifies under Section 401(k) of the Internal Revenue Code. Under our 401(k) plan, eligible employees may contribute a portion of their pre-tax earnings, subject to certain limitations. As a benefit, we match 100% of each employee's first 3% of contributions, then 50% of each employee's contribution beyond 3%, up to a maximum match of 4% of the employee's eligible earnings. Matching expense related to our savings plan totaled approximately \$55,000 and \$23,000 during the years ended December 31, 2021 and December 31, 2020, respectively

#### **Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. This guidance is effective for annual periods beginning after December 15, 2022, and interim periods therein. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

**Note 2 – Acquisitions****Business Combinations*****Snelling Staffing***

On March 1, 2021, we completed our acquisition of certain assets of Snelling in accordance with the terms of the Asset Purchase Agreement dated January 29, 2021 (the “Snelling Agreement”). Snelling is a 67-year-old staffing company headquartered in Richardson, TX. Pursuant to the Snelling Agreement, HQ Snelling Corporation (“HQ Snelling”), our wholly-owned subsidiary, acquired substantially all of the operating assets and assumed certain liabilities of the sellers for a purchase price of approximately \$17.9 million. Also on March 1, 2021, HQ Snelling entered into the First Amendment to the Purchase Agreement, pursuant to which HireQuest, Inc. agreed to advance \$2.1 million to the sellers at closing so the seller could facilitate payment on behalf of HQ Snelling to settle accrued payroll liabilities HQ Snelling assumed pursuant to the Snelling Agreement. Where we assumed franchisor status in this transaction, locations converting to the HireQuest model have subsequently signed our HireQuest franchise agreement but will continue to operate under the Snelling tradename.

The following table summarizes the estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date. From the date of acquisition through December 31, 2021, adjustments to the fair value of assets received and liabilities assumed were adjusted in conjunction with the net working capital reconciliation. These adjustments included an increase in accounts receivable of approximately \$1.1 million, a decrease in other current assets of approximately \$9,000, an increase in current liabilities of approximately \$77,000, an increase in other liabilities of approximately \$217,000, and an increase in the bargain purchase gain of approximately \$662,000.

The following table summarizes the estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date:

Cash consideration	\$ 17,850,627
Accounts receivable	13,417,565
Workers' compensation deposit	7,200,000
Franchise agreements	11,034,000
Customer lists	1,690,000
Other current assets	100,578
Workers' compensation claims liability	(4,890,930)
Accrued payroll	(2,100,000)
Current liabilities	(740,163)
Other liabilities	(2,238,939)
Bargain purchase	(5,621,484)
Purchase price allocation	\$ 17,850,627

The bargain purchase is attributable to the financial position of the seller and because there were few suitable potential buyers. This gain is included in the line item, “Other miscellaneous income,” in our consolidated statement of income.

## [Table of Contents](#)

The following table presents unaudited pro forma information assuming the acquisition of Snelling had occurred on January 1, 2020. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place on that date:

	Year ended	
	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)
Royalty revenue	\$ 22,127,516	\$ 15,626,612
Net income	8,697,596	6,789,168
Basic earnings per share	\$ 0.65	\$ 0.50
Basic weighted average shares outstanding	13,482,303	13,542,403
Diluted earnings per share	\$ 0.64	\$ 0.50
Diluted weighted average shares outstanding	13,621,938	13,654,128

These calculations reflect increased amortization expense, increased payroll expense, the elimination of gains associated with the transaction, the elimination of transaction related costs, and the consequential tax effects that would have resulted had the acquisition closed on January 1, 2020.

In connection with the acquisition, we sold the 10 locations that had been company-owned by Snelling located in Bakersfield, CA; Albany, NY; Arlington Heights, IL; Amherst, NY; Dallas, TX; Hayward, CA; Hoffman Estates, IL; Lathrop, CA; Ontario, CA; and Tracy, CA. Two of these locations were sold to franchisees. Four locations were sold to a third-party purchaser. Four offices were sold to a California purchaser (the "California Purchaser") and operate under the Snelling name pursuant to a license agreement with us. The aggregate sale price for these 10 locations consisted of (i) \$1.0 million in the form of a promissory note that bears interest at 6.0% per annum, (ii) the right to receive 1.5% of revenue generated at the Ontario location for the next 12 months, subject to certain conditions being satisfied (the "California Conditions"), (iii) the right to receive 2.5% of revenue generated at the Tracy and Lathrop locations for the next 12 months, subject to the California Conditions, (iv) the right to receive 2.0% of revenue generated at the Princeton location for the next 36 months, and (v) approximately \$1 million in cash. There were no remaining company-owned locations at March 31, 2021. One of the California locations operates pursuant to a license agreement whereby the California Purchaser licenses the Snelling trademark and pays us a royalty of 9% of their gross margin. In conjunction with the sale of assets acquired in this transaction, we recognized a gain of approximately \$638,000 which is reflected on the line item, "Other miscellaneous income," in our consolidated statement of income.

### Asset Acquisitions

#### *LINK Staffing*

On March 22, 2021, we completed our acquisition of the franchise relationships and certain other assets of Link in accordance with the terms of the Asset Purchase Agreement dated February 12, 2021 (the "Link Agreement"). Link is a family-owned staffing company headquartered in Houston, TX. Pursuant to the Link Agreement, HQ Link Corporation ("HQ Link"), our wholly-owned subsidiary, acquired franchise agreements for approximately 35 locations, and other assets of Link for a purchase price of \$11.1 million. Substantially all of the locations where we assumed franchisor status in this transaction have subsequently signed our HireQuest franchise agreement and operate under the Snelling tradename.

The following table summarizes the estimated fair values of the identifiable assets acquired as of the acquisition date:

Cash consideration	\$ 11,122,911
Franchise agreements	10,886,178
Notes receivable	236,733
Purchase price allocation	\$ 11,122,911

We determined the Link transaction was an asset acquisition for accounting purposes as substantially all of the fair value of the gross assets acquired was concentrated in the franchise agreements. Accordingly, no pro forma financial information is presented.

At closing, we assigned six of the franchise agreements we purchased in the transaction, all located in California, to the California Purchaser. These six franchisees operate pursuant to a Link trademark sublicense agreement whereby they pay us 9% of the gross margin of their offices in exchange for a sublicense to utilize the Link tradename. In conjunction with the transfer of assets acquired in this transaction, we recognized a loss of approximately \$1.9 million which is reflected on the line item, "Other miscellaneous income," in our consolidated statement of income.

[Table of Contents](#)**Recruit Media**

On October 1, 2021 we completed our acquisition of Recruit Media in accordance with the Stock Purchase Agreement dated October 1, 2021 (the "Recruit Agreement"). Pursuant to the Recruit Agreement, we purchased all of the outstanding shares of Recruit Media for approximately \$4.4 million, subject to customary representations and warranties. Recruit Media is an IT company whose intellectual property will allow us to accelerate improvements to our platform.

The following table summarizes the estimated fair values of the identifiable assets acquired as of the acquisition date:

Cash consideration	3,283,196
Liabilities assumed	1,044,174
Transaction costs	22,630
Total consideration	<u>\$ 4,350,000</u>
Purchased software	3,200,089
Domain name	2,226,149
Deferred tax liability	(1,076,238)
Purchase price allocation	<u>\$ 4,350,000</u>

We determined the Recruit Media transaction was an asset acquisition for accounting purposes as it did not meet the definition of a business. Accordingly, no pro forma financial information is presented.

**Dental Power**

On December 6, 2021, we completed our acquisition of the Dental Power Staffing division ("DPS") in accordance with the terms of the Asset Purchase Agreement dated November 2, 2021 (the "Dental Power Agreement") for \$1.9 million. Dental Power is a 46-year-old dental staffing company headquartered in Carrboro, North Carolina. DPS is a provider of temporary, long-term contract, and direct-hire staffing services to dental practices across the U.S. The addition of DPS brings additional resources and experience to HQI that will help expedite growth into a new staffing vertical.

The following table summarizes the estimated fair values of the identifiable assets acquired as of the acquisition date:

Cash consideration	1,480,000
Contingent consideration	382,029
Total consideration	<u>\$ 1,862,029</u>
Customer lists	<u>\$ 1,862,029</u>

The contingent consideration consists of estimated future payments based on the achievement of performance metrics over the following 3 years.

We determined the Dental Power transaction was an asset acquisition for accounting purposes as substantially all of the fair value of the gross assets acquired was concentrated in the customer list. Accordingly, no pro forma financial information is presented.

**Note 3 – Related Party Transactions**

Prior to entering into any related party transaction, the Audit Committee reviews all relevant information available. The Audit Committee, in its sole discretion, will approve the related party transaction only if it determines, in good faith and under all circumstances, that the transaction is in the best interests of the Company and its shareholders. The Audit Committee, in its sole discretion, may also impose conditions as it deems appropriate on the Company or the related party in connection with the approval of the related party transaction.

Certain significant shareholders and directors of HQI also own portions of Jackson Insurance Agency; Bass Underwriters, Inc; Insurance Technologies, Inc.; and a number of our franchisees.

***Jackson Insurance Agency ("Jackson Insurance") and Bass Underwriters, Inc. ("Bass")***

Mr. Jackson, a Director of HQI, and an immediate family member own Jackson Insurance. Mr. Jackson, our Chief Executive Officer Mr. Hermanns, and irrevocable trusts set up by each of them, collectively own a majority of Bass, a large managing general agent.

Bass purchased approximately \$5.3 million of 6.0% notes receivable at book value in March 2021. For additional information related to this transaction, see *Note 13 - Notes Receivable*.

Jackson Insurance and Bass broker HQI's property, casualty, general liability, and cybersecurity insurance. Jackson Insurance also brokers certain insurance policies on behalf of some of our franchisees, including the Worlds Franchisees (defined below).

Premiums, taxes, and fees invoiced by Jackson Insurance and Bass to HQI and Legacy HQ for these insurance policies during the years ended December 31, 2021 and December 31, 2020 were approximately \$729,000 and \$726,000, respectively. Jackson Insurance and Bass do not retain the majority of the premiums invoiced to HQI and Legacy HQ, but they do retain a commission of approximately 9% - 15% of premiums.

***Insurance Technologies, Inc. ("Insurance Technologies")***

Mr. Jackson, Mr. Hermanns, and irrevocable trusts set up by each of them, collectively own a majority of Insurance Technologies, an IT development and security firm. On October 24, 2019, HQI entered into an agreement with Insurance Technologies to add certain cybersecurity protections to our existing information technology systems and to assist in developing future information technology systems within our HQ Webconnect software. In addition, Insurance Technologies assisted with the IT diligence and integration process with respect to the Snelling and Link acquisitions.

During the years ended December 31, 2021 and December 31, 2020, Insurance Technologies invoiced HQI approximately \$217,000 and \$188,000 for services provided pursuant to this agreement, respectively. We terminated this relationship in July 2021 when we added a full-time Chief Information Officer.

***The Worlds Franchisees***

Mr. Hermanns and Mr. Jackson have direct or indirect ownership interests in certain of our franchisees (the "Worlds Franchisees"). There were 23 Worlds Franchisees at December 31, 2021 that operated 60 of our 217 offices. There were 21 Worlds Franchisees that operated 49 of our 139 offices at December 31, 2020.

Balances regarding the Worlds Franchisees are summarized below:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Due to franchisee	\$ 534,514	\$ 435,072
Risk management incentive program liability	703,379	499,199

Transactions regarding the Worlds Franchisees are summarized below:

	<b>Year ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Franchisee royalties	\$ 5,855,279	\$ 4,897,445

#### **Note 4 – Line of Credit**

In June 2021, we entered into Revolving Credit and Term Loan Agreement (the “Agreement”) with Truist Bank (“Truist”) for a \$60 million revolving line of credit with a \$20 million sublimit for letters of credit and a separate \$3.2 million term loan. The credit facilities are provided by a syndication of lenders with Truist acting as the administrative agent. At December 31, 2021, Truist is the only bank in the syndicate. The line of credit is subject to a borrowing base that is derived from our accounts receivable, subject to certain reserves and other limitations. Under the agreement, Truist may also make swingline loans available in its discretion.

All loans made under the line of credit are scheduled to mature on June 29, 2026. The line of credit and swingline loans bear interest at a variable rate equal to: (a) for LIBOR index rate loans, the Daily One Month London Interbank Offering Rate, (“LIBOR”) plus a margin between 1.25% and 1.75% per annum or; (b), for base rate loans, the then applicable base rate plus (as defined in the Agreement) a margin between 0.25% and 0.75% per annum. The margin is determined based on our average excess availability, which is generally equal to our total collateral less the outstanding balance, if any, under the loan agreement. At December 31, 2021 the effective interest rate was approximately 1.35%. A non-use fee of 0.25% accrues on the unused portion of the line of credit. As collateral for repayment of any and all obligations under this agreement, we granted Truist a security interest in substantially all of our operating assets and the operating assets of our subsidiaries. This agreement, and other loan documents, contain customary representations and warranties, affirmative and negative covenants, including without limitation, those covenants governing indebtedness, liens, fundamental changes, restrictions on certain payments, including dividends, unless certain conditions are met, transactions with affiliates, investments, and the sale of assets. This agreement requires us to comply with a fixed charge coverage ratio of at least 1.25:1.00, and a leverage ratio of not more than 3.0:1.0, tested monthly on a rolling twelve-month basis. At December 31, 2021 we were in compliance with these covenants. Our obligations under this agreement are subject to acceleration upon the occurrence of an event of default as defined in the loan agreement.

At December 31, 2021, approximately \$14.3 million of availability under the line of credit was utilized by outstanding letters of credit that secure our obligations to our workers’ compensation insurance carrier and \$500,000 was utilized by a letter of credit that secures our paycard funding account, leaving approximately \$19.2 million available under the agreement for potential additional borrowings. Additionally, \$100,000 is reserved for Bank Products. The Agreement replaces our prior \$30 million line of credit. For additional information related to the letter of credit securing our workers’ compensation obligations see *Note 5 - Workers’ Compensation Insurance and Reserves*.

The term loan is scheduled to mature on June 29, 2036 and bears interest at a variable rate equal to LIBOR plus a margin of 2.0%. At December 31, 2021 the effective interest rate was approximately 2.10%. The term loan will be paid in equal monthly installments based upon a 15-year amortization of the original principal amount of the term loan, provided that any remaining principal balance is due and payable in full on the earlier of the date of termination of the commitments on the line of credit and June 29, 2036. Future maturities for the next five years are all equal to approximately \$210,000 as the term loan calls for fixed principal payments, with approximately \$2.0 million due thereafter. The term loan is collateralized by all real property owned by us. The proceeds of approximately \$3.2 million were used to pay off our prior credit facility after the 2021 Acquisitions and to pay transaction related fees and expenses.

The loan agreement contains provisions for the replacement of LIBOR with a rate based upon the secured overnight financing rate (“SOFR”) published by the Federal Reserve Bank of New York or a successor administrator upon LIBOR’s cessation or other benchmark transition event set forth in the loan agreement, together with a spread adjustment.

#### **Note 5 – Workers’ Compensation Insurance and Reserves**

Beginning in March 2014, Legacy HQ obtained its workers’ compensation insurance through Chubb Limited and ACE American Insurance Company (collectively, “ACE”), in all states in which it operated, other than monopolistic jurisdictions. The ACE policy was a high deductible policy pursuant to which Legacy HQ had primary responsibility for all claims with ACE providing insurance for covered losses and expenses in excess of \$500,000 per incident. In addition to the ACE policy, Legacy HQ purchased a deductible reimbursement insurance policy from HQ Ins. to cover losses up to the \$500,000 deductible with ACE. This resulted in Legacy HQ effectively being fully insured during this time period. Effective July 15, 2019, we terminated our deductible reimbursement policy with HQ Ins. and have assumed the primary responsibility for all claims up to the deductible occurring on or after July 15, 2019. The primary responsibility of all claims occurring before July 15, 2019 remains with HQ Ins. We assumed the Legacy HQ policy with ACE.



[Table of Contents](#)

Command Center also obtained its workers' compensation insurance through ACE. Pursuant to Command Center's policy, ACE provides insurance for covered losses and expenses in excess of \$500,000 per incident. Command Center's ACE policy in effect as of the date of the Merger includes a one-time obligation for the Company to pay any single claim filed under the Command Center policy within a policy year that exceeds \$500,000 (if any), but only up to \$750,000 for that claim. All other claims within the policy year are subject to the \$500,000 deductible. Effective July 15, 2019, in connection with the Merger, we assumed all of the workers' compensation claims of Command Center. We also assumed Command Center's workers' compensation policy with ACE.

Under these high deductible programs, HQI is effectively self-insured. Per our contractual agreements with ACE, we must provide collateral deposits of approximately \$14.3 million, which we accomplished by providing letters of credit under our agreement with Truist.

For workers' compensation claims originating in the monopolistic jurisdictions of Washington, North Dakota, Ohio, and Wyoming, we pay workers' compensation insurance premiums and obtain full coverage under mandatory state administered programs. Our liability associated with claims in these jurisdictions is limited to premium payments based upon the amount of payroll paid within each jurisdiction. Accordingly, our consolidated financial statements reflect only the mandated workers' compensation insurance premium liability for workers' compensation claims in these jurisdictions.

The following table reflects the changes in our workers' compensation claims liability:

	December 31, 2021	December 31, 2020
Estimated future claims liabilities at the beginning of the period	\$ 4,584,068	\$ 3,844,501
Claims paid during the period	(5,026,668)	(3,779,286)
Additional future claims liabilities recorded during the period	8,691,752	4,518,853
Estimated future claims liabilities at the end of the period	<u>\$ 8,249,152</u>	<u>\$ 4,584,068</u>

**Note 6 – Analysis of Franchised and Company-Owned Offices**

Below is a summary of changes in the number of franchised offices:

Franchised offices, December 31, 2019	147
Opened in 2020	5
Closed in 2020	(13)
Franchised offices, December 31, 2020	139
Purchased in 2021 (net of sold locations)	65
Opened in 2021	14
Closed in 2021	(1)
Franchised offices, December 31, 2021	<u>217</u>

At December 31, HQI had one company-owned office, which is the staffing division acquired in the Dental Power acquisition.

**Note 7 – Stockholders' Equity****Dividend**

In the third quarter of 2020, we initiated the payment of a quarterly dividend. We intend to continue to pay a quarterly dividend, based on our business results and financial position. The following common share dividends were paid during 2021 and 2020:

Declaration date	Dividend	Total paid
September 1, 2020	\$ 0.05	\$ 677,869
December 1, 2020	0.05	679,779
March 1, 2021	0.05	680,247
June 1, 2021	0.06	816,604
September 1, 2021	0.06	821,628
December 1, 2021	0.06	822,120

**Treasury Stock**

Effective July 2020, our Board of Directors authorized a one-year repurchase plan for up to 1 million shares of our common stock. During the year ended December 31, 2020, we purchased 23,638 shares of our common stock at an aggregate cost of approximately \$146,000 resulting in an average price of \$6.20 per share. These shares are held in treasury. We have not purchased any shares of our common stock during 2021.

The table below summarized our common stock purchased during 2020 in more detail:

	Total shares purchased	Average price per share	Total number of shares purchased as part of publicly announced plan	Approximate dollar value of shares that may be purchased under the plan
July, 2020	675	\$ 6.21	675	\$ 1,200,000
August, 2020	22,963	6.20	23,638	1,000,000
Total	23,638			

Additionally, there were 16,785 restricted shares that did not meet the vesting criteria. These shares are also held in treasury.

**Issuance of Common Stock**

In October 2021, we issued 4,166 shares of stock pursuant to the exercise of common stock options with a strike price of \$8.04 for a total purchase price of \$33,495.

**Note 8 – Stock Based Compensation****Employee Stock Incentive Plan**

In September 2019, our Board approved a share purchase match program to encourage ownership and further align the interests of key employees and directors with those of our shareholders. Under this program, we will match 20% of any shares of our common stock purchased on the open market by or granted in lieu of cash compensation to key employees and directors up to \$25,000 in aggregate value per individual within any calendar year. These shares vest on the second anniversary of the date on which the matched shares were purchased if the individual is still employed by the Company and certain other vesting criteria are met. During 2021, we issued 5,075 shares valued at approximately \$77,000 under this program. During 2020, we issued approximately 20,000 shares valued at approximately \$118,000 under this program.

In December 2019, our Board approved the 2019 HireQuest, Inc. Equity Incentive Plan (the "2019 Plan"). Subject to adjustment in accordance with the terms of the 2019 Plan, no more than 1,500,000 shares of common stock are available in the aggregate for the grant of awards under the 2019 Plan. No more than 1,000,000 shares may be issued in the aggregate pursuant to the exercise of incentive stock options. In addition, no more than 250,000 shares may be issued in the aggregate to any employee or consultant, and no more than 50,000 shares may be issued in the aggregate to any non-employee director in any twelve-month period. Shares of common stock available for distribution under the Plan may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares reacquired by the Company in any manner. The 2019 Plan was approved by our shareholders in June 2020 and became effective as of that date.

In 2021, we issued 51,155 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$1.0 million to members of our Board of Directors for their services in lieu of cash compensation. Of these, 46,191 shares vested equally over the following three months. The remaining 4,964 shares were issued pursuant to our share purchase match program.

[Table of Contents](#)

Also in 2021, we issued 60,000 shares of restricted common stock to key employees pursuant to the 2019 Plan valued at approximately \$1.1 million for services, and to encourage retention. These shares vest over four years, with 50% vesting on their second anniversary, and 6.25% vesting each quarter thereafter for the next eight quarters. Also in 2021, we issued 111 shares of restricted common stock to certain employees pursuant to our share purchase match program valued at approximately \$1,100.

In 2020, we issued 81,943 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$539,000 to members of our Board of Directors for their services in lieu of cash compensation. Of these, 61,868 shares vested equally over the following three months. The remaining 20,075 shares were issued pursuant to our share purchase match program.

Also in 2020, we issued 25,000 shares of restricted common stock to an employee pursuant to the 2019 Plan valued at approximately \$179,000 for services, and to encourage retention. These shares vest over four years, with 50% vesting on September 11, 2021, and 6.25% vesting each quarter thereafter for the next eight quarters. Also in 2020, we issued 1,742 shares of restricted common stock to certain employees pursuant to our share purchase match program valued at approximately \$12,000.

The following table summarizes our restricted stock outstanding at December 31, 2019, and changes during the years ended December 31, 2020 and December 31, 2021:

	Shares	Weighted average grant date price
Non-vested, December 31, 2019	255,771	\$ 7.18
Granted	110,639	6.71
Forfeited	(9,454)	7.14
Vested	(89,449)	6.64
Non-vested, December 31, 2020	267,507	7.21
Granted	112,255	19.18
Forfeited	(7,331)	8.51
Vested	(176,326)	10.38
Non-vested, December 31, 2021	196,105	11.26

Stock options that were outstanding at Command Center were deemed to be issued on the date of the Merger. Outstanding awards continue to remain in effect according to the terms of the 2008 Plan, the 2016 Plan, and the corresponding award documents. There were approximately 13,000 and 15,000 stock options vested at December 31, 2021 and December 31, 2020, respectively. There were no options issued in 2021 or 2020.

The following table summarizes our stock options outstanding at December 31, 2019, and changes during the years ended December 31, 2021 and December 31, 2020:

	Number of shares underlying options	Weighted average exercise price per share	Weighted average grant date fair value
Outstanding, December 31, 2019	29,165	\$ 7.20	\$ 3.76
Forfeited	(12,083)	8.76	4.34
Outstanding, December 31, 2020	17,082	6.10	3.36
Exercised	(4,166)	8.04	4.34
Outstanding, December 31, 2021	12,916	5.47	2.98

[Table of Contents](#)

The following table summarizes our non-vested stock options outstanding at December 31, 2019, and changes during the years December 31, 2021 and December 31, 2020:

	Number of shares underlying options	Weighted average exercise price per share	Weighted average grant date fair value
Non-vested, December 31, 2019	5,417	\$ 5.48	\$ 3.01
Vested	(3,229)	5.47	2.98
Non-vested, December 31, 2020	2,188	5.50	3.05
Vested	(2,188)	5.50	3.05
Non-vested, December 31, 2021	-	-	-

The following table summarizes information about our outstanding stock options, and reflects the intrinsic value recalculated based on the closing price of our common stock of \$20.16 on December 31, 2021:

	Number of shares underlying options	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding	12,916	\$ 5.47	6.23	\$ 189,765
Exercisable	12,916	5.47	6.23	189,765

At December 31, 2021, there was unrecognized stock-based compensation expense totaling approximately \$1.3 million relating to non-vested restricted stock grants that will be recognized over the next four years.

**Note 9 – Property and Equipment**

The following table summarizes the book value of our assets and accumulated depreciation:

	December 31, 2021	December 31, 2020
Land	\$ 472,492	\$ 472,492
Buildings and improvements	4,030,563	1,027,631
Furniture and fixtures	647,207	599,901
Construction in progress	-	1,648,640
Accumulated depreciation	(696,117)	(555,285)
Total property and equipment, net	\$ 4,454,145	\$ 3,193,379

We own our corporate headquarters in Goose Creek, SC. Construction in progress consists primarily of capitalized costs related to an addition to our headquarters. Excess capacity is leased to unrelated third parties. Gross rental income was approximately \$109,000 and \$95,000 during the years ended December 31, 2021 and December 31, 2020, respectively, and is reflected on the line item, "Other miscellaneous income," in our consolidated statement of income.

Depreciation expense related to property and equipment totaled approximately \$141,000 and \$129,000 during the years ended December 31, 2021 and December 31, 2020, respectively.

**Note 10 – Intangible Assets**

The following table reflects our intangible assets:

	Estimated useful life (in years)	December 31, 2021			December 31, 2020		
		Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
<b>Finite-lived intangible assets:</b>							
Franchise agreements	15	\$ 19,916,453	\$ (1,068,864)	\$ 18,847,589	\$ -	\$ -	\$ -
Customer lists	10	2,088,800	(239,104)	1,849,696	-	-	-
Purchased software	7	3,200,089	(114,289)	3,085,800	-	-	-
Internally developed software	7	916,304	-	916,304	342,697	-	342,697
Total finite-lived intangible assets		<u>\$ 26,121,646</u>	<u>\$ (1,422,257)</u>	<u>\$ 24,699,389</u>	<u>\$ 342,697</u>	<u>\$ -</u>	<u>\$ 342,697</u>
<b>Indefinite-lived intangible assets:</b>							
Domain name	Indefinite	\$ 2,226,149	\$ -	\$ 2,226,149	\$ -	\$ -	\$ -
Total intangible assets		<u>\$ 28,347,795</u>	<u>\$ (1,422,257)</u>	<u>\$ 26,925,538</u>	<u>\$ 342,697</u>	<u>\$ -</u>	<u>\$ 342,697</u>

The following table provides the estimated future amortization of finite-lived intangible assets as of December 31, 2022:

2022	\$ 1,974,305
2023	1,971,122
2024	1,971,122
2025	1,971,122
2026	1,971,122
Thereafter	14,840,596
Total future amortization	<u>\$ 24,699,389</u>

**Note 11 – Commitments and Contingencies**

**Franchise Acquisition Indebtedness**

We financed the sale of several acquired offices to new franchises with notes receivable. In some instances, this financing resulted in certain franchises being considered VIE's. We have determined that we are not required to consolidate these entities because we do not have the power to direct these entities' daily operations. If these franchises default on these notes, we bear the risk of loss of the outstanding balance on these notes, less what we could recoup from the potential resale of the repossessed office. The balance due from the franchises determined to be VIE's on December 31, 2021 and December 31, 2020 was approximately \$2.9 million and \$2.1 million, respectively.

**Legal Proceedings**

From time to time, we are involved in various legal and administrative proceedings. Based on information currently available to us, we do not expect material uninsured losses to arise from any of these matters. We believe the outcome of these matters, even if determined adversely, will not have a material adverse effect on our business, financial condition or results of operations. There have been no material changes in our legal proceedings as of December 31, 2021.

**Note 12 – Income Tax**

The provision for income taxes is comprised of the following:

	December 31, 2021	December 31, 2020
<b>Current</b>		
Federal	\$ 2,032,751	\$ 1,812,710
State	971,936	696,154
<b>Deferred</b>		
Federal	(2,045,199)	(1,246,828)
State	(321,424)	(520,998)
Provision for income taxes	<u>\$ 638,064</u>	<u>\$ 741,038</u>

[Table of Contents](#)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred taxes are as follows:

	December 31, 2021	December 31, 2020
<b>Deferred tax assets</b>		
Workers' compensation claims liability	\$ 1,517,396	\$ 1,131,695
Depreciation/amortization	-	205,987
Bad debt reserve	6,385	18,984
Accrued vacation	43,854	33,956
Impairment of notes receivable	463,949	394,674
Stock based compensation	144,666	182,385
Accrued compensation	261,417	-
Net operating loss carryforward	228,289	-
Total deferred tax asset	2,665,956	1,967,681
<b>Deferred tax liabilities</b>		
Depreciation/amortization	(2,208,041)	-
Cash to Accrual - 481 Adjustment	(930,861)	(1,888,302)
Total deferred tax liabilities	(3,138,902)	(1,888,302)
<b>Total deferred taxes, net</b>	<b>\$ (472,946)</b>	<b>\$ 79,379</b>

At December 31, 2021, the Company has a federal net operating loss carry-forward of approximately \$860,000 available to offset future federal taxable income. The federal net operating loss may be carried forward indefinitely, however, utilization of future net operating losses may be limited due to ownership changes under applicable sections of the Internal Revenue Code.

Management estimates that our effective tax rates was approximately 5.1% for 2021. The items accounting for the difference between income taxes computed at the statutory federal income tax rate and the income taxes reported on the statements of income are as follows:

	December 31, 2021		December 31, 2020	
Income tax expense based on statutory rate	\$ 2,622,480	21.0%	\$ 1,281,095	21.0%
Bargain purchase gain	(1,180,512)	(9.5)%	4,233	0.1%
Non-deductible executive compensation	203,597	1.6%	-	0.0%
Stock based compensation	(154,423)	(1.2)%	-	0.0%
State income taxes expense net of federal taxes	446,422	3.6%	138,375	2.3%
WOTC	(1,204,581)	(9.6)%	(712,891)	(11.7)%
Other	(94,919)	(0.8)%	30,226	(0.5)%
Total taxes on income	<b>\$ 638,064</b>	<b>5.1%</b>	<b>\$ 741,038</b>	<b>11.2%</b>

U.S. federal income tax returns after 2017 remain open to examination. Generally, state income tax returns after 2016 remain open to examination. No income tax returns are currently under examination. As of December 31, 2021, and December 31, 2020, the Company does not have any unrecognized tax benefits, and continues to monitor its current and prior tax positions for any changes.

**Note 13 – Notes Receivable**

Some franchisees, as well as the purchaser of our previously owned California operations, have borrowed funds from us primarily to finance the initial purchase price of office assets. In March of 2021, we sold approximately \$5.3 million of notes receivable to Bass, a related party. Virtually all of the notes sold to Bass originated from the sale of branch locations acquired in the Merger. These notes were sold without recourse at their current outstanding principal value. The proceeds from the sale of these notes were used to finance the Snelling and Link transaction. Notes outstanding net of allowance for losses were approximately \$4.2 million and \$8.1 million as of December 31, 2021 and December 31, 2020, respectively.

Notes receivable bear interest at a fixed rate between 6.0% and 10.0%. Notes are generally secured by the assets of each location and the ownership interests in the franchisee. Interest income on franchisee notes is reported in other miscellaneous income in our consolidated statements of operations and was approximately \$412,000 and \$712,000 in the years ended December 31, 2021 and December 31, 2020, respectively.

We estimate the allowance for losses for franchisees separately from the allowance for losses from non-franchisees because of the level of detailed sales information available to us with respect to the former.

**Notes Receivable from Franchisees**

Based on our review of the financial condition of the borrowers, the underlying collateral value, and the potential future impact of COVID-19 on certain borrowers' economic performance and estimated future cash flows, we have established an allowance of approximately \$1.9 million and \$1.6 million as of December 31, 2021 and December 31, 2020, respectively, for potentially uncollectible notes receivable.

[Table of Contents](#)

The following table summarizes changes in our notes receivable balance to franchisees:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Note receivable	\$ 4,432,698	\$ 8,023,807
Allowance for losses	(405,313)	(405,313)
Notes receivable, net	<u>\$ 4,027,385</u>	<u>\$ 7,618,494</u>

**Notes Receivable from Non-Franchisees**

During 2020, our non-franchisee note holder experienced significant economic hardships due to the impacts of COVID-19. As a result, we restructured one note receivable in an effort to increase the probability of repayment. We granted near-term payment concessions to help the debtor attempt to improve its financial condition so it may eventually be able to repay the amount due. We received and recognized interest income of approximately \$125,000 and \$174,000 during the years ended December 31, 2021 and December 31, 2020, respectively.

The following table summarizes changes in our notes receivable balance that have been deemed impaired:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Note receivable	\$ 1,640,393	\$ 1,640,393
Allowance for losses	(1,500,799)	(1,193,359)
Notes receivable, net	<u>\$ 139,594</u>	<u>\$ 447,034</u>

**Note 14 – Unaudited Quarterly Results of Operations**

The following table displays our unaudited consolidated statement of operations for the fourth quarter ended December 31, 2021 and December 31, 2020:

	<b>Three months ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Franchise royalties	\$ 6,067,378	\$ 3,229,658
Staffing revenue, owned locations	230,668	-
Service revenue	471,053	175,817
Total revenue	6,769,099	3,405,475
Cost of staffing revenue, owned locations	(170,548)	-
Gross profit	6,598,551	3,405,475
Selling, general and administrative expenses	4,437,206	2,158,276
Depreciation and amortization	498,226	32,528
Income from operations	1,663,119	1,214,671
Other miscellaneous income	850,979	238,365
Interest income	127,480	161,014
Interest and other financing expense	(217,854)	(171,504)
Net income before income taxes	2,423,724	1,442,546
Provision for income taxes	229,836	86,446
Net income	<u>\$ 2,193,888</u>	<u>\$ 1,356,100</u>
<b>Earnings per share</b>		
Basic	\$ 0.16	\$ 0.10
Diluted	\$ 0.16	\$ 0.10
<b>Weighted average shares outstanding</b>		
Basic	13,513,960	13,589,006
Diluted	13,634,995	13,731,644

**Note 15 - Subsequent Events**

On January 10, 2022 we entered into a definitive agreement with Temporary Alternatives, Inc. (“Temporary Alternatives”) to acquire three locations in west Texas and New Mexico for \$5.25 million, inclusive of a prescribed amount of working capital. Temporary Alternatives is a staffing division of dmDickason Personnel Services, a family-owned company based in El Paso, TX. The acquisition of Temporary Alternatives will expand our national footprint into west Texas and grow our franchise base. The initial acquisition accounting of Temporary Alternatives has not been completed as the transaction was only relatively recently completed.

On January 19, 2022 we entered into a definitive agreement with The Dubin Group, Inc., and Dubin Workforce Solutions, Inc. (collectively, “Dubin”) to acquire their staffing operations for \$2.4 million, inclusive of a prescribed amount of working capital. Dubin provides executive placement services and commercial staffing in the Philadelphia metro area. The acquisition of Dubin will help expedite growth into a new staffing vertical, expand our national footprint, and grow our franchise base. The initial acquisition accounting of Dubin has not been completed as the transaction was only relatively recently completed.

On January 25, 2022 we entered into a definitive agreement with Northbound Executive Search, LTD. (“Northbound”) to acquire their operations for \$11.0 million, inclusive of a prescribed amount of working capital. Northbound provides executive placement and short-term consultant services primarily to blue chip clients in the financial services industry. The acquisition of Northbound will help expedite growth into a new staffing vertical, expand our national footprint, and grow our franchise base. The initial acquisition accounting of Northbound has not been completed as the transaction was only relatively recently completed.

On February 22, 2022, our Board declared a \$0.06 per common share cash dividend to shareholders of record as of March 1, 2022, which will be paid on March 15, 2022.

On March 1, 2022, our workers’ compensation provider (ACE) agreed to reduce the required collateral deposit from \$14.3 million to \$10.7 million. The collateral is currently accomplished by delivering letters of credit under our agreement with Truist. The reduction increases our availability under the line of credit by an equal amount.



## Item 8. Financial Statements and Supplementary Data

### Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
HireQuest, Inc.

#### *Opinion on the Financial Statements*

We have audited the accompanying balance sheets of HireQuest, Inc. (the “Company”) as of December 31, 2022 and 2021, the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's 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 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### *Critical Audit Matters*

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

#### **Workers' Compensation Claims Liability — Refer to Notes 1 and 5 to the financial statements**

##### *Critical Audit Matter Description*

The Company's workers' compensation claims liability is based on estimated future costs to be incurred by the Company. The liability includes claims that have been reported but not settled, as well as claims that have been incurred but not reported. Annually, the Company utilizes third party actuarial estimates of future costs of the claims discounted by a present value interest rate to estimate the amount of the reserves. If the actual costs of the claims exceed the amount estimated, additional reserves may be required. The workers' compensation claims liability balance as of December 31, 2022 was \$5,925,000.

We identified the workers' compensation claims liability as a critical accounting matter because of the significance of the assumptions used in the actuarial estimates of the liability for workers' compensation claims and consideration of the completeness of information provided to the third-party actuarial firm. As a result, performing audit procedures to evaluate the reasonableness of estimates and assumptions related to the adequacy of the workers' compensation liability required a high degree of auditor judgement and an increased extent of effort.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the evaluation of the reasonableness of the workers' compensation claim liability included the following, among others:

- We obtained an understanding of the process and evaluated the design and implementation of controls relating to management's determination of the workers' compensation claim liability.
- We assessed the professional qualifications of the third-party actuary including their independence, experience, and certifications.
- We obtained and reviewed the independent actuarial report and gained an understanding from the actuary of the objectives and scope of their work, and we evaluated the consistency of methods and assumptions used in the current year as compared to previous years.
- We discussed the valuation model, data inputs, assumptions, calculations, and results directly with the third-party actuary.
- We analytically considered balances in relation to prior years and activity that took place during the year.
- We tested the completeness, integrity, and accuracy of the underlying data used by the third-party actuary as part of the actuarial valuation, including confirmation of underlying data with third party data providers.

**Acquisitions- refer to Note 2 in the financial statements**

*Critical Audit Matter Description*

The Company completed the acquisitions of four staffing and placement companies for total consideration of approximately \$34.2 million during the year ended December 31, 2022, as disclosed in Note 2. The Company accounted for these transactions under the acquisition method of accounting for business combinations. Accordingly, the purchase prices were allocated to the assets acquired and liabilities assumed based on their respective fair values, including identified intangible assets of \$22.7 million and resulting goodwill of \$5.9 million. Of the identified intangible assets acquired, the most significant are the trade names, customer relationships and customer lists. The Company estimated the fair value of the trade names, customer relationships, and customer lists using the multi-period excess earnings method (income approach), which is a specific application of the discounted-cash-flow-method that required management to make significant estimates and assumptions related to forecasts of revenue growth projections, including growth rates over the estimated life of the customer relationships and lists, and selection of royalty rates, discount rates, and methodologies utilized in the valuation models.

We identified the valuation of the trade names, customer relationships, and customer lists as a critical audit matter because of the significant estimates and assumptions management made to fair value this asset for purposes of recording the acquisition. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures, including the need to involve fair value specialists, evaluation of the reasonableness of management's forecasts of future revenue, as well as the selection of the royalty rates, discount rates and methodologies utilized in the valuation models.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to testing the valuation of trade names, customer relationships, and customer lists included the following, among others:

- We tested the Company's process over the valuation of the trade names, customer relationships, and customer lists including management's forecasts of revenue growth projections, the selection of the royalty rates, discount rates, and attrition rates as well as the methodologies utilized in the valuation models.
- We evaluated the reasonableness of management's forecast of revenue growth projections by comparing the projections to historical results.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the revenue growth projections, royalty rates, discount rates, attrition rates and valuation methodologies by:
  - Testing the source information underlying the determination of revenue growth projections, specifically the long-term growth rate, royalty rates, renewal and attrition rates, and discount rates, and testing the mathematical accuracy of the calculations
  - Reviewing the reconciliation of the internal rate of return, the weighted average return on assets and the weighted average cost of capital noting that the reconciliation fell within an acceptable range.
  - Reviewing the royalty rates selected for the trade names, to confirm that the rate was a market participant rate.
  - Reviewing the sensitivity analysis related to the discount rate and growth rate used for estimating the fair value.
- We evaluated the completeness and accuracy of the footnote disclosures in Note 2 in the financial statements

We have served as the Company's auditor since 2017.

/s/ Plante & Moran, PLLC

Denver, Colorado  
March 21, 2023

**HireQuest, Inc.**  
**Consolidated Balance Sheets**

(in thousands except par value data)	December 31, 2022	December 31, 2021
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 3,049	\$ 1,256
Accounts receivable, net of allowance for doubtful accounts	45,728	38,239
Notes receivable	817	1,481
Prepaid expenses, deposits, and other assets	1,833	659
Prepaid workers' compensation	503	369
Total current assets	51,930	42,004
Property and equipment, net	4,353	4,454
Workers' compensation claim payment deposit	1,231	948
Franchise agreements, net	23,144	18,848
Other intangible assets, net	10,690	6,228
Goodwill	5,870	-
Other assets	325	334
Notes receivable, net of current portion and reserve	2,675	2,686
Intangible assets held for sale - discontinued operations	3,065	1,850
Total assets	<u>\$ 103,283</u>	<u>\$ 77,352</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 448	\$ 1,126
Line of credit	12,543	171
Term loans payable	704	210
Other current liabilities	3,408	2,658
Accrued wages, benefits and payroll taxes	5,602	3,687
Due to franchisees	9,846	7,496
Risk management incentive program liability	877	1,632
Workers' compensation claims liability	3,352	4,491
Total current liabilities	36,780	21,471
Term loans payable, net of current portion	3,291	2,856
Workers' compensation claims liability, net of current portion	2,573	3,759
Deferred tax liability	60	473
Franchisee deposits	2,325	2,058
Total liabilities	45,029	30,617
Commitments and contingencies (Note 11)		
<b>Stockholders' equity</b>		
Preferred stock - \$0.001 par value, 1,000 shares authorized; none issued	-	-
Common stock - \$0.001 par value, 30,000 shares authorized; 13,918 and 13,745 shares issued, respectively	14	14
Additional paid-in capital	32,844	30,472
Treasury stock, at cost - 40 shares	(146)	(146)
Retained earnings	25,542	16,395
Total stockholders' equity	<u>58,254</u>	<u>46,735</u>
Total liabilities and stockholders' equity	<u>\$ 103,283</u>	<u>\$ 77,352</u>

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Consolidated Statements of Income**

	Year ended	
	December 31, 2022	December 31, 2021
<i>(in thousands, except per share data)</i>		
Franchise royalties	\$ 28,897	\$ 21,317
Service revenue	2,055	1,212
Total revenue	30,952	22,529
Selling, general and administrative expenses	12,874	13,328
Depreciation and amortization	2,040	1,551
Income from operations	16,038	7,650
Other miscellaneous (expense) income	(2,047)	4,570
Interest income	247	413
Interest and other financing expense	(368)	(157)
Net income before income taxes	13,870	12,476
Provision for income taxes	1,895	635
Net income from continuing operations	11,975	11,841
Income from discontinued operations, net of tax	483	9
Net income	<u>\$ 12,458</u>	<u>\$ 11,850</u>
<b>Basic earnings per share</b>		
Continuing operations	\$ 0.87	\$ 0.88
Discontinued operations	0.04	-
Total	<u>\$ 0.91</u>	<u>\$ 0.88</u>
<b>Diluted earnings per share</b>		
Continuing operations	\$ 0.87	\$ 0.87
Discontinued operations	0.04	-
Total	<u>\$ 0.91</u>	<u>\$ 0.87</u>
<b>Weighted average shares outstanding</b>		
Basic	13,654	13,494
Diluted	13,721	13,606

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**

(in thousands)	Common stock		Treasury stock	Additional paid-in	Retained	Total stockholders'
	Shares	Par value	amount	capital	earnings	equity
Balance at December 31, 2020	13,629	\$ 14	\$ (146)	\$ 28,811	\$ 7,686	\$ 36,365
Stock-based compensation	-	-	-	1,628	-	1,628
Cash dividends	-	-	-	-	(3,141)	(3,141)
Restricted common stock granted for services	112	-	-	-	-	-
Common stock issued for the exercise of options	4	-	-	33	-	33
Net income	-	-	-	-	11,850	11,850
Balance at December 31, 2021	13,745	14	(146)	30,472	16,395	46,735
Stock-based compensation	-	-	-	2,372	-	2,372
Cash dividends	-	-	-	-	(3,311)	(3,311)
Restricted common stock granted for services	173	-	-	-	-	-
Net income	-	-	-	-	12,458	12,458
Balance at December 31, 2022	13,918	\$ 14	\$ (146)	\$ 32,844	\$ 25,542	\$ 58,254

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Consolidated Statement of Cash Flow**

(in thousands)	Year ended	
	December 31, 2022	December 31, 2021
<b>Cash flows from operating activities</b>		
Net income	\$ 12,458	\$ 11,850
Income from discontinued operations	(483)	(9)
Net income from continuing operations	11,975	11,841
Adjustments to reconcile net income to net cash used in operations:		
Depreciation and amortization	2,040	1,551
Non-cash interest	95	48
Allowance for losses on notes receivable	350	307
Stock based compensation	2,372	1,628
Deferred taxes	(412)	(2,367)
Loss on disposition of intangible assets	2,233	1,223
Bargain purchase gain	-	(5,621)
Changes in operating assets and liabilities:		
Accounts receivable	(974)	(3,065)
Prepaid expenses, deposits, and other assets	(9)	(119)
Prepaid workers' compensation	(134)	1,065
Accounts payable	(2,192)	349
Risk management incentive program liability	(755)	773
Other current liabilities	230	(206)
Accrued wages, benefits and payroll taxes	1,450	844
Due to franchisees	2,350	3,872
Workers' compensation claim payment deposit	(284)	6,876
Workers' compensation claims liability	(2,325)	(1,226)
Net cash provided by operating activities - continuing operations	16,010	17,773
Net cash provided by (used in) operating activities - discontinued operations	868	(391)
Net cash provided by operating activities	16,878	17,382
<b>Cash flows from investing activities</b>		
Purchase of acquisitions	(32,355)	(33,737)
Purchase of property and equipment	(100)	(1,401)
Proceeds from the sale of purchased locations	9,317	997
Proceeds from the sale of notes receivable	-	5,261
Proceeds from payments on notes receivable	799	669
Cash issued for notes receivable	(125)	(855)
Investment in intangible assets	(1,377)	(573)
Net change in franchisee deposits	267	193
Net cash used in investing activities	(23,574)	(29,446)
<b>Cash flows from financing activities</b>		
Proceeds from term loan payable	-	3,154
Payment on term loan payable	(571)	(88)
Payments related to debt issuance	-	(476)
Proceeds from the exercise of stock options	-	33
Net proceeds from revolving line of credit	12,371	171
Payment of dividends	(3,311)	(3,141)
Net cash provided by (used in) financing activities	8,489	(347)
<b>Net increase (decrease) in cash</b>	<b>1,793</b>	<b>(12,411)</b>
<b>Cash, beginning of period</b>	<b>1,256</b>	<b>13,667</b>
<b>Cash, end of period</b>	<b>\$ 3,049</b>	<b>\$ 1,256</b>
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Notes receivable issued for the sale of branches	350	1,247
Amounts payable related to the purchase of acquisition	1,800	-
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	273	110
Income taxes paid	3,048	891

See accompanying notes to consolidated financial statements.

**HireQuest, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1 – Overview and Summary of Significant Accounting Policies*****Nature of Business***

HireQuest, Inc. (together with its subsidiaries, “HQI, the “Company,” “we,” us,” or “our”) is a nationwide franchisor of offices providing direct-dispatch, executive search, and commercial staffing solutions primarily in the light industrial and blue-collar segments of the staffing industry and traditional commercial staffing. Our franchisees provide various types of temporary personnel through two business models operating under the trade names “HireQuest Direct”, “HireQuest”, “Snelling”, “DriverQuest”, “HireQuest Health”, “Northbound Executive Search”, and “MRI”. HireQuest Direct specializes primarily in unskilled and semi-skilled industrial and construction personnel. HireQuest, and Snelling specialize primarily in skilled and semi-skilled industrial personnel, clerical and administrative personnel, and permanent placement services. DriverQuest specializes in both commercial and non-CDL drivers serving a variety of industries and applications. HireQuest Health specializes in skilled personnel in the medical and dental industries. Northbound Executive Search and MRI specialize in executive placement and consultant services.

On January 24, 2022 we completed our acquisition of Temporary Alternatives, Inc. (“Temporary Alternatives”) to acquire three locations in west Texas and New Mexico for \$7.0 million, inclusive of \$336 thousand of adjusted net working capital payable. Temporary Alternatives is a staffing division of dmDickason Personnel Services, a family-owned company based in El Paso, TX. On February 21, 2022 we completed our acquisition of The Dubin Group, Inc., and Dubin Workforce Solutions, Inc. (collectively, “Dubin”). We acquired their staffing operations for \$2.5 million, inclusive of a \$300 thousand note payable and \$62 thousand of adjusted net working capital payable. Dubin provides executive placement services and commercial staffing in the Philadelphia metropolitan area. On February 28, 2022 we completed our acquisition of Northbound Executive Search, LTD. (“Northbound”) to acquire their operations for \$11.4 million, inclusive of a \$1.5 million note payable and \$328 thousand of adjusted net working capital payable. Northbound provides executive placement and short-term consultant services primarily to blue-chip clients in the financial services industry. On December 12, 2022 we completed our acquisition of MRINetwork (“MRI”) to acquire certain assets of their network for \$13.3 million, inclusive of \$60 thousand of contingent consideration and \$223 thousand of adjusted net working capital payable. MRI is the third-largest executive recruiting network in the world, headquartered in Delray Beach, Florida. MRI provides executive placement services and commercial staffing in the across the US and internationally.

On March 1, 2021, we completed our acquisition of Snelling Staffing and affiliates (“Snelling”). We acquired substantially all of the operating assets and assumed certain liabilities of Snelling for a purchase price of approximately \$17.9 million. On March 22, 2021, we completed our asset acquisition of LINK Staffing and affiliates (“LINK”) in which we acquired all of the franchise relationships and certain other assets of LINK for a purchase price of approximately \$11.1 million. On October 1, 2021 we completed our acquisition of Recruit Media, Inc. (“Recruit Media”). We purchased all of the outstanding shares of Recruit Media for approximately \$4.4 million, inclusive of \$1.0 million of liabilities assumed. On December 6, 2021 we completed the acquisition of the Dental Power Staffing division (“Dental Power”) from Dental Power International, Inc. (“DPI”) for \$1.9 million, inclusive of \$382 thousand of contingent consideration.

For additional information related to these transactions, see *Note 2 - Acquisitions*.

As of December 31, 2022 we had approximately 433 franchisee-owned offices and 2 company-owned offices in 45 states and the District of Columbia. We are the employer of record to approximately 85 thousand employees annually, who in turn provide services to thousands of clients in various industries including construction, recycling, warehousing, logistics, auctioneering, manufacturing, hospitality, landscaping, retail, and dental practices. We provide employment, marketing, working capital funding, software, and administrative services to our franchisees.

***Basis of Presentation***

We have prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In the opinion of management, the accompanying consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the periods presented.

***Consolidation***

The consolidated financial statements include the accounts of HQI and all of its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

U.S. GAAP requires the primary beneficiary of a variable interest entity (a “VIE”) to consolidate that entity. To be the primary beneficiary of a VIE, an entity must have both the power to direct the activities that most significantly impact the VIE’s economic performance, and the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it. We provide acquisition financing to some of our franchisees that results in some of them being considered a VIE. We have reviewed these franchisees and determined that we are not the primary beneficiary of any of these entities, and accordingly, these entities have not been consolidated.

***Foreign Currency Translation***

The functional currency of the company and all of its' subsidiaries is the United States dollar. Certain franchises located outside the United States may transact business in their local currency. As a result, some accounts receivable may be denominated in currencies other than United States dollar. Assets and liabilities are translated into United States dollars at the exchange rate in effect on the balance sheet date. Royalties received from and expenses charged to non-US franchises are always denominated in United States dollars, and the franchisee bears all foreign exchange risk. Foreign currency translation and re-measurement gains and losses are included in results of operations within other income (expense), net, which was zero at December 31, 2021 and 2022, respectively.

**Cost of Staffing Revenue**

Cost of staffing revenue is present when we have owned locations and consists of temporary employee wages, the related payroll taxes, workers' compensation expenses, and other direct costs of services.

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

Significant estimates and assumptions underlie our workers' compensation claim liabilities, our workers' compensation Risk Management Incentive Program, our deferred taxes, our allowance for credit losses, potential impairment of goodwill and other intangibles, stock-based compensation, and estimated fair value of assets and liabilities acquired.

**Cash and Cash Equivalents:** Cash and cash equivalents consists of demand deposits, including interest-bearing accounts with original maturities of three months or less, held in banking institutions and a trust accounts. These accounts are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per account per institution. At December 31, 2022, we held deposits in excess of FDIC insured limits of approximately \$2.5 million.

**Revenue Recognition**

Our primary source of revenue comes from royalty fees based on the operation of our franchised offices. Royalty fees from our HireQuest Direct business model are based on a percentage of sales for services our franchisees provide to customers, which ranges from 6.0% to 8.0%. Royalty fees from our HireQuest business line, including HireQuest franchisees, DriverQuest franchisees, the Northbound franchisee, the HireQuest Health franchisees, and Snelling and LINK franchisees who executed new franchise agreements upon closing, are 4.5% of the payroll we fund plus 18.0% of the gross margin for the territory. The MRI franchises with a lower royalty scale generally pay a flat annual fee plus a percentage-based royalty. For temporary labor, MRI franchises pay a royalty that ranges from 20% to 25% of payroll, depending on sales volume. Some customers that utilize qualified independent contractors cause the franchise to pay a royalty that ranges from 4% to 10% of contractor payments, depending on sales volume. Royalty fees from the Snelling franchise agreements assumed and not renegotiated at closing range from 5.0% to 8.0% of sales for services our franchisees provide to customers. Our franchisees are responsible for taking customer orders, providing customers with services, establishing the prices charged for services, and controlling other aspects related to providing service to customers prior to the service being transferred to the customer, such as determining which temporary employees to dispatch to the customer and establishing pay rates for the temporary employees. Accordingly, we present revenue from franchised locations on a net basis as agent as opposed to a gross basis as principal.

For franchised locations, we recognize revenue when we satisfy our performance obligations. Our performance obligations primarily take the form of a franchise license and promised services. Promised services consist primarily of paying temporary employees, completing all statutory payroll related obligations, and providing workers' compensation insurance on behalf of temporary employees. Because these performance obligations are interrelated, we do not consider them to be individually distinct and therefore account for them as a single performance obligation. Because our franchisees receive and consume the benefits of our services simultaneously, our performance obligations are satisfied when our services are provided. Franchise royalties are billed on a weekly basis other than with MRI franchise royalties, which are billed on a monthly basis. We also offer various incentive programs for franchisees including royalty incentives, royalty credits, and other support initiatives. These incentives and credits are provided to encourage new office development and organic growth, and to limit workers' compensation exposure. We present franchise royalty fees net of these incentives and credits.

For owned locations, we account for revenue when both parties to the contract have approved the contract, the rights and obligations of the parties are identified, payment terms are identified, and collectability of consideration is probable. Revenue derived from owned locations is recognized at the time we satisfy our performance obligation. Our contracts have a single performance obligation, which is the transfer of services. Because our customers receive and consume the benefits of our services simultaneously, our performance obligations are satisfied when our services are provided. Revenue from owned locations is reported net of customer credits, discounts, and taxes collected from customers that are remitted to taxing authorities. Our customers are invoiced every week and we rarely require payment prior to the delivery of service. Substantially all of our contracts include payment terms of 30 days or less and are short-term in nature. Because of our payment terms with our customers, there are no significant contract assets or liabilities. We do not extend payment terms beyond one year.

Below are summaries of our franchise royalties disaggregated by business model (in thousands):

	Year ended	
	December 31, 2022	December 31, 2021
HireQuest Direct model	\$ 16,224	\$ 14,554
HireQuest, Snelling, DriverQuest, HireQuest Health, Northbound, and MRI	12,673	6,763
Total	<u>\$ 28,897</u>	<u>\$ 21,317</u>



### **Workers' Compensation Claims Liability**

We maintain reserves for workers' compensation claims based on their estimated future cost. These reserves include claims that have been reported but not settled, as well as claims that have been incurred but not reported. Annually, we engage an independent actuary to estimate the future costs of these claims. Quarterly, we use development factors provided by an independent actuary to estimate the future costs of these claims. We make adjustments as necessary. If the actual costs of the claims exceed the amount estimated, we may incur additional charges.

### **Workers' compensation Risk Management Incentive Program ("RMIP")**

Our RMIP is designed to incentivize our franchisees to keep our temporary employees safe and control exposure to large workers' compensation claims. We accomplish this by paying our franchisees an amount equivalent to a percentage of the amount they pay for workers' compensation insurance if they keep their workers' compensation loss ratios below specified thresholds.

### **Notes Receivable**

Notes receivable from franchisees consist primarily of amounts due to us related to the financing of franchised locations. We report notes receivable from franchisees at the principal balance outstanding less an allowance for losses. We charge interest at a fixed rate and interest income is calculated by applying the effective rate to the outstanding principal balance. Notes receivable are generally secured by the assets of each location and the ownership interests in the franchise. We monitor the financial condition of our debtors and record provisions for estimated losses when we believe it is probable that our debtors will be unable to make their required payments. We evaluate the potential impairment of notes receivable based on various analyses, including estimated discounted future cash flows, at least annually and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When a note receivable is deemed impaired, we discontinue accruing interest and only recognize interest income when payment is received. Our allowance for losses on notes receivable was approximately \$260 thousand and \$405 thousand at December 31, 2022 and December 31, 2021, respectively.

Some of our notes receivable have contingent consideration based on a percentage of specified system-wide sales that exceed certain thresholds. Notes with contingent consideration are recorded at fair value when originated. Probability of payment is reflected in the fair value, as is the time value of money. Subsequent changes in the recorded amount of contingent consideration are recognized during period in which the change was recognized.

Notes receivable from non-franchisees consist primarily of amounts due to us from the sale of non-core assets acquired after an acquisition. We report notes receivable from non-franchisees at the principal balance outstanding less an allowance for losses. We charge interest at a fixed rate and interest income is calculated by applying the effective rate to the outstanding principal balance. Notes receivable are generally unsecured. We monitor the financial condition of our debtors and evaluate the potential impairment of notes receivable based on various analyses, including estimated discounted future cash flows, at least annually and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When a note receivable is deemed impaired, we discontinue accruing interest and only recognize interest income when payment is received. Our impairment reserve on notes receivable from non-franchisees was approximately \$-0- and \$1.5 million at December 31, 2022 and December 31, 2021, respectively.

### **Stock-Based Compensation**

Periodically, we issue restricted common shares to our officers, directors, or employees. Command Center, an entity we merged with in 2019, previously issued options to purchase common shares and several of those remain in effect. We measure compensation costs for equity awards at their fair value on their grant date and expense these costs over the service period on a straight-line basis for each separately vesting portion of the award as if the award was, in substance, multiple awards. The fair value of stock awards is based on the quoted price of our common stock on the grant date. The fair value of option awards is determined using the Black-Scholes valuation model.

### **Debt Issuance Costs**

Debt issuance costs associated with our revolving lines of credit are capitalized and presented as prepaid expenses, deposits, and other assets. Because debt issuance costs are related to a line of credit, they are presented as an asset, rather than a decrease to debt. Debt issuance costs are amortized using the straight-line method over the term of the related agreement. Capitalized debt issuance costs were approximately \$334 thousand and \$430 thousand at December 31, 2022 and December 31, 2021, respectively.

### **Intangible Assets**

Intangible assets acquired are recorded at fair value. We test our finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. We test our indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable (see "Impairment" below). If the carrying value exceeds the fair value, we recognize an impairment in an amount equal to the excess, not to exceed the carrying value. Management uses considerable judgment to determine key assumptions, including projected revenue, royalty rates and appropriate discount rates. There were no intangible asset impairment charges in 2022 or 2021.

Finite-lived intangible assets are amortized using the straight-line method over their estimated useful lives, which ranges from 5 to 15 years. Our finite-lived intangible assets include acquired franchise agreements, acquired customer relationships, acquired customer lists, internally developed software, and purchased software. Our indefinite-lived intangible assets include acquired domain names and acquired trade names. For additional information related to significant additions to intangible assets, see *Note 2 - Acquisitions*.

Intangible assets internally developed are measured at cost. We capitalize costs to develop or purchase computer software for internal use which are incurred during the application development stage. These costs include fees paid to third parties for development services and payroll costs for employees' time spent developing the software. We expense costs incurred during the preliminary project stage and the post-implementation stage. Capitalized development costs are amortized on a straight-line basis over the estimated useful life of the software. The capitalization and ongoing assessment of recoverability of development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life.

**Impairment - Intangible Assets**

Indefinite-lived intangible assets are tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate the Indefinite-lived intangible asset is more likely than not impaired. Such indicators may include a deterioration in macroeconomic conditions; a significant increase in cost factors; negative overall financial performance (including a decline in our expected future cash flows); entity-specific changes in key personnel, strategy or customers; and industry considerations including competition, legal, regulatory, contractual or asset-specific factors, among others. The occurrence of these indicators could have a significant impact on the recoverability of the indefinite-lived intangible and could have a material impact on our consolidated financial statements. For purposes of our impairment test, the assessment of indefinite-lived intangibles is performed at the asset level.

Impairment of indefinite-lived intangibles is determined using a two-step process. The first step involves assessing qualitative factors to determine if a quantitative impairment test is necessary. Further testing is only required if we determine, based on the qualitative assessment, that it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount. Otherwise, no further impairment testing is required. The qualitative assessment may be performed on none, some, or all of our indefinite-lived intangible assets. Alternatively, we can bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to the quantitative impairment test.

**Goodwill**

Goodwill represents the excess purchase price over the fair value of identifiable assets received attributable to business combinations. Goodwill is measured for impairment at least annually, or whenever events and circumstances arise that indicate an impairment may exist (see "Impairment" below). These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. We test for goodwill impairment at the reporting unit level. In assessing the value of goodwill, assets and liabilities are assigned to a reporting unit and the appropriate valuation methodologies are used to determine fair value at the reporting unit level. At December 31, 2022 we had a single reporting unit.

The table below summarizes our goodwill at December 31, 2021 and changes during the year ended December 31, 2022 (in thousands):

Goodwill balance at December 31, 2021	\$	-
Goodwill recorded on acquisition of Temporary Alternatives		375
Goodwill recorded on acquisition of Dubin		200
Goodwill recorded on acquisition of Northbound		500
Goodwill recorded on acquisition of MRI		4,795
Goodwill balance at December 31, 2022	\$	<u>5,870</u>

**Impairment - Goodwill**

Goodwill is tested annually for impairment during the third quarter or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired. Such indicators may include a sustained, significant decline in our stock price; a decline in our expected future cash flows; significant disposition activity; a significant adverse change in the economic or business environment; and the testing for recoverability of a significant asset group, among others. The occurrence of these indicators could have a significant impact on the recoverability of goodwill and could have a material impact on our consolidated financial statements.

For purposes of our impairment test, we operate as a single reporting unit. Determining the fair value of a reporting unit when performing a quantitative impairment test involves the use of significant estimates and assumptions by management. Different judgments relating to the determination of reporting units could significantly affect the testing of goodwill for impairment and the amount of any impairment recognized.

When evaluating goodwill for impairment, we have the option to first assess qualitative factors to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying value. Qualitative factors include macroeconomic conditions, industry and market conditions, and overall company financial performance. If, after assessing these events and circumstances, we determine that it is more likely than not the fair value of the reporting unit is greater than its carrying amount, a quantitative impairment test is not necessary. We also have the option to bypass the qualitative assessment and proceed directly to performing the quantitative impairment test. If completed, the quantitative impairment test involves comparing the fair value of each reporting unit to its carrying value, including goodwill. Fair value reflects the price a market participant would be willing to pay in a potential sale of the reporting unit. If the fair value exceeds the carrying value, no impairment of goodwill is deemed necessary. If the carrying value of the reporting unit exceeds its fair value, we recognize an impairment loss in an amount equal to the excess, up to the carrying value of the goodwill.

Based on our annual assessment, we have concluded that it is more likely than not the fair value of our reporting unit exceeded its carrying value and our goodwill was not impaired.

**Provision for Income Taxes**

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those deferred amounts. We record valuation allowances for deferred tax assets that more likely than not will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We analyze our filing positions in all jurisdictions where we are required to file returns and identify any positions that would require a liability for unrecognized income tax positions to be recognized. If we are assessed penalties and/or interest, penalties will be charged to selling, general, and administrative expense and interest will be charged to interest expense.

The federal Work Opportunity Tax Credit (“WOTC”) is a source of fluctuation in our effective income tax rate. The WOTC is designed to encourage the hiring of workers from certain disadvantaged targeted categories and is generally calculated as a percentage of wages over a twelve-month period up to worker maximum by targeted category. We estimate the amount of WOTC we expect to receive based on wages certified in the current period and exclude all credits pending certification. WOTC is authorized until December 31, 2025.

**Business Combinations**

We account for business acquisitions under the acquisition method of accounting by recognizing identifiable tangible and intangible assets acquired, liabilities assumed, and non-controlling interests in the acquired business at their fair values. We record the portion of the purchase price that exceeds the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed, if any, as goodwill. Any gain on a bargain purchase is recognized immediately. We recognize identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized by the acquiree prior to the acquisition. We expense acquisition related costs as we incur them. Our acquisitions may include contingent consideration. Any contingent consideration is measured at fair value at the date of acquisition. Contingent consideration is remeasured at fair value each reporting period with subsequent changes in the fair value of the contingent consideration recognized during the period.

**Asset Acquisitions**

When we purchase a group of assets in a transaction that is not accounted for as a business combination, usually because the group of assets does not meet the definition of a business, we account for the transaction using a cost accumulation model, with the cost of the acquisition allocated to the acquired assets based on their relative fair values. Goodwill is not recognized. In an asset acquisition, direct transaction costs are treated as consideration transferred to acquire the group of assets and are capitalized as a component of the cost of the assets acquired. Our acquisitions may include contingent consideration. Any contingent consideration is measured at fair value at the date of acquisition. Contingent consideration is remeasured at fair value each reporting period with subsequent changes in the fair value of the contingent consideration recognized during the period.

**Earnings per Share**

We calculate basic earnings (loss) per share by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding. We do not include the impact of any potentially dilutive common stock equivalents in our basic earnings (loss) per share calculations. Diluted earnings per share reflect the potential dilution of securities that could share in our earnings through the conversion of common shares issuable via outstanding stock options and unvested restricted shares, except where their inclusion would be anti-dilutive. Outstanding common stock equivalents at December 31, 2022 and December 31, 2021 totaled approximately 215 thousand and 209 thousand, respectively.

Diluted common shares outstanding were calculated using the treasury stock method and are as follows (in thousands):

	Year ended	
	December 31, 2022	December 31, 2021
Weighted average number of common shares used in basic net income per common share	13,654	13,494
Dilutive effects of stock options and unvested restricted stock	67	112
Weighted average number of common shares used in diluted net income per common share	<u>13,721</u>	<u>13,606</u>

### ***Property and Equipment***

We record property and equipment at cost. We compute depreciation using the straight-line method over the estimated useful lives. Land is not depreciated. Repairs and maintenance are expensed as incurred. When assets are sold or retired, we eliminate cost and accumulated depreciation from the consolidated balance sheet and reflect a gain or loss in the consolidated statement of income. The estimated useful lives of property and equipment are as follows:

- Buildings – 40 years
- Building improvements – 15 years
- Computers, furniture, and equipment – 5 to 7 years.

### ***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable consist of amounts due for staffing services from customers of franchisees and of accounts receivable originating at company-owned locations. At December 31, 2022 and at December 31, 2021, substantially all of our net accounts receivable were due from customers of franchisees. We own the accounts receivable from staffing services provided by our employees on behalf of the franchisees until they age beyond a date agreed upon with each respective franchisee between 42 and 84 days. When accounts receivable age beyond the agreed-upon date, they are charged back to our franchisees. Accordingly, we do not record an allowance for doubtful accounts on these accounts receivable.

For staffing services provided by company-owned offices, we record accounts receivable at face value less an allowance for doubtful accounts. We determine the allowance for doubtful accounts based on historical write-off experience, the age of the receivable, other qualitative factors and extenuating circumstances, and current economic data which represents our best estimate of the amount of probable losses on these accounts receivable, if any. We review the allowance for doubtful accounts periodically and write off past due balances when it is probable that the receivable will not be collected. Our allowance for doubtful accounts on accounts receivable generated by company-owned offices was approximately \$70 thousand and \$26 thousand at December 31, 2022 and December 31, 2021, respectively.

### ***Advertising and Marketing Costs***

We expense advertising and marketing costs as we incur them. These costs were \$98 thousand and \$94 thousand in 2022, and 2021, respectively. These costs are included in general and administrative expenses.

### ***Fair Value Measures***

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an ordinary transaction between market participants on the measurement date. Our policy on fair value measures requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The policy establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The policy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1: Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2: Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying amounts of cash, accounts receivable, accounts payable and all other current liabilities approximate fair values due to their short-term nature. The fair value of notes receivable approximates the net book value and balances are reviewed for impairment at least annually. The fair of the term loan payable and the line of credit approximate their carrying value. The fair value of impaired notes receivable are determined based on estimated future payments discounted back to present value using the notes effective interest rate.

	Total	December 31, 2022		
		Level 1	Level 2	Level 3
Cash	\$ 3,049	\$ 3,049	\$ -	\$ -
Notes receivable	3,492	-	3,492	-
Accounts receivable	45,728	-	45,728	-
Total assets at fair value	\$ 52,269	\$ 3,049	\$ 49,220	\$ -
Term loan payable	\$ 3,995	\$ -	\$ 3,995	\$ -
Line of credit	12,543	-	12,543	-
Total liabilities at fair value	\$ 16,538	\$ -	\$ 16,538	\$ -

	Total	December 31, 2021		
		Level 1	Level 2	Level 3
Cash	\$ 1,256	\$ 1,256	\$ -	\$ -
Notes receivable	4,027	-	4,027	-
Accounts receivable	38,239	-	38,239	-
Notes receivable - impaired	140	-	-	140
Total assets at fair value	\$ 43,662	\$ 1,256	\$ 42,266	\$ 140
Term loan payable	\$ 3,066	\$ -	\$ 3,066	\$ -
Line of credit	171	-	171	-
Total liabilities at fair value	\$ 3,237	\$ -	\$ 3,237	\$ -

For additional information related to our impaired notes receivable, see *Note 13 – Notes Receivable*.

#### **Discontinued Operations**

Company-owned offices that have been disposed of by sale, disposed of other than by sale, or are classified as held-for-sale are reported separately as discontinued operations. In addition, a newly acquired business that on acquisition meets the held-for-sale criteria will be reported as discontinued operations. Accordingly, the assets and liabilities, operating results, and cash flows for these businesses are presented separate from our continuing operations, for all periods presented in our consolidated financial statements and footnotes, unless indicated otherwise. The assets and liabilities of a discontinued operation held-for-sale are measured at the lower of the carrying value or fair value less cost to sell.

#### **Savings Plan**

We have a savings plan that qualifies under Section 401(k) of the Internal Revenue Code. Under our 401(k) plan, eligible employees may contribute a portion of their pre-tax earnings, subject to certain limitations. As a benefit, we match 100% of each employee's first 3% of contributions, then 50% of each employee's contribution beyond 3%, up to a maximum match of 4% of the employee's eligible earnings. Matching expense related to our savings plan totaled approximately \$62 thousand and \$55 thousand during the years ended December 31, 2022 and December 31, 2021, respectively.

#### **Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. This guidance is effective for annual periods beginning after December 15, 2022, and interim periods therein. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350). The amendments in ASU 2017-4 simplify the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, under these amendments, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The Company adopted this guidance using a prospective transition method and incorporated the guidance into its annual goodwill impairment testing performed in the quarter ended September 30, 2022.

**Note 2 – Acquisitions****Business Combinations*****Snelling Staffing***

On March 1, 2021, we completed our acquisition of certain assets of Snelling in accordance with the terms of the Asset Purchase Agreement dated January 29, 2021 (the “Snelling Agreement”). Snelling is a 67-year-old staffing company headquartered in Richardson, TX. Pursuant to the Snelling Agreement, HQ Snelling Corporation (“HQ Snelling”), our wholly-owned subsidiary, acquired substantially all of the operating assets and assumed certain liabilities of the sellers for a purchase price of approximately \$17.9 million. Also on March 1, 2021, HQ Snelling entered into the First Amendment to the Purchase Agreement, pursuant to which HireQuest, Inc. agreed to advance \$2.1 million to the sellers at closing so the seller could facilitate payment on behalf of HQ Snelling to settle accrued payroll liabilities HQ Snelling assumed pursuant to the Snelling Agreement. Where we assumed franchisor status in this transaction, locations converting to the HireQuest model have subsequently signed our HireQuest franchise agreement but will continue to operate under the Snelling tradename.

The following table summarizes the estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date. From the date of acquisition through December 31, 2021, the fair value of assets acquired and liabilities assumed were adjusted in conjunction with the net working capital reconciliation. These adjustments included an increase in accounts receivable of approximately \$1.1 million, a decrease in other current assets of approximately \$9 thousand, an increase in current liabilities of approximately \$77 thousand, an increase in other liabilities of approximately \$217 thousand, and an increase in the bargain purchase gain of approximately \$662 thousand. No adjustments were made during 2022.

The following table summarizes the estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date (in thousands):

Cash consideration	\$	<u>17,851</u>
Accounts receivable		13,418
Workers' compensation deposit		7,200
Franchise agreements		11,034
Customer lists		1,690
Other current assets		100
Workers' compensation claims liability		(4,891)
Accrued payroll		(2,100)
Current liabilities		(740)
Other liabilities		(2,239)
Bargain purchase		(5,621)
Purchase price allocation	\$	<u>17,851</u>

The bargain purchase is attributable to the financial position of the seller and because there were few suitable potential buyers. This gain is included in the line item, “Other miscellaneous income,” in our consolidated statement of income.

The following table presents unaudited pro forma information (in thousands, except per share data) assuming (a) the acquisition of Snelling had occurred on January 1, 2020, (b) all of Snelling's operations had been converted to franchises on such date, and (c) none of the other acquisitions discussed in this Note 2 had occurred. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had in fact taken place on that date. Franchise royalties attributable to the acquiree of approximately \$3.1 million and approximately \$2.4 million is included in our consolidated statement of income for the year ended December 31, 2022, and December 31, 2021, respectively.

	Year ended	
	December 31, 2022	December 31, 2021
Total revenue	\$ 30,952	\$ 22,128
Net income	12,458	8,698
Basic earnings per share	\$ 0.93	\$ 0.65
Basic weighted average shares outstanding	13,654	13,482
Diluted earnings per share	\$ 0.91	\$ 0.64
Diluted weighted average shares outstanding	13,721	13,622

These calculations reflect increased amortization expense, increased payroll expense, the elimination of gains associated with the transaction, the elimination of transaction related costs, and the consequential tax effects that would have resulted had the acquisition closed on January 1, 2020.

In connection with the acquisition, we sold the 10 locations that had been company-owned by Snelling located in Bakersfield, CA; Albany, NY; Arlington Heights, IL; Amherst, NY; Dallas, TX; Hayward, CA; Hoffman Estates, IL; Lathrop, CA; Ontario, CA; and Tracy, CA. Two of these locations were sold to franchisees. Four locations were sold to a third-party purchaser. Four offices were sold to a California purchaser (the "California Purchaser") and operate under the Snelling name pursuant to a license agreement with us. The aggregate sale price for these 10 locations consisted of (i) \$1.0 million in the form of a promissory note that bears interest at 6.0% per annum, (ii) the right to receive 1.5% of revenue generated at the Ontario location for the next 12 months, subject to certain conditions being satisfied (the "California Conditions"), (iii) the right to receive 2.5% of revenue generated at the Tracy and Lathrop locations for the next 12 months, subject to the California Conditions, (iv) the right to receive 2.0% of revenue generated at the Princeton location for the next 36 months, and (v) approximately \$1 million in cash. There were no remaining company-owned locations at March 31, 2021. One of the California locations operates pursuant to a license agreement whereby the California Purchaser licenses the Snelling trademark and pays us a royalty of 9% of their gross margin. In conjunction with the sale of assets acquired in this transaction, we recognized a gain of approximately \$638 thousand which is reflected on the line item, "Other miscellaneous income," in our consolidated statement of income.

#### Temporary Alternatives

On January 24, 2022, we completed our acquisition of certain assets of Temporary Alternatives in accordance with the terms of an Asset Purchase Agreement dated January 10, 2022, including three locations in West Texas and New Mexico for \$7.0 million, inclusive of a prescribed amount of net working capital. Temporary Alternatives is a staffing division of dmDickason Personnel Services, a family-owned company based in El Paso, TX. The acquisition of Temporary Alternatives will expand our national footprint into West Texas and grow our franchise base.

The fair values of the assets acquired were determined based on information available to us. From the date of acquisition through December 31, 2022, the fair value of assets acquired were adjusted in conjunction with a third-party valuation and the net working capital reconciliation. These adjustments included a decrease in customer lists of approximately \$375 thousand, a decrease in accounts receivable of approximately \$3 thousand, and the recognition of approximately \$375 thousand of goodwill. The following table summarizes the revised values of the identifiable assets acquired as of the acquisition date (in thousands).

Cash consideration	\$ 6,707
Net working capital payable	336
Total consideration	<u>\$ 7,043</u>
Customer lists	\$ 4,000
Accounts receivable	2,668
Goodwill	375
Purchase price allocation	<u>\$ 7,043</u>

Goodwill represents the expected synergies with our existing business, the acquired assembled workforce, potential new customers, and future cash flows after the acquisition of Temporary Alternatives. Goodwill is deductible for income tax purposes.

The following table presents unaudited pro forma information (in thousands, except per share data) assuming (a) the acquisition of Temporary Alternatives had occurred on January 1, 2021, (b) all of Temporary Alternative's operations had been converted to franchises on such date, and (c) none of the other acquisitions discussed in this Note 2 had occurred. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had in fact taken place on that date. Franchise royalties attributable to the acquiree of approximately \$464 thousand is included in our consolidated statement of income for the year ended December 31, 2022.

	Year Ended	
	December 31, 2022	December 31, 2021
Total revenue	\$ 31,097	\$ 23,641
Net income	13,312	12,635
Basic earnings per share	\$ 0.98	\$ 0.94
Basic weighted average shares outstanding	13,654	13,494
Diluted earnings per share	\$ 0.98	\$ 0.93
Diluted weighted average shares outstanding	13,721	13,606

These calculations reflect increased amortization expense, increased SG&A expense, the elimination of losses associated with the transaction, and the consequential tax effects that would have resulted had the acquisition closed on January 1, 2021.

In connection with the acquisition, we sold certain assets related to the operations of the acquired locations to a related party. In connection with their purchase, the buyers executed franchise agreements with us and became franchisees. The aggregate sale price for the operating assets was approximately \$2.9 million. In conjunction with the sale of assets acquired in this transaction, we recognized a loss of approximately \$1.1 million which is reflected on the line item, "Other miscellaneous income (expense)," in our consolidated statement of income. The franchisee is a related party. See Note 3 - Related Party Transactions for more information regarding the Worlds Franchisees. We provisionally recognized a loss of approximately \$1.5 million. Subsequently, the fair value of assets acquired were adjusted in conjunction with a third-party valuation and the net working capital reconciliation. These adjustments included a decrease in the loss of approximately \$375 thousand, which is reflected on the line item, "Other miscellaneous income (expense)," in our consolidated statement of income for the year ended December 31, 2022.

#### ***The Dubin Group, Inc., and Dubin Workforce Solutions***

On February 21, 2022 we completed our acquisition of the staffing operations of The Dubin Group, Inc., and Dubin Workforce Solutions, Inc. (collectively "Dubin") in accordance with the terms of an Asset Purchase Agreement dated January 19, 2022 for approximately \$2.5 million, inclusive of a prescribed amount of working capital. Dubin provides executive placement services and commercial staffing in the Philadelphia metro area. The acquisition of Dubin will help expedite growth into a new staffing vertical, expand our national footprint, and grow our franchise base.

The fair values of the assets acquired were determined based on information available to us. From the date of acquisition through December 31, 2022, the fair value of assets acquired were adjusted in conjunction with a third-party valuation. These adjustments included an increase in customer relationships of approximately \$972 thousand, a decrease in customer lists of approximately \$772 thousand, and the recognition of approximately \$200 thousand of goodwill. The following table summarizes the revised values of the identifiable assets acquired as of the acquisition date (in thousands):

Cash consideration	\$ 2,100
Note payable & net working capital payable	362
Total consideration	<u>\$ 2,462</u>
Customer relationships	\$ 1,600
Customer lists	200
Accounts receivable	462
Goodwill	200
Purchase price allocation	<u>\$ 2,462</u>

Goodwill represents the expected synergies with our existing business, the acquired assembled workforce, potential new customers, and future cash flows after the acquisition of Dubin. Goodwill is deductible for income tax purposes.



The following table presents unaudited pro forma information (in thousands, except per share data) assuming (a) the acquisition of Dubin had occurred on January 1, 2021, (b) all of Dubin's operations had been converted to franchises on such date, and (c) none of the other acquisitions discussed in this Note 2 had occurred. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had in fact taken place on that date. Franchise royalties attributable to the acquiree of approximately \$133 thousand is included in our consolidated statement of income for the year ended December 31, 2022.

	Year Ended	
	December 31, 2022	December 31, 2021
Total revenue	\$ 31,303	\$ 22,648
Net income	12,429	12,666
Basic earnings per share	\$ 0.91	\$ 0.94
Basic weighted average shares outstanding	13,654	13,494
Diluted earnings per share	\$ 0.91	\$ 0.93
Diluted weighted average shares outstanding	13,721	13,606

These calculations reflect increased amortization expense, increased payroll expense, increased SG&A expense, the elimination of gains associated with the transaction, and the consequential tax effects that would have resulted had the acquisition closed on January 1, 2021.

In connection with the acquisition, we divided Dubin into separate businesses and sold certain assets related to the operations of one of the acquired locations. In connection with their purchase, the buyers executed franchise agreements with us and became franchisees. The aggregate sale price for the operating assets was \$350 thousand. In conjunction with the sale of assets acquired in this transaction, we recognized a gain of approximately \$150 thousand which is reflected on the line item, "Other miscellaneous income (expense)," in our consolidated statement of income. We provisionally recognized a loss of approximately \$478 thousand. Subsequently, the fair value of assets acquired were adjusted in conjunction with a third-party valuation and the net working capital reconciliation. These adjustments included a decrease in the loss of approximately \$628 thousand, which is reflected on the line item, "Other miscellaneous income (expense)," in our consolidated statement of income for the year ended December 31, 2022. The remaining assets related to the operations of the other acquired locations have not been sold and as of December 31, 2022 are classified as held-for-sale and the operating results are reported as "Income from discontinued operations, net of tax." We are actively working to sell these assets. In the meantime, we operate the Philadelphia franchise as company-owned.

#### ***Northbound Executive Search***

On February 28, 2022 we completed our acquisition of certain assets of Northbound Executive Search, LTD ("Northbound") in accordance with the terms of an Asset Purchase Agreement dated January 25, 2022, for approximately \$11.4 million, inclusive of a \$1.5 million note payable and a prescribed amount of working capital. Northbound provides executive placement and short-term consultant services primarily to blue chip clients in the financial services industry. The acquisition of Northbound will help expedite growth into a new staffing vertical, expand our national footprint, and grow our franchise base.

The fair values of the assets acquired and the liabilities assumed were determined based on information available to us. From the date of acquisition through December 31, 2022, the fair value of assets acquired and liabilities assumed were adjusted in conjunction with a third-party valuation and the net working capital reconciliation. These adjustments included a decrease in customer relationships of approximately \$389 thousand, a decrease in trade name of approximately \$111 thousand, an increase in accounts receivable of approximately \$363 thousand, a decrease in other current assets of approximately \$34 thousand, an increase in other current liabilities of approximately \$64 thousand, and the recognition of approximately \$500 thousand of goodwill. The following table summarizes the revised values of the identifiable assets acquired and liabilities assumed as of the acquisition date (in thousands):

Cash consideration	\$	9,600
Net working capital payable		328
Note payable		1,500
Total consideration	\$	<u>11,428</u>
Customer relationships	\$	7,700
Trade name		1,400
Accounts receivable		3,386
Other current assets		94
Goodwill		500
Current liabilities assumed		(1,652)
Purchase price allocation	\$	<u>11,428</u>

Goodwill represents the expected synergies with our existing business, the acquired assembled workforce, potential new customers, and future cash flows after the acquisition of Northbound. Goodwill is deductible for income tax purposes.

The following table presents unaudited pro forma information (in thousands, except per share data) assuming (a) the acquisition of Northbound had occurred on January 1, 2021, (b) all of Northbound's operations had been converted to franchises on such date, and (c) none of the other acquisitions discussed in this Note 2 had occurred. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had in fact taken place on that date. Franchise royalties attributable to the acquiree of approximately \$1.0 million is included in our consolidated statement of income for the year ended December 31, 2022.

	Year Ended	
	December 31, 2022	December 31, 2021
Total revenue	\$ 31,140	\$ 23,575
Net income	13,510	12,626
Basic earnings per share	\$ 0.99	\$ 0.94
Basic weighted average shares outstanding	13,654	13,494
Diluted earnings per share	\$ 0.99	\$ 0.93
Diluted weighted average shares outstanding	13,721	13,606

These calculations reflect increased amortization expense, increased SG&A expense, the elimination of losses associated with the transaction, and the consequential tax effects that would have resulted had the acquisition closed on January 1, 2021.

In connection with the Northbound acquisition, we entered into an amortizing term loan from the seller for \$1.5 million scheduled to mature on March 1, 2025 that bears interest at 4.0%. The term loan is unsecured and subordinated to our senior instruments (Truist line of credit and Truist term loan). The Northbound term loan is payable in 36 monthly installments beginning on April 1, 2022 until March 1, 2025. We may prepay the Northbound term loan in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment.

Immediately after the acquisition, we sold certain assets related to the operations of the acquired locations to a related party. In connection with their purchase, the buyers executed franchise agreements with us and became franchisees. The aggregate sale price for the operating assets was \$6.4 million. In conjunction with the sale of assets acquired in this transaction, we recognized a loss of approximately \$1.3 million which is reflected on the line item, "Other miscellaneous income (expense)," in our consolidated statement of income. The franchisee that purchased these operating assets is a related party. For more information, see Note 3 - Related Party Transactions regarding the Worlds Franchisees. We provisionally recognized a loss of approximately \$1.7 million. Subsequently, the fair value of assets acquired were adjusted in conjunction with a third-party valuation and the net working capital reconciliation. These adjustments included a decrease in the loss of approximately \$389 thousand, which is reflected on the line item, "Other miscellaneous income (expense)," in our consolidated statement of income for the year ended December 31, 2022.

**MRI**

On December 12, 2022, we completed our acquisition of certain assets of MRI in accordance with the terms of an Asset Purchase Agreement dated November 16, 2022, for approximately \$13.3 million, inclusive of a \$60 thousand of contingent consideration and net working capital of approximately \$223 thousand. MRI provides executive placement as well as commercial staffing. The acquisition of MRI will help expedite growth into a new staffing vertical, expand our national footprint, and grow our franchise base.

The following table summarizes the estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date:

Cash consideration	\$	13,000
Contingent consideration		60
Net working capital payable		223
Total consideration	\$	<u>13,283</u>
Customer relationships	\$	5,640
Trade name		2,180
Royalty receivable		575
Current assets		581
Goodwill		4,795
Current liabilities assumed		(488)
Purchase price allocation	\$	<u>13,283</u>

Goodwill represents the expected synergies with our existing business, the acquired assembled workforce, potential new customers, and future cash flows after the acquisition of MRI. Goodwill is deductible for income tax purposes.

The following table presents unaudited pro forma information (in thousands, except per share data) assuming (a) the acquisition of MRI had occurred on January 1, 2021, (b) all of MRI's operations had been converted to franchises on such date, and (c) none of the other acquisitions discussed in this Note 2 had occurred. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had in fact taken place on that date. Franchise royalties attributable to the acquiree of approximately \$469 thousand is included in our consolidated statement of income for the year ended December 31, 2022.

	Year Ended	
	December 31, 2022	December 31, 2021
Total revenue	\$ 41,995	\$ 33,439
Net income	17,813	17,307
Basic earnings per share	\$ 1.30	\$ 1.28
Basic weighted average shares outstanding	13,654	13,494
Diluted earnings per share	\$ 1.30	\$ 1.27
Diluted weighted average shares outstanding	13,721	13,606

These calculations reflect increased amortization expense, increased selling, general and administrative expenses, the elimination of transaction related costs, and the consequential tax effects that would have resulted had the acquisition closed on January 1, 2021.

**Asset Acquisitions****LINK Staffing**

On March 22, 2021, we completed our acquisition of the franchise relationships and certain other assets of LINK in accordance with the terms of the Asset Purchase Agreement dated February 12, 2021 (the "LINK Agreement"). LINK is a family-owned staffing company headquartered in Houston, TX. Pursuant to the LINK Agreement, HQ Link Corporation ("HQ Link"), our wholly-owned subsidiary, acquired franchise agreements for approximately 35 locations, and other assets of LINK for a purchase price of \$11.1 million. Substantially all of the locations where we assumed franchisor status in this transaction have subsequently signed our HireQuest franchise agreement and operate under the Snelling tradename.

The following table summarizes the estimated fair values of the identifiable assets acquired as of the acquisition date:

Cash consideration	\$	<u>11,123</u>
Franchise agreements		10,886
Notes receivable		237
Purchase price allocation	\$	<u>11,123</u>

We determined the LINK transaction was an asset acquisition for accounting purposes as substantially all of the fair value of the gross assets acquired was concentrated in the franchise agreements. Accordingly, no pro forma financial information is presented.

At closing, we assigned six of the franchise agreements we purchased in the transaction, all located in California, to the California Purchaser. These six franchisees operate pursuant to a LINK trademark sublicense agreement whereby they pay us 9% of the gross margin of their offices in exchange for a sublicense to utilize the LINK tradename. In conjunction with the transfer of assets acquired in this transaction, we recognized a loss of approximately \$1.9 million which is reflected on the line item, "Other miscellaneous income," in our consolidated statement of income.

**Recruit Media**

On October 1, 2021 we completed our acquisition of Recruit Media in accordance with the Stock Purchase Agreement dated October 1, 2021 (the “Recruit Agreement”). Pursuant to the Recruit Agreement, we purchased all of the outstanding shares of Recruit Media for approximately \$4.4 million, subject to customary representations and warranties. Recruit Media is an IT company whose intellectual property will allow us to accelerate improvements to our platform.

The following table summarizes the estimated fair values of the identifiable assets acquired as of the acquisition date:

Cash consideration	\$	3,283
Liabilities assumed		1,044
Transaction costs		23
Total consideration	\$	<u>4,350</u>
Purchased software		3,200
Domain name		2,226
Deferred tax liability		(1,076)
Purchase price allocation	\$	<u>4,350</u>

We determined the Recruit Media transaction was an asset acquisition for accounting purposes as it did not meet the definition of a business. Accordingly, no pro forma financial information is presented.

**Dental Power**

On December 6, 2021, we completed our acquisition of the Dental Power Staffing division (“DPS”) in accordance with the terms of the Asset Purchase Agreement dated November 2, 2021 (the “Dental Power Agreement”) for \$1.9 million. Dental Power is a 46-year-old dental staffing company headquartered in Carrboro, North Carolina. DPS is a provider of temporary, long-term contract, and direct-hire staffing services to dental practices across the U.S. The addition of DPS brings additional resources and experience to HQI that will help expedite growth into a new staffing vertical.

The following table summarizes the estimated fair values of the identifiable assets acquired as of the acquisition date:

Cash consideration	\$	1,480
Contingent consideration		382
Total consideration	\$	<u>1,862</u>
Customer lists	\$	<u>1,862</u>

The contingent consideration consists of estimated future payments based on the achievement of performance metrics over the following 3 years.

The asset acquired related to the operations of the acquiree have not been sold and as of December 31, 2022 and are classified as held-for-sale. The operating results are reported as “Income from discontinued operations, net of tax.” On March 1, 2023, we agreed to sell the assets we acquired in the Dental Power acquisition to an MRI franchisee, who will continue to operate the business as part of their franchise. The sale agreement calls for proceeds of \$2 million payable over 5 years with a market rate of interest. We expect to recognize an estimated gain of approximately \$340 thousand in the first quarter of 2023 upon completion of the transaction. In the meantime, Dental Power remains company-owned.

We determined the Dental Power transaction was an asset acquisition for accounting purposes as substantially all of the fair value of the gross assets acquired was concentrated in the customer list. Accordingly, no pro forma financial information is presented.

**Note 3 – Related Party Transactions**

Prior to entering into any related party transaction, the Audit Committee reviews all relevant information available. The Audit Committee, in its sole discretion, will approve the related party transaction only if it determines, in good faith and under all circumstances, that the transaction is in the best interests of the Company and its shareholders. The Audit Committee, in its sole discretion, may also impose conditions as it deems appropriate on the Company or the related party in connection with the approval of the related party transaction.

Certain significant shareholders and directors of HQI also own portions of Jackson Insurance Agency; Bass Underwriters, Inc; Insurance Technologies, Inc.; and a number of our franchisees.

***Jackson Insurance Agency ("Jackson Insurance") and Bass Underwriters, Inc. ("Bass")***

Edward Jackson, a member of our Board and significant stockholder, and a member of Mr. Jackson's immediate family own Jackson Insurance. Mr. Jackson, Richard Hermanns, our CEO, Chairman of our Board, and most significant stockholder, and irrevocable trusts set up by each of them, collectively own a majority of Bass, a large managing general agent.

In March of 2021, we sold approximately \$5.3 million of notes receivable to Bass, without recourse. Virtually all of the notes sold to Bass originated from the sale of branch locations acquired in the 2019 merger with Command Center, Inc. These notes were sold at their current outstanding principal value. The proceeds from the sale of these notes were used to help finance the Snelling and LINK transactions.

Jackson Insurance and Bass brokered property, casualty, general liability, and cybersecurity insurance for a series of predecessor entities ("Legacy HQ") prior to the merger with Command Center in 2019. Since July 15, 2019, they have continued to broker these same policies for HQI. Jackson Insurance also brokers certain insurance policies on behalf of some of our franchisees, including the Worlds Franchisees (defined below).

During the year ended December 31, 2022 and December 31, 2021, Jackson Insurance and Bass invoiced HQI approximately \$336 thousand and \$729 thousand, respectively, for premiums, taxes, and fees related to these insurance policies. Jackson Insurance and Bass retain a commission of approximately 9% - 15% of premiums.

***Insurance Technologies, Inc. ("Insurance Technologies")***

Mr. Jackson, Mr. Hermanns, and irrevocable trusts set up by each of them, collectively own a majority of Insurance Technologies, an IT development and security firm. On October 24, 2019, HQI entered into an agreement with Insurance Technologies to add certain cybersecurity protections to our existing information technology systems and to assist in developing future information technology systems within our HQ Webconnect software. In addition, Insurance Technologies assisted with the IT diligence and integration process with respect to the Snelling and LINK acquisitions.

During the year ended December 31, 2022 and December 31, 2021, Insurance Technologies invoiced HQI approximately \$245 thousand and \$217 thousand, respectively, for services provided pursuant to this agreement.

***The Worlds Franchisees***

Mr. Hermanns and Mr. Jackson have direct or indirect ownership interests in certain of our franchisees (the "Worlds Franchisees"). There were 27 Worlds Franchisees at December 31, 2022 that operated 67 of our approximate 460 offices. There were 23 Worlds Franchisees that operated 60 of our 217 offices at December 31, 2021.

Balances regarding the Worlds Franchisees are summarized below:

	December 31, 2022	December 31, 2021
Due to franchisee	\$ 1,154	\$ 535
Risk management incentive program liability	234	703

Transactions regarding the Worlds Franchisees are summarized below:

	Year ended	
	December 31, 2022	December 31, 2021
Franchisee royalties	\$ 8,676	\$ 5,855

**Note 4 – Line of Credit and Term Loans**

In June 2021, we entered into Revolving Credit and Term Loan Agreement (the “Agreement”) with Truist Bank (“Truist”) for a \$60 million revolving line of credit with a \$20 million sublimit for letters of credit and a separate \$3.2 million term loan. The credit facilities are provided by a syndication of lenders with Truist acting as the administrative agent. At December 31, 2022, Truist is the only bank in the syndicate. The line of credit is subject to a borrowing base that is derived from our accounts receivable, subject to certain reserves and other limitations. Under the agreement, Truist may also make swingline loans available in its discretion.

All loans made under the line of credit are scheduled to mature on June 29, 2026. The line of credit and swingline loans bear interest at a variable rate equal to: (a) for LIBOR index rate loans, the Daily One Month London Interbank Offering Rate, (“LIBOR”) plus a margin between 1.25% and 1.75% per annum or; (b), for base rate loans, the then applicable base rate plus (as defined in the Agreement) a margin between 0.25% and 0.75% per annum. The margin is determined based on our average excess availability, which is generally equal to our total collateral less the outstanding balance, if any, under the loan agreement. At December 31, 2022 the effective interest rate was approximately 6.1%. A non-use fee of 0.25% accrues on the unused portion of the line of credit. As collateral for repayment of any and all obligations under this agreement, we granted Truist a security interest in substantially all of our operating assets and the operating assets of our subsidiaries. This agreement, and other loan documents, contain customary representations and warranties, affirmative and negative covenants, including without limitation, those covenants governing indebtedness, liens, fundamental changes, restrictions on certain payments, including dividends, unless certain conditions are met, transactions with affiliates, investments, and the sale of assets. This agreement requires us to comply with a fixed charge coverage ratio of at least 1.25:1.00, and a leverage ratio of not more than 3.0:1.0, tested monthly on a rolling twelve-month basis. At December 31, 2022 we were in compliance with these covenants. Our obligations under this agreement are subject to acceleration upon the occurrence of an event of default as defined in the loan agreement.

At December 31, 2022, approximately \$10.7 million of availability under the line of credit was utilized by outstanding letters of credit that secure our obligations to our workers’ compensation insurance carrier and \$500 thousand was utilized by a letter of credit that secures our paycard funding account, leaving approximately \$24.8 million available under the agreement for potential borrowings. Additionally, \$100 thousand is reserved for Bank Products. The Agreement replaces our prior \$30 million line of credit. For additional information related to the letter of credit securing our workers’ compensation obligations see *Note 5 - Workers’ Compensation Insurance and Reserves*.

The term loan is scheduled to mature on June 29, 2036 and bears interest at a variable rate equal to LIBOR plus a margin of 2.0%. At December 31, 2022 the effective interest rate was approximately 6.4%. The term loan will be paid in equal monthly installments based upon a 15-year amortization of the original principal amount of the term loan, provided that any remaining principal balance is due and payable in full on the earlier of the date of termination of the commitments on the line of credit and June 29, 2036. The term loan is collateralized by all real property owned by us. The proceeds of approximately \$3.2 million were used to pay off our prior credit facility after the 2021 Acquisitions and to pay transaction related fees and expenses.

The loan agreement contains provisions for the replacement of LIBOR with a rate based upon the secured overnight financing rate (“SOFR”) published by the Federal Reserve Bank of New York or a successor administrator upon LIBOR’s cessation or other benchmark transition event set forth in the loan agreement, together with a spread adjustment.

In connection with the Northbound acquisition, we entered into an amortizing term loan from the seller for \$1.5 million scheduled to mature on March 1, 2025 that bears interest at 4.0%. The Northbound term loan is unsecured and subordinated to our senior instruments (the Truist line of credit and Truist term loan). The Northbound term loan is payable in 36 monthly installments beginning on April 1, 2022 until March 1, 2025. We may prepay the Northbound term loan in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment.

The following table provides the estimated future maturities of term loans as of December 31, 2022:

2023	\$	704
2024		724
2025		342
2026		210
2027		210
Thereafter		1,805
Total future maturities	\$	<u>3,995</u>

**Note 5 – Workers’ Compensation Insurance and Reserves**

Beginning in March 2014, Legacy HQ obtained its workers’ compensation insurance through Chubb Limited and ACE American Insurance Company (collectively, “ACE”), in all states in which it operated, other than monopolistic jurisdictions. The ACE policy was a high deductible policy pursuant to which Legacy HQ had primary responsibility for all claims with ACE providing insurance for covered losses and expenses in excess of \$500 thousand per incident. In addition to the ACE policy, Legacy HQ purchased a deductible reimbursement insurance policy from HQ Ins. to cover losses up to the \$500 thousand deductible with ACE. This resulted in Legacy HQ effectively being fully insured during this time period. Effective July 15, 2019, we terminated our deductible reimbursement policy with HQ Ins. and have assumed the primary responsibility for all claims up to the deductible occurring on or after July 15, 2019. The primary responsibility of all claims occurring before July 15, 2019 remains with HQ Ins. We assumed the Legacy HQ policy with ACE.

Command Center also obtained its workers' compensation insurance through ACE. Pursuant to Command Center's policy, ACE provides insurance for covered losses and expenses in excess of \$500 thousand per incident. Command Center's ACE policy in effect as of the date of the Merger includes a one-time obligation for the Company to pay any single claim filed under the Command Center policy within a policy year that exceeds \$500 thousand (if any), but only up to \$750 thousand for that claim. All other claims within the policy year are subject to the \$500 thousand deductible. Effective July 15, 2019, in connection with the Merger, we assumed all of the workers' compensation claims of Command Center. We also assumed Command Center's workers' compensation policy with ACE.

Under these high deductible programs, HQI is effectively self-insured. Per our contractual agreements with ACE, we must provide collateral deposits of approximately \$10.7 million, which we accomplished by providing letters of credit under our agreement with Truist.

For workers' compensation claims originating in the monopolistic jurisdictions of Washington, North Dakota, Ohio, and Wyoming, we pay workers' compensation insurance premiums and obtain full coverage under mandatory state administered programs. Our liability associated with claims in these jurisdictions is limited to premium payments based upon the amount of payroll paid within each jurisdiction. Accordingly, our consolidated financial statements reflect only the mandated workers' compensation insurance premium liability for workers' compensation claims in these jurisdictions.

The following table reflects the changes in our workers' compensation claims liability:

	December 31, 2022	December 31, 2021
Estimated future claims liabilities at the beginning of the period	\$ 8,249	\$ 4,584
Claims paid during the period	(3,936)	(5,027)
Additional future claims liabilities recorded during the period	1,612	8,693
Estimated future claims liabilities at the end of the period	<u>\$ 5,925</u>	<u>\$ 8,250</u>

#### Note 6 – Analysis of Franchised and Company-Owned Offices

Below is a summary of changes in the number of franchised offices:

Franchised offices, December 31, 2020	139
Purchased in 2021 (net of sold locations)	65
Opened in 2021	14
Closed in 2021	(1)
Franchised offices, December 31, 2021	217
Purchased in 2022 (net of sold locations)	207
Opened in 2022	16
Closed in 2022	(5)
Franchised offices, December 31, 2022	<u>435</u>

At December 31, 2022 HQI had two company-owned offices, which is the staffing division acquired in the Dental Power acquisition and the Philadelphia location acquired in the Dubin acquisition. Both are classified as held-for-sale and reported as discontinued operations.

**Note 7 – Stockholders’ Equity****Dividend**

In the third quarter of 2020, we initiated the payment of a quarterly dividend. We intend to continue to pay a quarterly dividend, based on our business results and financial position. The following common share dividends were paid during 2022 and 2021 (total paid in thousands):

Declaration date	Dividend	Total paid
March 1, 2021	\$ 0.05	\$ 680
June 1, 2021	0.06	817
September 1, 2021	0.06	822
December 1, 2021	0.06	822
March 1, 2022	0.06	822
June 1, 2022	0.06	827
September 1, 2022	0.06	829
December 1, 2022	0.06	833

**Issuance of Common Stock**

In October 2021, we issued 4,166 shares of stock pursuant to the exercise of common stock options with a strike price of \$8.04 for a total purchase price of \$33 thousand.

**Note 8 – Stock Based Compensation****Employee Stock Incentive Plan**

In December 2019, our Board approved the 2019 HireQuest, Inc. Equity Incentive Plan (the “2019 Plan”). Subject to adjustment in accordance with the terms of the 2019 Plan, no more than 1.5 million shares of common stock are available in the aggregate for the grant of awards under the 2019 Plan. No more than 1 million shares may be issued in the aggregate pursuant to the exercise of incentive stock options. In addition, no more than 250 thousand shares may be issued in the aggregate to any employee or consultant, and no more than 50 thousand shares may be issued in the aggregate to any non-employee director in any twelve-month period. Shares of common stock available for distribution under the Plan may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares reacquired by the Company in any manner. The 2019 Plan was approved by our shareholders in June 2020 and became effective as of that date.

In September 2019, our Board approved a share purchase match program to encourage ownership and further align the interests of key employees and directors with those of our shareholders. Under this program, we will match 20% of any shares of our common stock purchased on the open market by or granted in lieu of cash compensation to key employees and directors up to \$25 thousand in aggregate value per individual within any calendar year. These shares vest on the second anniversary of the date on which the matched shares were purchased if the individual is still employed by the Company or still serves as a director and certain other vesting criteria are met. During 2022, we issued approximately 10 thousand shares valued at approximately \$155 thousand under this program. During 2021, we issued approximately 5 thousand shares valued at approximately \$77 thousand under this program.

In 2022, we have issued 35,606 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$536 thousand to members of our Board of Directors for their services in lieu of cash compensation. Of these, 33,379 shares vested equally over the following three months. The remaining 2,227 shares were issued pursuant to our share purchase match program.

Also in 2022, we have issued 104,871 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$1.6 million to key employees for their services in lieu of cash compensation. Of these, 41,066 shares vested equally over the following three months. Of the remaining 63,805 shares, 50,000 were issued to our CEO pursuant to his employment contract and vest over 4 years, and 3,805 shares were issued pursuant to our share purchase match program. In addition, we issued 28,735 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$537 thousand to the vast majority of our workforce for services and to encourage retention. These shares vest on the first anniversary of the date of grant.

In 2021, we issued 51,155 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$1.0 million to members of our Board of Directors for their services in lieu of cash compensation. Of these, 46,191 shares vested equally over the following three months. The remaining 4,964 shares were issued pursuant to our share purchase match program. Also in 2021, we issued 60 thousand shares of restricted common stock to key employees pursuant to the 2019 Plan valued at approximately \$1.1 million for services and to encourage retention. These shares vest over four years, with 50% vesting on their second anniversary, and 6.25% vesting each quarter thereafter for the next eight quarters. Also in 2021, we issued 111 shares of restricted common stock to certain employees pursuant to our share purchase match program valued at approximately \$1 thousand.



The following table summarizes our restricted stock outstanding at December 31, 2020, and changes during the years ended December 31, 2021 and December 31, 2022 (number of shares in thousands):

	Shares	Weighted average grant date price
Non-vested, December 31, 2020	267	7.21
Granted	112	19.18
Forfeited	(7)	8.51
Vested	(176)	10.38
Non-vested, December 31, 2021	196	11.26
Granted	173	15.97
Vested	(167)	11.46
Non-vested, December 31, 2022	<u>202</u>	15.15

Stock options that were outstanding at Command Center were deemed to be issued on the date of the Merger. Outstanding awards continue to remain in effect according to the terms of the 2008 Plan, the 2016 Plan, and the corresponding award documents. There were approximately 13 thousand stock options vested at December 31, 2022 and December 31, 2021. There were no options issued in 2022 or 2021.

The following table summarizes our stock options outstanding at December 31, 2020, and changes during the years ended December 31, 2021 and December 31, 2022 (number of shares in thousands):

	Number of shares underlying options	Weighted average exercise price per share	Weighted average grant date fair value
Outstanding, December 31, 2020	17	\$ 6.10	\$ 3.36
Forfeited	(4)	8.04	4.34
Outstanding, December 31, 2021	13	5.47	2.98
Forfeited	-	-	-
Outstanding, December 31, 2022	<u>13</u>	5.47	2.98

The following table summarizes our non-vested stock options outstanding at December 31, 2020 and changes during the years December 31, 2021 and December 31, 2022 (number of shares in thousands):

	Number of shares underlying options	Weighted average exercise price per share	Weighted average grant date fair value
Non-vested, December 31, 2020	2	\$ 5.50	\$ 3.05
Vested	(2)	5.50	3.05
Non-vested, December 31, 2021	-	-	-
Vested	-	-	-
Non-vested, December 31, 2022	-	-	-

The following table summarizes information about our outstanding stock options, and reflects the intrinsic value recalculated based on the closing price of our common stock of \$15.81 on December 30, 2022 (number of shares in thousands):

	Number of shares underlying options	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding	13	\$ 5.47	5.23	\$ 134
Exercisable	13	5.47	5.23	134

At December 31, 2021, there was unrecognized stock-based compensation expense totaling approximately \$1.7 million relating to non-vested restricted stock grants that will be recognized over the next 3.7 years.

### Note 9 – Property and Equipment

The following table summarizes the book value of our assets and accumulated depreciation (in thousands):

	December 31, 2022	December 31, 2021
Land	\$ 472	\$ 472
Buildings and improvements	4,115	4,031
Furniture and fixtures	663	647
Accumulated depreciation	(897)	(696)
Total property and equipment, net	\$ 4,353	\$ 4,454

We own our corporate headquarters in Goose Creek, SC. Excess capacity is leased to unrelated third parties. Gross rental income was approximately \$195 thousand and \$109 thousand during the years ended December 31, 2022 and December 31, 2021, respectively, and is reflected on the line item, "Other miscellaneous income," in our consolidated statement of income.

Depreciation expense related to property and equipment totaled approximately \$201 thousand and \$141 thousand during the years ended December 31, 2022 and December 31, 2021, respectively.

**Note 10 – Intangible Assets**

The following table reflects our intangible assets (in thousands except useful life):

	Estimated useful life (in years)	December 31, 2022			December 31, 2021		
		Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
<b>Finite-lived intangible assets:</b>							
Franchise agreements	15	\$ 25,556	\$ (2,413)	\$ 23,144	\$ 19,916	\$ (1,068)	\$ 18,848
Customer lists	10	-	-	-	227	(227)	-
Purchased software	7	3,200	(571)	2,629	3,200	(114)	3,086
Internally developed software	5	2,294	(38)	2,256	916	-	916
Total finite-lived intangible assets		\$ 31,050	\$ (3,022)	\$ 28,028	\$ 24,259	\$ (1,409)	\$ 22,850
<b>Indefinite-lived intangible assets:</b>							
Domain name	Indefinite	\$ 2,226	\$ -	\$ 2,226	\$ 2,226	\$ -	\$ 2,226
Trade name	Indefinite	3,580	-	3,580	-	-	-
Total intangible assets		\$ 36,856	\$ (3,022)	\$ 33,834	\$ 26,485	\$ (1,409)	\$ 25,076

The following table provides the estimated future amortization of finite-lived intangible assets as of December 31, 2022 (in thousands):

2023	\$ 2,619
2024	2,620
2025	2,619
2026	2,620
2027	2,581
Thereafter	14,969
Total future amortization	\$ 28,028

**Note 11 – Commitments and Contingencies**
**Franchise Acquisition Indebtedness**

We financed the sale of several acquired offices to new franchises with notes receivable. In some instances, this financing resulted in certain franchises being considered VIE's. We have determined that we are not required to consolidate these entities because we do not have the power to direct these entities' daily operations. If these franchises default on these notes, we bear the risk of loss of the outstanding balance on these notes, less what we could recoup from the potential resale of the repossessed office. The balance due from the franchises determined to be VIE's on December 31, 2022 and December 31, 2021 was approximately \$2.8 million and \$2.9 million, respectively.

**Legal Proceedings**

From time to time, we are involved in various legal and administrative proceedings. Based on information currently available to us, we do not expect material uninsured losses to arise from any of these matters. We believe the outcome of these matters, even if determined adversely, will not have a material adverse effect on our business, financial condition or results of operations. There have been no material changes in our legal proceedings as of December 31, 2022.

**Note 12 – Income Tax**

The provision for income taxes is comprised of the following (in thousands):

	December 31, 2022	December 31, 2021
<b>Current</b>		
Federal	\$ 1,874	\$ 2,030
State	434	972
<b>Deferred</b>		
Federal	(279)	(2,045)
State	(134)	(322)
Provision for income taxes	\$ 1,895	\$ 635

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred taxes are as follows (in thousands):

	December 31, 2022	December 31, 2021
<b>Deferred tax assets</b>		
Workers' compensation claims liability	\$ 1,227	\$ 1,517
Bad debt reserve	17	6
Accrued vacation	73	44
Impairment of notes receivable	63	464
Stock based compensation	268	145
Accrued compensation	-	262
Net operating loss carryforward	123	228
Other	87	-
Total deferred tax asset	1,858	2,666
<b>Deferred tax liabilities</b>		
Depreciation/amortization	(1,918)	(2,208)
Cash to Accrual - 481 Adjustment	-	(931)
Total deferred tax liabilities	(1,918)	(3,139)
Total deferred taxes, net	<u>\$ (60)</u>	<u>\$ (473)</u>

At December 31, 2022, the Company has a federal net operating loss carry-forward of approximately \$585 thousand available to offset future federal taxable income. The federal net operating loss may be carried forward indefinitely, however, utilization of future net operating losses may be limited due to ownership changes under applicable sections of the Internal Revenue Code.

Management estimates that our effective tax rates was approximately 13.7% for 2022. The items accounting for the difference between income taxes computed at the statutory federal income tax rate and the income taxes reported on the statements of income are as follows (in thousands except percentages):

	December 31, 2022		December 31, 2021	
Income tax expense based on statutory rate	\$ 2,913	21.0%	\$ 2,620	21.0%
Bargain purchase gain	-	0.0%	(1,181)	(9.5)%
Non-deductible executive compensation	120	0.9%	204	1.6%
Stock based compensation	(75)	-0.5%	(154)	(1.2)%
State income taxes expense net of federal taxes	210	1.5%	444	3.6%
WOTC	(1,269)	-9.1%	(1,204)	(9.7)%
Other	(4)	0.0%	(94)	(0.8)%
Total taxes on income	<u>\$ 1,895</u>	<u>13.7%</u>	<u>\$ 635</u>	<u>5.1%</u>

U.S. federal income tax returns after 2019 remain open to examination. Generally, state income tax returns after 2017 remain open to examination. No income tax returns are currently under examination. As of December 31, 2022, and December 31, 2021, the Company does not have any unrecognized tax benefits, and continues to monitor its current and prior tax positions for any changes.

### Note 13 – Notes Receivable

#### Notes from Franchisees

Several franchisees borrowed funds from us primarily to finance the initial purchase price of office assets, including intangible assets.

Notes outstanding, net of allowance for losses, were approximately \$3.5 million and \$3.9 million as of December 31, 2022 and December 31, 2021, respectively. Notes receivable generally bear interest at a fixed rate between 6.0% and 10.0%. Notes receivable are generally secured by the assets of each office and the ownership interests in the franchise. We report interest income on notes receivable as interest income in our consolidated statements of income. Interest income was approximately \$247 thousand and \$212 thousand during the year ended December 31, 2022 and December 31, 2021, respectively.

We estimate the allowance for losses for franchisees separately from the allowance for losses from non-franchisees because of the level of detailed sales information available to us with respect to our franchisees. Based on our review of the financial condition of the borrowers, the underlying collateral value, and the potential future impact of the economy on certain borrowers' economic performance and estimated future cash flows, we have established an allowance of approximately \$260 thousand and \$405 thousand as of December 31, 2022 and December 31, 2021, respectively, for potentially uncollectible notes receivable from franchisees.

The following table summarizes changes in our notes receivable balance to franchisees (in thousands):

	December 31, 2022	December 31, 2021
Note receivable	\$ 3,752	\$ 4,268
Allowance for losses	(260)	(405)
Notes receivable, net	<u>\$ 3,492</u>	<u>\$ 3,863</u>

#### Notes Receivable from Non-Franchisees

During 2020, the California Purchaser experienced significant economic hardships due to the impacts of COVID-19 and the related government mandates in the state. As a result, we restructured a portion of the notes receivable in an effort to increase the probability of repayment. We granted near-term payment concessions in 2021 to help the debtor attempt to improve its financial condition so it may eventually be able to repay the amount due. After reviewing the potential outcomes, we recorded an additional impairment off approximately \$233 thousand in June 2022. In August 2022 we provided a third forbearance agreement to avoid foreclosure action. As part of the forbearance we forgave additional payments due on the notes and agreed to a short-term payment schedule to collect a net total of \$71 thousand resulting in total charge-offs of approximately \$1.6 million.

We received and recognized interest income of approximately \$0- and \$125 thousand during the years ended December 31, 2022 and December 31, 2021, respectively. The following table summarizes changes in our notes receivable balance that have been deemed impaired (in thousands):

	December 31, 2022	December 31, 2021
Note receivable	\$ -	\$ 1,805
Allowance for losses	-	(1,501)
Notes receivable, net	<u>\$ -</u>	<u>\$ 304</u>

#### Note 14 – Discontinued Operations

In connection with the Dubin acquisition, certain assets acquired related to the operations of the Philadelphia franchise are classified as held-for-sale.

The assets acquired in the Dental Power Agreement continue to be company-owned as of December 31, 2022. When we acquired Dental Power in 2021, we used the platform to build a customer base in the dental-oriented sector of the staffing industry to increase revenue opportunities under the HireQuest Health brand. Once we acquired MRI in December 2022, there were a number of natural buyers within the MRI Network. At that time we reclassified Dental Power to held-for-sale. On March 1, 2023, subsequent to these financial statements, we agreed to sell the Dental Power assets to an MRI franchisee, who will continue to operate the business as part of their franchise. Until the sale is finalized, Dental Power remains held-for-sale. For additional information related to discontinued operations, refer to *Note 2 – Acquisitions*.

Intangible assets associated with discontinued operations consist of customer lists with a net carrying value of approximately \$3.1 million.

The income from discontinued operations amounts as reported on our consolidated statements of operations was comprised of the following amounts (in thousands):

	Year ended	
	December 31, 2022	December 31, 2021
Revenue	\$ 6,313	\$ 231
Cost of staffing services	4,505	171
Gross profit	1,808	60
Selling, general and administrative expense	795	36
Amortization	384	12
Net income before tax	629	12
Provision for income taxes	146	3
Net income	<u>\$ 483</u>	<u>\$ 9</u>

**Note 15 – Unaudited Quarterly Results of Operations**

The following table displays our unaudited consolidated statement of operations for the fourth quarter ended December 31, 2022 and December 31, 2021 (in thousands):

	<b>Three months ended</b>	
	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Franchise royalties	\$ 7,671	\$ 6,067
Service revenue	378	471
Total revenue	8,049	6,538
Selling, general and administrative expenses	4,723	4,401
Depreciation and amortization	544	486
Income from operations	2,782	1,651
Other miscellaneous (expense) income	(26)	724
Interest income	49	127
Interest and other financing expense	(112)	(90)
Net income before income taxes	2,693	2,412
Provision for income taxes	49	227
Net income from continuing operations	2,644	2,185
Income from discontinued operations, net of tax	74	9
Net income	<u>\$ 2,718</u>	<u>\$ 2,194</u>
<b>Basic earnings per share</b>		
Continuing operations	\$ 0.19	\$ 0.16
Discontinued operations	0.01	-
Total	<u>\$ 0.20</u>	<u>\$ 0.16</u>
<b>Diluted earnings per share</b>		
Continuing operations	\$ 0.19	\$ 0.16
Discontinued operations	0.01	-
Total	<u>\$ 0.20</u>	<u>\$ 0.16</u>
<b>Weighted average shares outstanding</b>		
Basic	13,676	13,514
Diluted	13,741	13,635

**Note 16 - Subsequent Events**

On February 28, 2023 HireQuest, Inc. (the "Company") and all of its subsidiaries as borrowers (collectively with the Company, the "Borrowers") entered into a Revolving Credit and Term Loan Agreement with Bank of America, N.A. (the "Bank") for a \$50 million revolving facility (the "Senior Credit Facility"), which includes a \$20 million sublimit for the issuance of standby letters of credit (each a "Letter of Credit"). The Borrowers also have a one-time right, upon at least ten Business Days' prior written notice to the Bank to increase the maximum amount of the Senior Credit Facility to \$60 million. The Senior Credit Facility replaces the Company's prior \$60 million credit agreement with Truist Bank. The Senior Credit Facility provides for certain financial covenants including an Asset Coverage Ratio of at least 1.0:1.0 at all times; maintaining a Total Funded Debt to Adjusted EBITDA Ratio not exceeding 3.0:1.0; and maintaining, on a consolidated basis, a Fixed Charge Coverage Ratio of at least 1.25:1.0. Interest will accrue on the outstanding balance of the Line of Credit at a variable rate equal to (a) the BSBY Daily Floating Rate plus a margin between 1.00% and 1.75% per annum. In each case, the applicable margin is determined by the Company's Total Funded Debt to Adjusted EBITDA, as defined in the Credit Agreement. The Senior Credit Facility will mature on February 28, 2028.

The Credit Agreement and other loan documents contain customary representations and warranties, affirmative, and negative covenants, including without limitation, those covenants governing indebtedness, liens, fundamental changes, restricting certain payments including dividends unless certain conditions are met, transactions with affiliates, investments, engaging in business other than the current business of the Borrowers and business reasonably related thereto, and sale/leaseback transactions. The Credit Agreement and other loan documents also contain customary events of default including, without limitation, payment default, material breaches of representations and warranties, breach of covenants, cross-default on material indebtedness, certain bankruptcies, certain ERISA violations, material judgments, change in control, termination or invalidity of any guaranty or security documents, and defaults under other loan documents. The obligations under the Credit Agreement and other loan documents are secured by substantially all of the assets of the Borrowers as collateral including, without limitation, their accounts and notes receivable, intellectual property and the real estate owned by HQ Real Property Corporation.

The Company utilized the proceeds of the Senior Credit Facility (i) first to pay off its existing credit agreement with Truist, (ii) second, to pay off its existing term loan with Truist, and (iii) third, to pay transaction fees and expenses incurred in connection with closing the transactions described above. The Company intends to utilize the proceeds of any loans made under the Senior Credit Facility for working capital, required letters of credit, and general corporate purposes in accordance with the terms of the Senior Credit Facility. As part of this refinance we expect to record a loss on debt extinguishment of approximately \$332 thousand.

On March 1, 2023, we agreed to sell the assets we acquired in the Dental Power acquisition to an MRI franchisee, who will continue to operate the business as part of their franchise. The sale agreement calls for proceeds of \$2 million payable over 5 years with a market rate of interest. We expect to recognize an estimated gain of approximately \$340 thousand in the first quarter of 2023 upon completion of the transaction.

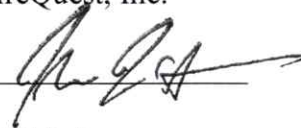
GUARANTEE OF PERFORMANCE

For value received, HireQuest, Inc., a Delaware Corporation (the “Guarantor”), located at 111 Springhall Drive, Goose Creek, SC, 29445, absolutely and unconditionally guarantees to assume the duties and obligations of HQ Franchising Corporation, located at 111 Springhall Drive, Goose Creek, SC, 29445 (the “Franchisor”), under its franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its 2023 Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns.

The Guarantor signs this guarantee at 111 Springhall Drive, Goose Creek, SC, 29445 on the 25th day of April, 2023.

Guarantor: HireQuest, Inc.

By: \_\_\_\_\_



Name: John D. McAnnar

Title: Chief Legal Officer



**HQ FRANCHISING CORPORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**  
**EXHIBIT F**  
**STATE EFFECTIVE DATES**

## STATE EFFECTIVE DATES

The following states require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

The Franchise Disclosure Document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

STATE	EFFECTIVE DATE
MI	<i>Pending</i>
NY	<i>Pending</i>
WI	<i>Pending</i>
IN	<i>Exempt</i>
RI	<i>Exempt; Renewal Pending</i>
VA	<i>Exempt 6/29/22; Renewal Pending</i>
MN	<i>PENDING</i>

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

**HQ FRANCHISING CORPORATION**  
**FRANCHISE DISCLOSURE DOCUMENT**

**EXHIBIT G**

**RECEIPTS**

RECEIPTS  
(Our Copy)

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreement carefully.

If HQ Franchising Corporation offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with or make a payment to us or to an affiliate in connection with the proposed franchise sale. New York law requires a franchisor to provide the Franchise Disclosure Document at the earlier of the first personal meeting or ten (10) business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If HQ Franchising Corporation does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency identified on Exhibit A.

The name, principal business address and telephone number of each franchise seller offering the franchise: John D. McAnnar, Chief Legal Officer, HQ Franchising Corporation, 111 Springhall Drive, Goose Creek, South Carolina 29445; and \_\_\_\_\_.

Issuance Date: 6/5/23

See Exhibit A for our registered agents authorized to receive service of process.

I have received a disclosure document dated 6/5/23 that includes the following Exhibits:

- A. SNELLING Franchise Agreement, and Related Contracts  
(Promissory Note; Security Agreement; Collateral Assignment of Lease; Collateral Assignment of Telephone Numbers and Listings)
- B. List of Active and Departed Franchisees
- C. State Specific Information, if applicable
- D. List of State Administrators /Agents for Service of Process
- E. Financial Statements
- F. Receipts

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

Please sign this copy of the receipt, date your signature, and return it to John McAnnar at HQ Franchising Corporation, 111 Springhall Drive, Goose Creek, South Carolina 29445.

RECEIPTS  
(Your Copy)

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreement carefully.

If HQ Franchising Corporation offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to us or to an affiliate in connection with the proposed franchise sale. New York law requires a franchisor to provide the Franchise Disclosure Document at the earlier of the first personal meeting or ten (10) business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If HQ Franchising Corporation does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency identified on Exhibit A.

The name, principal business address and telephone number of each franchise seller offering the franchise: John McAnnar, HQ Franchising Corporation, 111 Springhall Drive, Goose Creek, South Carolina 29445; and \_\_\_\_\_.

Issuance Date: 6/5/23

See Exhibit A for our registered agents authorized to receive service of process.

I have received a disclosure document dated 6/5/23 that includes the following Exhibits:

- A. SNELLING Staffing Franchise Agreement, and Related Contracts  
(Promissory Note; Security Agreement; Collateral Assignment of Lease;  
Collateral Assignment of Telephone Numbers and Listings)
- B. List of Active and Departed Franchisees
- C. State Specific Information, if applicable
- D. List of State Administrators /Agents for Service of Process
- E. Financial Statements
- F. Receipts

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

KEEP THIS COPY FOR YOUR RECORDS.